



## Audited Financial Statements

December 31, 2017

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Children's Rights, Inc.

### **Report on Financial Statements**

We have audited the accompanying financial statements of Children's Rights, Inc. (the "Organization") which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

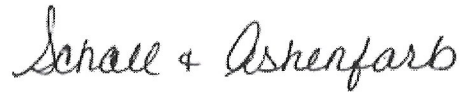
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Rights, Inc. as of December 31, 2017, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report of Summarized Comparative Information**

We have previously audited the Organization's 2016 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated June 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Schall & Ashenfarb  
Certified Public Accountants, LLC

May 30, 2018

**CHILDREN'S RIGHTS, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2017**  
(With comparative totals as of December 31, 2016)

	<u>12/31/17</u>	<u>12/31/16</u>
<b>Assets</b>		
Cash and cash equivalents	\$1,213,995	\$1,984,331
Investments (Note 3)	119,591	1,481,907
Attorneys' fees receivable	624,720	878,848
Contributions receivable, net of allowance	245,950	189,971
Prepaid expenses and other current assets	57,545	55,774
Fixed assets, net (Note 4)	218,008	238,374
Security deposit (Note 5)	168,510	168,510
	<u>                    </u>	<u>                    </u>
Total assets	<u><u>\$2,648,319</u></u>	<u><u>\$4,997,715</u></u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$507,297	\$473,430
Deferred rent	153,252	143,377
Loans payable (Note 5)	100,000	0
Total liabilities	<u>760,549</u>	<u>616,807</u>
Commitments (Note 5)		
Net assets:		
Unrestricted		
Undesignated	1,521,908	1,634,932
Board designated reserve fund	198,425	2,699,549
Total unrestricted	<u>1,720,333</u>	<u>4,334,481</u>
Temporarily restricted (Note 6)	167,437	46,427
Total net assets	<u>1,887,770</u>	<u>4,380,908</u>
	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u><u>\$2,648,319</u></u>	<u><u>\$4,997,715</u></u>

*The attached notes and auditor's report are an integral part of these financial statements.*

**CHILDREN'S RIGHTS, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
(With comparative totals for the year ended December 31, 2016)

	Unrestricted				Temporarily Restricted	Total 12/31/17	Total 12/31/16
	Undesignated	Designated Reserve Fund	Total Unrestricted	Board			
Public support and revenue:							
Attorneys' fees income	\$735,090		\$735,090		\$235,000	\$735,090	\$1,761,736
Contributions	666,771		666,771			901,771	897,402
Special event income (net of expenses with a direct benefit to donors) (Note 9)	1,001,507		1,001,507			1,001,507	859,854
Rental income and other income	11,034		11,034			11,034	22,377
In-kind public service announcements	3,255,915		3,255,915			3,255,915	14,673,000
In-kind donations	11,950		11,950			11,950	0
Investment income (Note 3)	2,940	\$15,876	18,816			18,816	133,006
Net assets released from restrictions (Note 6)	113,990		113,990		(113,990)	0	0
<b>Total public support and revenue</b>	<b>5,799,197</b>	<b>15,876</b>	<b>5,815,073</b>		<b>121,010</b>	<b>5,936,083</b>	<b>18,347,375</b>
Expenses:							
Program services:							
Program services - general	3,774,399		3,774,399			3,774,399	3,595,235
Program services - in-kind	3,255,915		3,255,915			3,255,915	14,673,000
Total program services	7,030,314	0	7,030,314		0	7,030,314	18,268,235
Management and general Fundraising	608,238		608,238			608,238	654,098
	790,669		790,669			790,669	527,057
Total expenses	8,429,221	0	8,429,221		0	8,429,221	19,449,390
Change in net assets from operations	(2,630,024)	15,876	(2,614,148)		121,010	(2,493,138)	(1,102,015)
Non-operating activity:							
Loss on disposal of fixed assets	0		0			0	(15,785)
Total non-operating activity	0		0		0	0	(15,785)
Change in net assets	(2,630,024)	15,876	(2,614,148)		121,010	(2,493,138)	(1,117,800)
Net assets - beginning of year	1,634,932	2,699,549	4,334,481		46,427	4,380,908	5,498,708
Net transfer	2,517,000	(2,517,000)	0		0	0	0
Net assets - end of year	\$1,521,908	\$198,425	\$1,720,333		\$167,437	\$1,887,770	\$4,380,908

The attached notes and auditor's report are an integral part of these financial statements.

**CHILDREN'S RIGHTS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
(With comparative totals for the year ended December 31, 2016)

	Program Services	Management and General	Fundraising	Total Expenses 12/31/17	Total Expenses 12/31/16
Salaries	\$2,146,592	\$289,588	\$334,101	\$2,770,281	\$2,558,297
Employee benefits and taxes	546,187	73,683	85,011	704,881	587,035
 Total salaries and related expenses	 2,692,779	 363,271	 419,112	 3,475,162	 3,145,332
Professional fees	65,381	71,053	160,489	296,923	344,921
Litigation costs	131,510			131,510	86,200
Research and legal library	71,916			71,916	72,130
Events			63,863	63,863	32,535
Travel	185,805	86	9,194	195,085	132,053
Occupancy	394,745	53,253	61,439	509,437	502,223
Computer support and maintenance (including in-kind of \$11,950)	80,091	42,325	30,539	152,955	129,094
Office supplies	92,124	13,163	30,879	136,166	203,822
Bad debt expense		25,147		25,147	25,000
Insurance	9,091	14,073		23,164	21,655
Training	9,534			9,534	5,720
Licenses and fees	7,690	21,316	9,904	38,910	41,620
 Total expenses before depreciation, amortization, and in-kind	 3,740,666	 603,687	 785,419	 5,129,772	 4,742,305
Depreciation and amortization	33,733	4,551	5,250	43,534	34,085
In-kind public service announcements (Note 2i)	3,255,915			3,255,915	14,673,000
 Total expenses	 <u>\$7,030,314</u>	 <u>\$608,238</u>	 <u>\$790,669</u>	 <u>\$8,429,221</u>	 <u>\$19,449,390</u>

*The attached notes and auditor's report are an integral part of these financial statements.*

**CHILDREN'S RIGHTS, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
(With comparative totals for the year ended December 31, 2016)

	<u>12/31/17</u>	<u>12/31/16</u>
Cash flows from operating activities:		
Change in net assets	(\$2,493,138)	(\$1,117,800)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	43,534	34,085
Net realized gain on investments	(12,055)	(15,353)
Unrealized loss/(gain) on investments	6,145	(57,937)
Loss on disposal of fixed assets	0	15,785
Changes in assets and liabilities:		
Attorneys' fees receivable	254,128	(552,856)
Contributions receivable	(55,979)	207,280
Prepaid expenses and other current assets	(1,771)	55,674
Security deposit	0	(68,510)
Accounts payable and accrued expenses	33,867	(13,133)
Deferred rent	9,875	133,754
Total adjustments	<u>277,744</u>	<u>(261,211)</u>
Net cash used for operating activities	<u>(2,215,394)</u>	<u>(1,379,011)</u>
Cash flows from investing activities:		
Purchases of fixed assets	(23,168)	(249,933)
Purchases of investments	(5,914)	(1,279,525)
Proceeds from sales of investments	1,374,140	2,956,834
Net cash provided by investing activities	<u>1,345,058</u>	<u>1,427,376</u>
Cash flows from financing activities:		
Proceeds from loan payable	100,000	0
Net cash provided by financing activities	<u>100,000</u>	<u>0</u>
Net (decrease)/increase in cash and cash equivalents	(770,336)	48,365
Cash and cash equivalents - beginning of year	1,984,331	1,935,966
Cash and cash equivalents - end of year	<u>\$1,213,995</u>	<u>\$1,984,331</u>
Supplemental disclosure of cash flow information:		
Total interest and taxes paid	<u>\$0</u>	<u>\$0</u>

*The attached notes and auditor's report are an integral part of these financial statements.*

**CHILDREN'S RIGHTS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Note 1 - Nature of Entity**

Children's Rights, Inc. (the "Organization") is a national advocacy group that holds governments accountable for keeping kids safe and healthy in child welfare, juvenile justice, education and healthcare systems. Children's Rights, Inc. is a not-for-profit corporation founded in 1994 and has been notified by the Internal Revenue Service that they are exempt from Federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and from state and local taxes under comparable laws. The Organization has not been determined to be a private foundation as defined in Section 509(a).

**Note 2 - Summary of Significant Accounting Policies**

a. Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting, which is the process of recording revenue and expenses when earned or incurred rather than received or paid.

b. Basis of Presentation

The Organization reports information regarding its financial position and activity according to the following classes of net assets:

- *Unrestricted* – represent those resources for which there are no restrictions by the donors as to their use. The Organization has chosen to present its unrestricted net assets in two distinct categories: undesignated and board designated reserve fund.
- *Temporarily restricted* – represent those resources for which the uses have been restricted by donors to specific purposes or the passage of time. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor. When the restrictions from temporarily restricted contributions have been met in the year of donation, they are reported as unrestricted.

c. Cash and Cash Equivalents

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash and cash equivalents for purposes of the accompanying statement of cash flows.

d. Investments and Investment Income

Investments are recorded at fair value, which refers to the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Donated securities are recorded at their fair values on the dates of the gifts. Realized and unrealized gains and losses are included in income on the statement of activities.

e. Fixed Assets

Furniture and equipment are recorded at cost or at fair value at the date of donation. Leasehold improvements that significantly add benefit to the property and have a useful life of greater than one year are capitalized at cost. Routine maintenance is expensed as incurred.

Furniture, equipment and leasehold improvements are depreciated or amortized using the straight-line method over the estimated useful life of the asset (between three to seven years) or the remaining life of the lease.

f. Deferred Rent

Rent expense is recognized evenly over the life of the lease using the straight-line basis. Rent expense recognized in excess of cash payments, primarily due to free rent received at the beginning of the lease, is reflected as deferred rent. In future years, when payments exceed the amount of rent recognized as expense, the deferred rent will be reduced until it is zero at the end of the lease.

g. Attorneys' Fees Income

Legal fees and expenses may be awarded in certain court cases. The amounts of these awards are the results of court determinations and appellate decisions, or of negotiations between the parties to the actions. Management anticipates that the Organization will be the recipient of legal awards in the future, but it is often unable to determine the amounts receivable with any degree of accuracy. Accordingly, the accounting policy is to accrue an award only when, in its judgment, the amount appears certain of collection.

h. Contributions

Contributions are recognized at the earlier of when cash is received or at the time a pledge becomes unconditional in nature. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. However, when a restriction is met in the period the contribution is received, it is recorded as unrestricted.

Contributions that are due within one year are recorded at net realizable value. Long-term pledges are recorded at fair value, using risk-adjusted present value techniques. Pledges are reviewed for collectability. Based on knowledge of specific donors and factoring in historical experience, management has established a reserve for uncollectable pledges that totaled \$75,000 for the years ended December 31, 2017 and 2016, respectively.

Contributions received with conditions are recorded as liabilities and are recognized as income at the time the condition has been met.

i. In-Kind Donations

The Organization recognizes contributions of services that create or enhance non-financial assets or require specialized skills that are provided by those possessing those skills and would have been paid if not contributed. The Organization received

a donated public service announcement that raised awareness of the foster care system that was aired across the country in 2016, and part of 2017. The Organization was involved in determining and managing the message of the public service announcement, therefore the donated airtime has been recognized as a contribution, at the estimated fair value, which was \$3,255,915 in 2017 and \$14,673,000 in 2016.

In addition, the Organization received a donation of \$11,950 in computer equipment in 2017. No computer equipment was contributed in 2016.

j. Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

k. Functional Allocation of Expenses

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management.

l. Management Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

m. Accounting for Uncertainty of Income Taxes

The Organization does not believe its financial statements include any material, uncertain tax positions. Tax filings for the periods ending December 31, 2014 and later are subject to examination by applicable taxing authorities.

n. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through May 30, 2018, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or further disclosure in the financial statements.

o. New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*. The ASU, which becomes effective for the December 31, 2018 fiscal year, with early implementation permitted, focuses on

improving the current net asset classification requirements and information presented in the financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows.

The FASB also issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU, which becomes effective for the December 31, 2019 fiscal year, focuses on a principle-based model. It highlights the identification of performance obligations of the contract, determining the price and allocating that price to the performance obligation so that revenue is recognized as each performance obligation is satisfied.

In addition, FASB issued ASU No. 2016-02, *Leases*. The ASU, which becomes effective for the December 31, 2020 fiscal year, requires the full obligation of long term leases to be recorded as a liability with a corresponding "right to use asset" on the statement of financial position.

The Organization is in the process of evaluating the impact these standards will have on future financial statements.

**Note 3 - Investments**

Accounting standards have established a fair value hierarchy that gives the highest priority to quoted market prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are not observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The following summarizes the composition of investments:

	<u>December 31, 2017</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
U.S. Treasury notes	\$99,971	\$0	\$99,971
U.S. Bond	0	14,992	14,992
U.S. Mutual funds	2,751	0	2,751
Certificates of deposit	<u>0</u>	<u>1,877</u>	<u>1,877</u>
	<u>\$102,722</u>	<u>\$16,869</u>	<u>\$119,591</u>

	<u>December 31, 2016</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
U.S. Bond funds	\$139,629	\$0	\$139,629
Foreign equities	67,725	0	67,725
U.S. equities	64,020	0	64,020
Global closed end funds	60,420	0	60,420
U.S. Mutual funds	883,453	0	883,453
Certificates of deposit	<u>0</u>	<u>266,660</u>	<u>266,660</u>
	<u>\$1,215,247</u>	<u>\$266,660</u>	<u>\$1,481,907</u>

The following summarizes investment income:

	<u>12/31/17</u>	<u>12/31/16</u>
Interest and dividends income	\$12,906	\$59,716
Realized gain on investments	12,055	15,353
Unrealized (loss)/gain on investments	<u>(6,145)</u>	<u>57,937</u>
	<u>\$18,816</u>	<u>\$133,006</u>

Level 1 securities are valued at the closing price reported on the active market they are traded on. Level 2 securities are valued using observable market inputs for securities that are similar to those owned. This method produces a fair value calculation that may not be indicative of net realizable value or reflective of future values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements.

**Note 4 - Fixed Assets**

Fixed assets consist of:

	<u>12/31/17</u>	<u>12/31/16</u>
Furniture and equipment	\$223,903	\$200,735
Leasehold improvements	<u>97,742</u>	<u>97,742</u>
	321,645	298,477
Less: accumulated depreciation and amortization	<u>(103,637)</u>	<u>(60,103)</u>
Net fixed assets	<u>\$218,008</u>	<u>\$238,374</u>

**Note 5 - Commitments**

- a) The Organization has a non-cancelable lease agreement for office space which expires in 2026. Under terms of that lease, an irrevocable standby letter of credit, which represents four months' rent, was established. A certificate of deposit account was opened in the amount of \$168,510 for this purpose. The lease provides a provision for a free fixed rent allowance of \$151,313 for the first three and a half months of the lease.

Future minimum rental payments under the lease are as follows:

Year ending:	December 31, 2018	505,530
	December 31, 2019	505,530
	December 31, 2020	505,530
	December 31, 2021	531,743
	December 31, 2022	550,466
	Thereafter	<u>2,064,248</u>
Total		<u>\$4,663,047</u>

- b) During 2017 and 2016, the Organization received grants for \$15,000 and \$10,000, respectively, to be used for expert witness fees. Should the Organization receive recovery of these fees, it will be required to reimburse the grantee, plus interest at an annual rate of 7%. As the Organization cannot currently determine the probability of a recovery, no liability has been reflected as of December 31, 2017.
- c) During 2017, the Organization entered into a line of credit agreement with RSF Social Finance with a limit of \$200,000 at a variable interest rate set at the RSF prime rate, which was 4.25% during 2017. The line of credit expires in June 2019. The balance due on the line of credit as of December 31, 2017 is \$100,000, all of which was subsequently repaid.
- d) Subsequent to year end, the Organization obtained a \$500,000 Program Related Investment. Repayment of the funds is to occur thirty days after the Organization's receipt of settlement funds from the State of Rhode Island which is expected by May 31, 2018. The loan is to be repaid with interest at an annual rate of 5%.

**Note 6 - Temporarily Restricted Net Assets**

The following schedule summarizes the activity of temporarily restricted net assets:

	December 31, 2017			
	Balance <u>1/1/17</u>	<u>Contributions</u>	Released from <u>Restrictions</u>	Balance <u>12/31/17</u>
Program restriction:				
401(k) Contributions	\$31,427	\$0	(\$31,427)	\$0
New Computer Equipment	0	5,000	0	5,000
Case Campaigns	<u>0</u>	<u>180,000</u>	<u>(67,563)</u>	<u>112,437</u>
Total program restrictions	31,427	185,000	(98,990)	117,437
Time restrictions	<u>15,000</u>	<u>50,000</u>	<u>(15,000)</u>	<u>50,000</u>
Total	<u>\$46,427</u>	<u>\$235,000</u>	<u>(\$113,990)</u>	<u>\$167,437</u>

	December 31, 2016			
	Balance <u>1/1/16</u>	<u>Contributions</u>	Released from <u>Restrictions</u>	Balance <u>12/31/16</u>
Program restriction:				
401(k) Contributions	\$88,971	\$0	(\$57,544)	\$31,427
New Computer Equipment	5,000	0	(5,000)	0
Case Campaigns	<u>116,718</u>	<u>0</u>	<u>(116,718)</u>	<u>0</u>
Total program restrictions	210,689	0	(179,262)	31,427
Time restrictions	<u>65,000</u>	<u>15,000</u>	<u>(65,000)</u>	<u>15,000</u>
Total	<u>\$275,689</u>	<u>\$15,000</u>	<u>(\$244,262)</u>	<u>\$46,427</u>

**Note 7 - Pension Plan**

Employees that have at least six months of service are eligible to participate in an employer sponsored defined-contribution 401(k) pension plan. Effective January 1, 2015, the plan instituted a safe harbor match feature where the Organization matches 100% of the first 3% contributed by the employee and 50% on the next 2% contributed. Employer contributions to the plan during the years ended December 31, 2017 and 2016 amounted to \$85,000 and \$80,000, respectively.

**Note 8 - Concentration of Credit Risk**

Financial instruments which potentially subject the Organization to concentration of credit risk consist of cash, money market accounts and investment securities which have been placed with financial institutions that management deems to be creditworthy. Accounts are insured by the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation. Investments are subject to market value fluctuations and principal is not guaranteed. However, management believes the investment policy is prudent for the long-term welfare of the Organization. At year end and at various times during the year, the Organization had material uninsured balances; however, no losses have been suffered due to the failure of any of these institutions.

**Note 9 - Special Events**

A summary of the annual benefit is as follows:

	<u>12/31/17</u>	<u>12/31/16</u>
Event income	\$1,103,078	\$930,794
Less: expenses with a direct benefit to donor	<u>(101,571)</u>	<u>(70,940)</u>
	1,001,507	859,854
Less: other event expenses	<u>(63,863)</u>	<u>(32,535)</u>
Total	<u>\$937,644</u>	<u>\$827,319</u>