SCHALL & ASHENFARB Certified Public Accountants, LLC

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CHILDREN'S RIGHTS

PROTECTING KIDS.
PROVIDING HOPE.

Audited Financial Statements

December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the 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, 2019, 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 entity'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 entity'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.

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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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated May 22, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

August 26, 2020

CHILDREN'S RIGHTS, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019
(With comparative totals as of December 31, 2018)

	12/31/19	12/31/18
Assets		
Cash and cash equivalents	$2,345,722	$1,985,154
Investments (Note 3)	2,530	5,600
Attorneys' fees receivable	13,215	195,993
Contributions receivable, net (Note 4)	425,485	509,234
Prepaid expenses and other current assets	110,551	65,553
Fixed assets, net (Note 5)	207,978	173,610
Security deposit (Note 6)	168,510	168,510
Total assets	$3,273,991	$3,103,654
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$592,819	$630,103
Deferred rent	173,002	163,127
Loans payable (Note 7)	1,800,000	0
Total liabilities	2,565,821	793,230
Commitments (Note 6)		
Net assets:		
Without donor restrictions	318,321	1,893,476
With donor restrictions (Note 8)	389,849	416,948
Total net assets	708,170	2,310,424
Total liabilities and net assets	$3,273,991	$3,103,654

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, 2019
(With comparative totals for the year ended December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	Total 12/31/19	Total 12/31/18
Public support and revenue:				
Attorneys' fees income	$1,321,562		$1,321,562	$3,371,238
Contributions	951,242	$315,000	1,266,242	1,468,404
Special events income (net of expenses with a direct benefit to donors) (Note 12)	1,525,451		1,525,451	1,200,457
Other income	8,680		8,680	12,293
In-kind donations	11,800		11,800	29,550
Investment income (Note 3)	27,145		27,145	25,288
Net assets released from restrictions (Note 8)	342,099	(342,099)	0	0
Total public support and revenue	4,187,979	(27,099)	4,160,880	6,107,230
Expenses:				
Program services:	4,293,625		4,293,625	4,059,437
Management and general	521,071		521,071	541,089
Fundraising	948,438		948,438	1,084,050
Total expenses	5,763,134	0	5,763,134	5,684,576
Change in net assets	(1,575,155)	(27,099)	(1,602,254)	422,654
Net assets - beginning of year	1,893,476	416,948	2,310,424	1,887,770
Net assets - end of year	$318,321	$389,849	$708,170	$2,310,424

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, 2019
(With comparative totals for the year ended December 31, 2018)

	Program Services	Management and General	Fundraising	Total Expenses 12/31/19	Total Expenses 12/31/18
Salaries	$2,351,828	$310,706	$451,557	$3,114,091	$2,798,219
Employee benefits and taxes	568,057	70,940	109,068	748,065	744,039
Total salaries and related expenses	2,919,885	381,646	560,625	3,862,156	3,542,258
Professional fees	128,975	65,644	118,669	313,288	408,356
Litigation costs	181,426			181,426	263,154
Research and legal library	76,213	107		76,320	76,157
Events			353,277	353,277	306,803
Travel	238,802	127	8,049	246,978	210,099
Occupancy (including in-kind of $11,800)	457,229	26,514	58,330	542,073	521,476
Computer support and maintenance	93,374	5,558	12,228	111,160	137,049
Office supplies	112,769	6,713	14,767	134,249	150,537
Bad debt expense		500		500	55,116
Insurance	16,007	2,000	3,073	21,080	19,004
Training	12,832		178	13,010	20,632
Licenses and fees	11,570	10,514	18,213	40,297	42,957
Interest		19,097		19,097	0
Depreciation	44,543	2,651	5,833	53,027	44,398
Total expenses	4,293,625	521,071	1,153,242	5,967,938	5,797,996
Less: direct special event expenses netted with revenue			(204,804)	(204,804)	(113,420)
Total expenses for statement of activities	$4,293,625	$521,071	$948,438	$5,763,134	$5,684,576

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, 2019
(With comparative totals for the year ended December 31, 2018)

	12/31/19	12/31/18
Cash flows from operating activities:		
Change in net assets	($1,602,254)	$422,654
Adjustments to reconcile change in net assets to net cash (used for)/provided by operating activities:		
Depreciation and amortization	53,027	44,398
Net realized loss/(gain) on investments	309	(702)
Unrealized loss/(gain) on investments	9	(29)
Changes in assets and liabilities:		
Attorneys' fees receivable	182,778	428,727
Contributions receivable	83,749	(263,284)
Prepaid expenses and other current assets	(44,998)	(8,008)
Accounts payable and accrued expenses	(37,284)	122,806
Deferred rent	9,875	9,875
Total adjustments	247,465	333,783
Net cash (used for)/provided by operating activities	(1,354,789)	756,437
Cash flows from investing activities:		
Purchases of fixed assets	(87,395)	0
Proceeds from sales of investments	2,752	114,722
Net cash (used for)/provided by investing activities	(84,643)	114,722
Cash flows from financing activities:		
Proceeds from loan payable	1,800,000	500,000
Payment of loan payable	0	(600,000)
Net cash provided by/(used for) financing activities	1,800,000	(100,000)
Net increase in cash and cash equivalents	360,568	771,159
Cash and cash equivalents - beginning of year	1,985,154	1,213,995
Cash and cash equivalents - end of year	$2,345,722	$1,985,154
Supplemental disclosure of cash flow information:		
Interest and taxes paid	$0	$0

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

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.

Effective January 1, 2019 the Organization adopted the requirements of the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "Topic 606"). This provides the framework for recognizing revenue by highlighting the identification of performance obligations of a contract, determining the price and then allocating the price to each of the performance obligations so that revenue is recognized as each of those performance obligations are satisfied.

Also, effective January 1, 2019, the Organization adopted ("ASU") No. 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("Topic 605"). Key provisions of this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improved guidance for conditional versus unconditional contributions. In accordance with this new standard, the Organization evaluates whether a transfer of assets is an exchange transaction in which a resource provider is receiving a commensurate value in return for the transfer of resources or whether it is non-reciprocal. If the transaction is determined to be an exchange transaction, the Organization applies guidance under Topic 606. If the transaction is determined to be non-reciprocal, it is treated as a contribution under Topic 605.

The Organization evaluates whether contributions are conditional or unconditional. Contributions are considered to be conditional when both a barrier must be overcome for the Organization to be entitled to the revenue and a right of return of the asset or right of release from the obligation exists.

Analysis of the various provisions of both standards resulted in no significant changes in the way the Organization recognizes revenue.

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

- *Net Assets Without Donor Restrictions* – represents those resources for which there are no restrictions by donors as to their use.

- *Net Assets With Donor Restrictions* – represents those resources, the uses of which have been restricted by donors to specific purposes or the passage of time and/or must remain intact, in perpetuity. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor.

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 fair value on the date of the gift. Realized and unrealized gains and losses are included in income on the statement of activities.

e. Fixed Assets
Furniture and equipment purchases that exceed predetermined amounts 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 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 method. 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. Revenue Recognition
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 Organization follows ASC 450-30, *Gain Contingencies,* under which the accounting treatment is to accrue an award only when, in its judgment, the amount appears certain of collection.

Contributions are recognized at the earlier of when cash is received or at the time a pledge becomes unconditional in nature. Contributions are recorded in the net asset classes referred to above depending on the existence and/or nature of any donor-imposed restriction. When a restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. If donor restricted contributions are satisfied in the same period they were received, they are classified as without donor restrictions.

Contributions may be subject to conditions which are defined under ASU No. 2018-08 as both a barrier to entitlement and a right of return of payments or release from obligations and are recognized as income once the conditions have been substantially met.

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 $57,500 for both years ended December 31, 2019 and 2018.

h. 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. In 2019, the Organization received donated office space for 3 attorneys based out of Atlanta, Georgia, totaling $11,800 and in 2018 received donated office space for one attorney for half of the year totaling $1,900. In 2018, the Organization received pro bono legal services totaling $27,650. There were no pro bono legal services in 2019.

i. 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, 2018, from which the summarized information was derived.

j. Functional Allocation of Expenses
The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The following costs are allocated based on time and effort:

- Salaries
- Employee benefits and taxes
- Insurance

The following costs are allocated based on the number of people at the New York office:

- Occupancy
- Computer support and maintenance
- Office supplies
- Depreciation

All other expenses have been charged directly to the applicable program or supporting services.

k. 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.

l. 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, 2016 and later are subject to examination by applicable taxing authorities.

m. New Accounting Pronouncement
FASB issued ("ASU") No. 2016-02, *Leases.* The ASU which becomes effective for the December 31, 2022 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 this standard 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:

	December 31, 2019		
	Level 1	Level 2	Total
Certificates of deposit	$0	$2,530	$2,530

	December 31, 2018		
	Level 1	Level 2	Total
U.S. Mutual funds	$2,754	$0	$2,754
Certificates of deposit	0	2,846	2,846
	$2,754	$2,846	$5,600

The following summarizes investment income:

	12/31/19	12/31/18
Interest and dividends income	$27,463	$24,557
Realized (loss)/gain on investments	(309)	702
Unrealized (loss)/gain on investments	(9)	29
	$27,145	$25,288

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 - Contributions Receivable

Contributions receivable are due in the following periods:

Year ending:	December 31, 2020	$463,385
	December 31, 2021	20,000
		483,385
Less: present value discount (1%)		(400)
Less: allowance for doubtful accounts		(57,500)
Contributions receivable, net		$425,485

Note 5 - Fixed Assets

Fixed assets consist of:

	12/31/19	12/31/18
Furniture and equipment	$304,501	$223,903
Leasehold improvements	104,539	97,742
	409,040	321,645
Less: accumulated depreciation	(201,062)	(148,035)
Net fixed assets	$207,978	$173,610

Note 6 - 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, 2020	$505,530
	December 31, 2021	531,743
	December 31, 2022	550,466
	December 31, 2023	550,466
	December 31, 2024	550,466
	Thereafter	963,316
Total		$3,651,987

b) During 2019, 2017 and 2016, the Organization received grants for $20,000, $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, 2019 and 2018.

Note 7 - Loans Payable

As of December 31, 2019, loans payable consists of the following:

Loan Payable – Greater Houston Community Foundation (a)	$500,000
Loan Payable – Open Road Alliance (b)	500,000
Loan Payable – Open Road Alliance (c)	400,000
Loan Payable – Greater Houston Community Foundation (d)	400,000
Total	$1,800,000

a) On March 21, 2019, the Organization entered into a $500,000 program related investment loan agreement with a related party, which was approved in accordance with the Organization's conflict of interest policy. The loan was originally due by

September 15, 2020. Subsequent to year-end the loan due date was extended to the earlier of receipt of awards from a court case that has yet to be settled or May 1, 2022. The loan is to be repaid with interest at an annual rate of 2.5%.

b) On March 22, 2019, the Organization obtained a $500,000 promissory note. Repayment terms are based on the settlement of a pending case. The principal is due in installments by September 30, 2020. The loan is to be repaid with interest at an annual rate of 5%.

c) On July 12, 2019, the Organization obtained a $400,000 promissory note. The principal repayment is due by September 30, 2020. The loan is to be repaid with interest at an annual rate of 5%

d) On July 12, 2019, the Organization entered into a $400,000 program related investment loan agreement with a related party, which was approved in accordance with the Organization's conflict of interest policy. The loan was originally due by September 15, 2020. Subsequent to year-end the loan due date was extended to the earlier of receipt of awards from a court case that has yet to be settled or May 1, 2022. The loan is to be repaid with interest at an annual rate of 2.5%.

Note 8 - Net Assets with Donor Restrictions

The following schedule summarizes the activity of net assets with donor restrictions:

	December 31, 2019			
	Balance 1/1/19	Contributions	Released from Restrictions	Balance 12/31/19
Program restriction:				
Case Campaigns	$326,948	$315,000	($307,099)	$334,849
Time restrictions	90,000	0	(35,000)	55,000
Total	$416,948	$315,000	($342,099)	$389,849

	December 31, 2018			
	Balance 1/1/18	Contributions	Released from Restrictions	Balance 12/31/18
Program restriction:				
New computer equipment	$5,000	$0	($5,000)	$0
Case Campaigns	112,437	630,000	(415,489)	326,948
Total program restrictions	117,437	630,000	(420,489)	326,948
Time restrictions	50,000	145,000	(105,000)	90,000
Total	$167,437	$775,000	($525,489)	$416,948

Note 9 - Availability and Liquidity

Financial assets at year-end:		
Cash and cash equivalents	$2,345,722	
Investments	2,530	
Attorney's fees receivable	13,215	
Contributions receivable	425,485	
Total financial assets		$2,786,952
Less amounts not available for general expenditures:		
Donor restricted contributions – due in 2021		(20,000)
Donor restricted contributions – purpose restrictions		(334,849)
Financial assets available to meet cash needs for general expenditures within one year		$2,432,103

Earned revenue in the form of Attorneys' fee awards represents a substantial portion of the Organization's overall revenue. These awards are concentrated and unpredictable as to timing. To manage cash needs over the long-term, the Organization maintains a reserve policy that requires deposits into a fund when gross revenues exceed certain thresholds. The Organization has typically relied on a reserve fund to meet cash needs and in 2019 accessed program-related investment credit lines from donors.

Note 10 - 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 amounted to $91,000 and $89,000 for the years ended December 31, 2019 and 2018, respectively.

Note 11 - 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 12 - Special Events

A summary of the annual benefit is as follows:

	12/31/19	12/31/18
Event income	$1,730,255	$1,313,877
Less: expenses with a direct benefit to donor	(204,804)	(113,420)
	1,525,451	1,200,457
Less: other event expenses	(148,473)	(79,160)
Total	$1,376,978	$1,121,297

Note 13 - Subsequent Events

Management has evaluated the impact of all subsequent events through August 26, 2020, which is the date that the financial statements were available to be issued. No additional events have occurred subsequent to the statement of financial position date, through our evaluation date, that would require adjustment to or disclosure in the financial statements.

Subsequent to year end, the World Health Organization declared a novel coronavirus (COVID-19) outbreak a Public Health Emergency of International Concern. This could adversely affect the Organization's donors and suppliers as a result of quarantines, facility closures, and travel and logistics restrictions in connection with the outbreak. More broadly, the outbreak could affect workforces, economies, and financial markets globally, potentially leading to an economic downturn. This could decrease spending, adversely affect demand on the Organization's services and harm the Organization's business and results of operations. Management continues to monitor the outbreak, however, as of the date of these financial statements, the potential impact of such on the Organization's business cannot be quantified.

Subsequent to year-end, the Organization obtained a loan from the SBA in the amount of $739,700 through the Payroll Protection Program. Terms of the loan indicate that if certain conditions are met, which include maintaining average work forces during periods subsequent to receipt of the loan funds that are greater than pre-determined historical periods, that the loan, or a portion thereof, will be forgiven. Portions that are not forgiven will be payable over a two-year period, with a six-month deferral of payments and interest will accrue at 1%. The loan forgiveness amount has not been determined as of the date of the financial statements; however, management expects that the loan amount will be forgiven.

Additionally, subsequent to year-end, the Organization entered into a $500,000 program related investment loan agreement with a related party, which was approved in accordance with the Organization's conflict of interest policy. The loan is due by July 15, 2021. The loan is to be repaid with interest at an annual rate of 2%.