

**CHILDREN'S DEFENSE FUND
AND CHILDREN'S DEFENSE FUND
ACTION COUNCIL**

**AUDITED CONSOLIDATED
FINANCIAL STATEMENTS**

**NINE-MONTH PERIOD ENDED
SEPTEMBER 30, 2018**

Children's Defense Fund and Children's Defense Fund Action Council

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Independent Auditor's Report

Board of Directors

Children's Defense Fund and Children's Defense Fund Action Council
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We have audited the accompanying consolidated financial statements of **Children's Defense Fund and Children's Defense Fund Action Council** (a nonprofit organization), which comprise the Consolidated Statement of Financial Position as of September 30, 2018, and the related Consolidated Statements of Activities and Changes in Net Assets, Functional Expenses, and Cash Flows for the nine-month period then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Children's Defense Fund and Children's Defense Fund Action Council** as of September 30, 2018, and the changes in their net assets and cash flows for the nine-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Aronson LLC

Rockville, Maryland
March 13, 2019

Children's Defense Fund and Children's Defense Fund Action Council

Consolidated Statement of Financial Position

<i>September 30,</i>	2018
Assets	
Cash and cash equivalents	\$ 1,791,941
Investments	21,748,081
Pledges receivable, net	1,907,891
Government contracts and grants receivable	375,006
Property and equipment, net	3,383,722
Other assets	548,545
Total assets	\$ 29,755,186
Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	\$ 2,270,203
Net assets	
Net assets without donor restrictions	15,846,871
Net assets with donor restrictions	11,638,112
Total net assets	27,484,983
Total liabilities and net assets	\$ 29,755,186

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Children's Defense Fund and Children's Defense Fund Action Council

Consolidated Statement of Activities and Changes in Net Assets

<i>Nine-month period ended</i> <i>September 30, 2018</i>	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support			
Contributions and donations			
Foundations and corporations	\$ 149,154	\$ 3,681,360	\$ 3,830,514
Individuals	1,374,070	150,000	1,524,070
Organizations and groups	33,800	-	33,800
Contributed services	981,647	-	981,647
Special events	994,200	35,000	1,029,200
Other			
Training and Haley Farm fees	3,749,011	-	3,749,011
Government contracts and grants	1,671,482	-	1,671,482
Rental income	237,320	-	237,320
Miscellaneous	145,155	-	145,155
Gain on sale of building	18,889,831	-	18,889,831
Investment income (loss)			
Interest and dividends	148,365	107,784	256,149
Net realized and unrealized gains (losses)	(124,639)	(90,548)	(215,187)
Net assets released from restrictions	5,145,168	(5,145,168)	-
Total revenue, gains and other support	33,394,564	(1,261,572)	32,132,992
Expenses			
Program services			
Leadership development and state and community capacity building	9,047,370	-	9,047,370
Policy and program development and implementation	4,430,498	-	4,430,498
Public education, media campaigns, internet outreach and publications	466,336	-	466,336
Total program services	13,944,204	-	13,944,204
Supporting services			
General and administrative	2,031,741	-	2,031,741
Fundraising	1,064,791	-	1,064,791
Total supporting services	3,096,532	-	3,096,532
Total expenses	17,040,736	-	17,040,736
Change in net assets	16,353,828	(1,261,572)	15,092,256
Beginning net assets (deficit)	(506,957)	12,899,684	12,392,727
Ending net assets	\$ 15,846,871	\$ 11,638,112	\$ 27,484,983

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Children's Defense Fund and Children's Defense Fund Action Council

Consolidated Statement of Functional Expenses

Nine-month period ended September 30, 2018

	Leadership Development and State and Community Capacity Building	Policy and Program Development and Implementation	Public Education, Media Campaigns, Internet Outreach and Publications	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total
Grants to organizations in U.S.	\$ 514,682	\$ 206,650	\$ -	\$ 721,332	\$ -	\$ -	\$ -	\$ 721,332
Grants to individuals in U.S.	165,726	11,968	-	177,694	-	-	-	177,694
Compensation and wages	2,705,951	1,752,543	181,831	4,640,325	803,627	488,173	1,291,800	5,932,125
Retirement plan contributions	142,255	92,133	9,559	243,947	42,248	25,664	67,912	311,859
Other employee benefits	380,529	246,455	25,570	652,554	113,011	68,650	181,661	834,215
Payroll taxes	219,167	141,946	14,727	375,840	65,089	39,539	104,628	480,468
Consulting fees	1,135,295	296,512	19,002	1,450,809	93,817	40,330	134,147	1,584,956
Legal fees	16,727	476,456	-	493,183	-	320	320	493,503
Accounting fees	80,016	51,824	5,377	137,217	23,764	14,436	38,200	175,417
Advertising and promotion	3,065	6,115	28,608	37,788	-	25,304	25,304	63,092
Office expenses	167,940	108,768	11,285	287,993	49,876	30,298	80,174	368,167
Information technology	55,246	38,786	88,895	182,927	45,575	44,521	90,096	273,023
Occupancy	1,008,065	652,886	67,739	1,728,690	299,380	181,862	481,242	2,209,932
Travel	650,649	79,753	2,861	733,263	5,604	2,362	7,966	741,229
Conferences and conventions	839,844	130,757	3,787	974,388	817	96	913	975,301
Interest	115	-	-	115	245,641	-	245,641	245,756
Depreciation and amortization	101,401	65,673	6,814	173,888	19,003	18,293	37,296	211,184
Insurance	2,000	-	-	2,000	189,018	-	189,018	191,018
Printing and publication	800,436	20,080	239	820,755	12,934	6,204	19,138	839,893
Miscellaneous expenses	58,261	51,193	42	109,496	22,337	78,739	101,076	210,572
Total expenses	\$ 9,047,370	\$ 4,430,498	\$ 466,336	\$ 13,944,204	\$ 2,031,741	\$ 1,064,791	\$ 3,096,532	\$ 17,040,736

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Children's Defense Fund and Children's Defense Fund Action Council

Consolidated Statement of Cash Flows

<i>Nine-month period ended September 30,</i>	2018
Cash flows from operating activities	
Change in net assets	\$ 15,092,256
Adjustment to reconcile change in net assets to net cash used by operating activities	
Depreciation and amortization	211,184
Net realized and unrealized losses on investments	186,671
Amortization of bond issuance costs	356,242
(Recovery of) discount on pledges receivable	(600)
Gain on sale of fixed assets	(18,889,831)
Contribution restricted for permanent endowment	(25,000)
Change in assets and liabilities	
Pledges receivable	803,543
Government contracts and grants receivable	190,105
Other assets	392,130
Accounts payable and accrued expenses	168,149
Net cash used by operating activities	(1,515,151)
Cash flows from investing activities	
Proceeds from sales of investments	26,633,712
Purchases of investments	(36,151,648)
Proceeds from sales of property and equipment	23,778,985
Purchases of property and equipment	(441,812)
Net cash provided by investing activities	13,819,237
Cash flows from financing activities	
Contribution restricted for permanent endowment	25,000
Repayments on line of credit	(7,500,000)
Restricted funds for debt reserve	312,269
Principal payments and retirement of bonds payable	(4,831,371)
Net cash used by financing activities	(11,994,102)
Change in cash and cash equivalents	309,984
Cash and cash equivalents, beginning of year	1,481,957
Cash and cash equivalents, end of year	\$ 1,791,941
Supplemental cash flows information	
Actual cash payments of interest	\$ 243,833

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Children's Defense Fund and Children's Defense Fund Action Council

Notes to Consolidated Financial Statements

1. Organization and significant accounting policies

Organization: The Children's Defense Fund is a private, nonprofit corporation that began in 1973 in Washington, D.C. The Children's Defense Fund's Leave No Child Behind mission is to ensure every child a *Healthy Start*, a *Head Start*, a *Fair Start*, a *Safe Start* and a *Moral Start* in life and successful passage to adulthood with the help of caring families and communities. The Children's Defense Fund endeavors to provide a strong, effective and independent voice for *all* the children of America who cannot vote, lobby or speak for themselves. It pays particular attention to the needs of poor and minority children and those with disabilities. The Children's Defense Fund educates the nation about the needs of children and encourages preventive investments before they get sick, drop out of school, get into trouble or suffer family breakdown. The Children's Defense Fund is supported primarily by foundation and corporate grants, individual donations and government grants.

The Children's Defense Fund Action Council shares the Children's Defense Fund's mission. It was organized to conduct lobbying activities and grassroots mobilization in advocating for legislation that meets the needs of children. The organizations are under common management, with the Children's Defense Fund staff performing duties for the Children's Defense Fund Action Council.

The Washington Research Project was granted 501(c)(3) status in 2011 and also shares the Children's Defense Fund's mission. It was organized to provide education and technical assistance to governmental units, private nonprofit organizations, and others that receive funding to support programs intended to advance the health, education and welfare of children. In 2012, the Children's Defense Fund assumed responsibility for providing these services. The Washington Research Project had no activity in 2018.

CDF Legacy Investor, LLC is a Virginia limited liability company formed on October 25, 2016 with the Children's Defense Fund being the sole member of the company. This entity was created in order to accept certain gifts and enter into investments. There was no financial activity for this entity during 2018. The organizations are under common management.

Basis of consolidation: The consolidated financial statements include the accounts of the Children's Defense Fund, the Children's Defense Fund Action Council, the Washington Research Project, and CDF Legacy Investor, LLC (collectively referred to as "CDF"). Because the organizations are under common control and an economic interest exists between them, they have been consolidated as required under accounting principles generally accepted in the United States of America. All intercompany accounts and transactions have been eliminated in consolidation.

Basis of accounting: The consolidated financial statements have been prepared on the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America.

Children's Defense Fund and Children's Defense Fund Action Council

Notes to Consolidated Financial Statements

Cash and cash equivalents: CDF considers demand deposits, money market funds and commercial paper with original maturities of three months or less to be cash and cash equivalents. Cash held in certain endowment investment accounts is considered to be an investment since amounts are not to be used for general operating purposes. CDF maintains a legal right of offset with certain financial institutions, allowing any potential overdrafts to be offset with funds from other accounts held at the same institution. CDF maintains accounts which may exceed federally insured limits. Management does not consider this to be a significant credit risk.

Investments: Investments in marketable securities and bond funds are presented at fair value based on quoted market prices in principal active markets for identical assets. Fair values of alternative investments were developed using the net asset value (NAV) as reported by the underlying fund managers in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers. Because of the inherent uncertainty of valuation, the estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and these differences could be material. Money market funds are recorded at cost, which approximates fair value.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Investment income includes CDF's gains and losses on investments bought, sold, or held during the period.

Fair value of financial instruments: As of September 30, 2018, the estimated fair values of financial instruments subject to fair value disclosures were determined based on available market information and valuation methodologies believed to be appropriate for these purposes.

Gains and losses on investments, including changes in fair value, are reported in the Consolidated Statement of Activities and Changes in Net Assets as increases or decreases in net assets without donor restrictions unless their use is restricted by donor stipulation, applicable laws, or under the accounting rules for endowments pursuant to the D.C. Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Children's Defense Fund and Children's Defense Fund Action Council

Notes to Consolidated Financial Statements

Fair value: CDF values certain investments at fair value in accordance with a three-tier fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and,

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. There have been no changes in the fair value methodologies used at September 30, 2018.

Pledges receivable: Pledges receivable represent unconditional promises to give and are recorded in the consolidated financial statements at the time the promises are unconditionally made. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience. All amounts are considered collectible and, therefore, no allowance for doubtful accounts is deemed necessary at September 30, 2018. Amounts due in excess of one year are recorded at the present value of their estimated future cash flows, using discount rates equal to the prevailing local borrowing rate which was 2.40% for the nine-month period ended September 30, 2018. Amortization of the discount is included in contribution revenue.

Government contracts and grants receivable: Government contracts and grants receivable include all current billed and unbilled costs chargeable to those awards within the respective cost limits. All unbilled receivables will be billed at the next billing date and are expected to be collected within a twelve-month period. The face amount of receivables is reduced by an allowance for doubtful accounts, if needed. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience. As of September 30, 2018, management expects to fully collect all balances and therefore no allowance for doubtful accounts is deemed necessary.

Children’s Defense Fund and Children’s Defense Fund Action Council

Notes to Consolidated Financial Statements

Restricted funds for debt reserve: Restricted funds represent investment balances reserved for a specific purpose and therefore not available for immediate and general use. In connection with the bond refinancing (Note 10), a debt service reserve was established with a third-party trustee to be utilized for any bond payment deficiencies. The funds were released from restriction when the debt was retired during the nine-month period ended September 30, 2018.

Property and equipment: Property and equipment over \$1,000 are stated at cost if purchased and fair value if contributed and are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	30 years
Building improvements	5 to 30 years
Furniture, equipment and software	2 to 10 years

Impairment of long-lived assets: CDF evaluates the carrying value of its long-lived assets held for use based upon a comparison of the undiscounted future net cash flows for the asset to the net book value. These evaluations for impairment are significantly impacted by estimates of revenue, costs and expenses, and other factors. If the net book value is greater than the future undiscounted cash flows estimated, CDF records an impairment adjustment to reduce the cost basis of the asset to its fair value.

At September 30, 2018, CDF has performed a recoverability analysis of all long-lived assets and does not believe an impairment adjustment is required.

Net assets: Net assets without donor restrictions are the part of net assets that is not subject to donor-imposed restrictions. They are available for support of all organizational operations and services.

Net assets with donor restrictions are the part of net assets that are subject to donor-imposed restrictions. These restrictions may expire by the passage of time, by fulfillment of certain actions of CDF pursuant to those stipulations, or require that the original gift be held in perpetuity and only the earnings, if any, be used for the purposes designated by the donor.

Endowment fund: CDF has established an endowment fund to account for gifts which are required by donors to be held in perpetuity or designated by donors for a specific purpose. The gifts, grants, contributions, and investment income of the endowment fund are recorded as revenue and support with donor restrictions or without donor restrictions, depending on the restrictions imposed by the donors, if any. The endowment fund is managed according to the guidelines and policies established by CDF's Finance Committee and approved by the Board of Directors.

Children's Defense Fund and Children's Defense Fund Action Council

Notes to Consolidated Financial Statements

Revenue recognition: Contributions, including unconditional promises to give, are recognized when received or unconditionally promised. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor for a specific time or purpose are reported as contributions with donor restrictions based on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the Consolidated Statement of Activities and Changes in Net Assets as net assets released from restrictions. Amounts restricted and released in the same year are recorded as contributions without donor restrictions. Applying this policy may, at times, create year-to-year fluctuations of changes in net assets, with grants immediately recognized as revenue in an earlier period than grant related expenses. Conditional promises to give are not included as support until the conditions are substantially met.

Special events are activities that are not regularly conducted. These include the Beat the Odds program. Revenue derived from these programs is contribution revenue and recorded as defined above.

Other revenue includes training and Haley Farm fees, and miscellaneous revenue. These are recognized when the services are performed or the event is held.

Government contracts and grants are reported as increases in net assets without donor restrictions as allowable expenditures under such agreements are incurred. Government contracts and grants provide for the reimbursement of indirect facilities and administrative costs based on rates negotiated with federal agencies at inception of the contract or grant agreement.

Rental income is recognized on a straight-line basis over the rental period and includes rent for office space.

Gifts-in-kind: From time to time, CDF receives gifts-in-kind through private contributions. CDF records gifts-in-kind as revenue when received or unconditionally promised at their estimated fair value. During the nine-month period ended September 30, 2018, CDF received in-kind donated rent, which was recorded at its estimated fair value based on square footage. The total gifts-in-kind received during the nine-month period ending September 30, 2018 was \$167,070, which is included under contributed services on the Statement of Activities.

Children’s Defense Fund and Children’s Defense Fund Action Council

Notes to Consolidated Financial Statements

Contributed services: Contributed services are recognized at fair value when the services are performed. CDF would typically have to pay to acquire these services if they were not contributed. CDF primarily receives contributed legal services from their general counsel and donated consulting services. The total contributed services received in the nine-month period ending September 30, 2018 was \$814,577, which is included under contributed services on the Statement of Activities.

Allocation of functional expenses: The costs of providing the various programs and other activities have been summarized in the accompanying Consolidated Statement of Activities and Changes in Net Assets. Costs which cannot be specifically identified with a particular function and which benefit more than one functional category are allocated based on either the portion of time expended by the staff on the various functions, or the average number of people in the division.

Expenses that are allocated include the following:

<u>Expenses</u>	<u>Method of Allocation</u>
Salaries and benefits	Time studies by employee
Accounting fees	Time studies by employee
Office expenses	Time studies by employee
Occupancy	Time studies by employee
Depreciation	Time studies by employee

Advertising expenses: CDF expenses advertising costs as incurred. Advertising expenses for the nine-month period ended September 30, 2018 were \$63,092.

Cash flow classification of donated financial assets: Cash receipts from the sale of donated securities with no donor-imposed restrictions are included in the operating section of the Consolidated Statement of Cash Flows, while cash receipts from the sale of donated securities with donor imposed long-term restrictions are classified as financing activities. Otherwise, receipts from the sale of donated financial assets are classified as cash flows from investing activities.

Program services definitions: CDF carries out three lines of business across its national, state, and regional operations.

Children's Defense Fund and Children's Defense Fund Action Council

Notes to Consolidated Financial Statements

Leadership Development & State/Community Capacity Building expenses relate to child advocacy services across many different programs and activities including:

CDF Freedom Schools®: Provides summer and after-school reading enrichment, positive reinforcement of cultural identity, and positive instruction for making a difference in a child's community and world. Freedom Schools serves over 11,500 children and youth in Kindergarten through 12th grade each year, and also engages young adult Servant Leader Interns as instructors, mentors and role models.

Beat the Odds®: Provides scholarships, college preparation, and selection guidance and leadership development for youth and young adults while they are in high school and into their college career. Beat the Odds specifically selects youth who have experienced and overcome extraordinary challenges and obstacles in their lives. Youth participants are currently selected from the following areas: Los Angeles, Minneapolis, New York City, Houston, and the Greater Washington, D.C. region, and the state of Ohio.

Community Movement Building: Undergirding all of CDF's work are ongoing efforts to train, equip and mobilize youth, young adults and community leaders to organize and to take action around critical issues facing children in the U.S. CDF's community movement building efforts incorporate leadership development and training in organizing, with the goal of empowering people to change the odds for America's children and youth today and for the future.

CDF Haley Farms: This farm, located in Tennessee, is the CDF home for spiritual renewal, interdisciplinary, intergenerational, interfaith, and interracial discourse for building the children's movement.

Policy and Program Development and Implementation expenses represent costs associated with the collection and analysis of data and barriers for children such as the following topics: child poverty, access to private and governmental health insurance, family income, teen pregnancy prevention, childcare, child protection, juvenile justice, and violence prevention. Over the years, CDF has become known for careful research on policies that affect children in all racial and income groups, and for independent analyses of how federal and state policies affect children, their families, and their communities.

Children's Defense Fund and Children's Defense Fund Action Council

Notes to Consolidated Financial Statements

Public Education, Media Campaigns, Internet Outreach and Publications expenses are related to CDF's activities through a variety of communications channels and efforts to educate the general public, policy-makers and specific communities around issues which impact on the well-being of America's children and youth. Major campaigns include:

Cradle to Prison Pipeline® seeks to eliminate and change the conditions, beginning at birth and early childhood, which result in a disproportionate number of children and youth of color, as well as children living in poverty, from a path that leads to long-term or lifelong incarceration.

Protect Children, Not Guns seeks to educate the general public and policy-makers about positive investments that can be made in our communities and nation that have the effect of reducing crime and child poverty, especially for those children and youth most at risk in our country.

Ending Child Poverty Now seeks to identify actionable policies and practices which have already been demonstrated to be successful which, if implemented, could have the most significant impact in reducing and ending child poverty.

Use of estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Tax status: Children's Defense Fund is a public charity exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation. Children's Defense Fund Action Council is a social welfare organization exempt from federal income tax under section 501(c)(4) of the Internal Revenue Code. Washington Research Project is a public charity exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation. CDF Legacy Investor, LLC is a single member LLC. Under provisions contained in the 2017 Tax Cuts and Jobs Act that became effective on January 1, 2018, a business deduction for certain qualified transportation fringes (QTF) is no longer available to tax-exempt organizations. The IRC provides that a tax-exempt organization's UBTI is increased by the amount of the QTF expense that is nondeductible under the IRC. This requires CDF to add the nondeductible amount associated with providing its employees with certain transportation fringe benefits to its UBTI.

Children’s Defense Fund and Children’s Defense Fund Action Council

Notes to Consolidated Financial Statements

For the nine-month period ended September 30, 2018, taxes related to commuter benefits totaled \$8,585, which is included in miscellaneous expenses on the Statement of Functional Expenses. No other provision or benefit for income taxes has been included in these consolidated financial statements since taxable income or loss, deduction and credits pass through to, and are reportable by, the member on its tax return.

Uncertainty in income taxes: CDF evaluates uncertainty in income tax positions taken or expected to be taken on a tax return based on a more-likely-than not recognition standard. If that threshold is met, the tax position is then measured as the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of December 31, 2018, there are no accruals for uncertain tax positions. If applicable, CDF records interest and penalties as a component of income tax expense. Tax years from 2015 through the current year remain open for examination by tax authorities.

Subsequent events: Management has evaluated subsequent events for disclosure in the consolidated financial statements through March 13, 2019, which is the date the consolidated financial statements were available to be issued. See disclosure of subsequent events in Note 18.

New accounting standards adopted during the nine-month period ended September 30, 2018: In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2016-14 (“ASU 2016-14”) *Presentation of Financial Statements of Not-for-Profit Entities*. This standard is intended to improve the net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. This standard is effective for fiscal years beginning after December 15, 2017. CDF has adopted ASU 2016-14 during 2018. Footnotes 2, 11, 12, and 13 describe the disclosures relating to the implementation of ASU 2016-14, as well as the qualitative and quantitative results of the adoption.

2. Information regarding liquidity and availability

CDF strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds, bonds and other short-term investments.

The following table reflects the CDF’s financial assets as of September 30, 2018, reduced by amounts that are not available to meet general expenditures within one year of the Statement of Financial Position date because of contractual restrictions or internal board designations. Amounts not available include endowed funds that are restricted and not considered in the annual operating budget. In the event the need arises to utilize the endowed funds for liquidity purposes, the reserves could be drawn upon if the restriction(s) are released by the donors.

Children's Defense Fund and Children's Defense Fund Action Council

Notes to Consolidated Financial Statements

	September 30, 2018
Cash and cash equivalents	\$ 1,791,941
Investments	21,748,081
Government contracts and grants receivable	375,006
Pledges receivable due in less than one year	1,688,291
Total financial assets	25,603,319
Endowment funds with donor restrictions	(7,200,600)
Financial assets available to meet cash needs for general expenditures within one year	\$ 18,402,719

As described in Note 9, CDF also has a committed line of credit with a limit of \$7,737,000, which it could draw upon in the event of an unanticipated liquidity need.

3. Investments

Investments consist of the following:

	September 30, 2018
Mutual funds:	
Money market funds	\$ 678,273
Short-term bonds	20,747,325
Intermediate-term bonds	60,639
Inflation-protected bonds	12,507
Bank loans	12,784
High yield bonds	15,156
Emerging markets bonds	7,710
World bonds	20,470
Intermediate governments	65,321
Real estate investment trust fund	127,896
Total investments	\$ 21,748,081

Net investment income (loss) consists of the following for the nine-month period ended:

September 30, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	\$ 148,365	\$ 107,784	\$ 256,149
Net realized and unrealized gains	(105,533)	(81,138)	(186,671)
Management fees	(19,106)	(9,410)	(28,516)
Total investment income	\$ 23,726	\$ 17,236	\$ 40,962

Children's Defense Fund and Children's Defense Fund Action Council

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4. Fair value of investments

The fair value of investments is presented as follows:

September 30, 2018	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Mutual funds:				
Money market	\$ 678,273	\$ 678,273	\$ -	\$ -
Short-term bonds	20,747,325	20,747,325	-	-
Intermediate-term bonds	60,639	60,639	-	-
Inflation-protected bonds	12,507	12,507	-	-
Bank loans	12,784	12,784	-	-
High yield bonds	15,156	15,156	-	-
Emerging markets bonds	7,710	7,710	-	-
World bonds	20,470	20,470	-	-
Intermediate governments	65,321	65,321	-	-
Total assets within the fair value hierarchy	21,620,185	21,620,185	-	-
Investments valued at net asset value ^(a)	127,896			
Total	\$ 21,748,081			

(a) In accordance with ASU 2015-07, certain investments that were measured at net asset value per share (or its equivalent) as of September 30, 2018 have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the Statement of Financial Position.

Level 1 values were developed utilizing quoted prices in active markets.

CDF recognizes transfers of assets into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels during the nine-month period ended September 30, 2018.

Gains and losses (realized and unrealized), net of management fees, on all investments are reported in investment (loss) income on the Consolidated Statement of Activities and Changes in Net Assets.

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5. Investments measured at net asset value

Values for alternative investments were developed using the net asset value (NAV) as reported by the underlying fund managers and evaluated by CDF. The NAV is determined by the fund managers based on the fair market value of the underlying investments on the most recent practicable date. The NAV per share of each series within a class is determined by first allocating any increase or decrease in the NAV among all shares of the series pro rata. Each share within a series has the same NAV. CDF’s determination of fair value is based upon the best available information and may incorporate management assumptions and best estimates after considering a variety of internal and external factors. The values generally represent CDF’s proportionate share of the funds’ fair value as reported by their general partners. Market value of underlying securities is determined by external managers based on a combination of discounted cash flow analysis, industry comparable, and outside appraisals. There have been no changes to the valuation techniques for the nine-month period ended September 30, 2018. The risk of any derivative exposure is limited to the amount invested with each manager.

CDF has determined, through monitoring the valuation methodologies and practices of managers, that they are able to rely on the fair values reported by the fund managers, unless information becomes available indicating the reported NAV may require adjustment. CDF assessed factors including, but not limited to, the external advisor’s adherence to fair value principles in calculating the capital account balance, CDF’s ability to redeem these investments at NAV at the measurement date, and the existence or absence of certain restrictions at the measurement date. CDF believes the reported amounts of its alternative investments are a reasonable estimate of fair value as of September 30, 2018. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed. CDF has no immediate plans to sell the investments for values other than the NAV as of September 30, 2018.

Investments measured at net asset value are as follows:

September 30, 2018	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Real estate investment trust fund	\$ 127,896	\$ -	Semi-annually	75 days

CDF has invested in alternative investments for the purpose of diversifying investment risk. The alternative investments are comprised of the following:

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Real Estate Investment Trust Fund (TIFF Real Estate Partners I (REP I)) – The primary objective of REP I is to assist members in maintaining endowment purchasing power by generating portfolio returns less volatile than that of index funds attempting to track the broad U.S. stock market. The secondary objective is to generate annual returns that are at least 300 basis points above CPI inflation. To achieve their objectives, REP I invests capital in private real estate managers pursuing traditional commercial property strategies as well as unconventional real estate opportunities.

Valuation of underlying funds is based on the investment manager's determination with assistance of outside managers and with fund portfolios adjusted for manager fees and carried interests. Cash income generated by REP I is distributed semi-annually, net of expenses and reserves. Cash proceeds from the sale of holdings by the investment manager are distributed as soon as practicable after receipt of proceeds.

REP I is illiquid because the units are subject to restrictions on transferability and cannot be sold unless they are subsequently registered under the Securities Act of 1933, as amended, and all other applicable securities laws or an exemption from such laws is available. Originally, the real estate investment trust fund had a 15-year term expiring December 31, 2016, subject to extension at the managing member's discretion for up to five consecutive one-year periods. REP I extended its expected termination year to 2019.

CDF entered into an investment agreement on December 14, 2001 committing up to \$3 million over the life of the fund through December 31, 2016. As of September 30, 2018, CDF has contributed \$2,574,655. If CDF were to fail to make a payment in accordance with the terms of the agreement, CDF would forfeit, at a minimum, 25% of its investment. As of September 30, 2018, CDF has made all payments in accordance with the terms of the agreement. There are no anticipated capital calls for this investment fund in 2019.

6. Risks and uncertainties

CDF holds investments in various securities and alternative investments that are exposed to risks, such as interest rate, credit, and overall volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in future consolidated financial statements.

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7. Pledges receivable and concentration	CDF has the following pledges receivable as of September 30, 2018:		
	Due in less than one year	\$	1,688,291
	Due in one to five years		225,000
	Total pledges receivable		1,913,291
	Less: Discounts on pledges receivable		(5,400)
	Total pledges receivable, net	\$	1,907,891

Concentration of pledges receivable and foundation revenue: As of September 30, 2018, four pledges comprised 49% of total pledges receivable in the accompanying Consolidated Statement of Financial Position. Total foundations and corporations revenue in the accompanying Consolidated Statement of Activities and Changes in Net Assets includes one grantor constituting 13% of the total revenue for the nine-month period ended September 30, 2018.

8. Property and equipment	Property and equipment consists of the following as of:			
		Headquarters and state and local offices	Haley Farm	Total
	September 30, 2018			
	Land	\$ 31,070	\$ 592,874	\$ 623,944
	Buildings and improvements	267,882	4,745,706	5,013,588
	Furniture, equipment and software	1,228,528	101,626	1,330,154
	Total property and equipment	1,527,480	5,440,206	6,967,686
	Less: Accumulated depreciation and amortization	(829,216)	(2,754,748)	(3,583,964)
	Net property and equipment	\$ 698,264	\$ 2,685,458	\$ 3,383,722

Depreciation and amortization expense for the nine-month period ended September 30, 2018 was \$211,184.

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9. Line of credit In March 2014, CDF entered into a line of credit agreement with Morgan Stanley. The Morgan Stanley line of credit carries a limit of \$7,737,000 and was primarily obtained for working capital needs. The line of credit is secured by a portion of CDF's investments, totaling \$21,363,423 as of September 30, 2018, and accrues interest at the variable rate of 1.00% plus the 1-month LIBOR rate, which totaled 3.27% as of September 30, 2018. The line of credit is structured as an "evergreen" loan with no set maturity as long as CDF maintains a sufficient level of funds under investment; however, Morgan Stanley retains the option of demanding repayment of the line of credit at its sole discretion. There was no outstanding balance on the line of credit as of September 30, 2018.

10. Bonds payable In 2014, the District of Columbia authorized issuing up to \$12,000,000 of revenue bonds for the renovation and refinancing of debt on CDF's Washington, D.C. headquarters building. \$4,900,000 of the available bonds were purchased by EagleBank and funds from the issuance of these new bonds repaid the \$4,230,000 remaining balance on prior variable rate demand bonds which were originally issued in April 1997. The following classes of bonds were issued:

\$3,800,000 of District of Columbia Tax-Exempt Refunding Revenue Bonds Series 2014A (Series 2014A Bonds), requiring fixed payments of \$19,125 per month through their maturity on September 1, 2039. Fixed interest at the annual rate of 3.5% was paid on the bonds, which could be called every 5 years at the discretion of EagleBank. During 2018, the Series 2014A Bonds were fully paid and retired.

\$1,100,000 of District of Columbia Taxable Refunding Revenue Bonds Series 2014B (Series 2014B Bonds), requiring fixed payments of \$6,476 per month through their maturity on September 1, 2039. Fixed interest at the annual rate of 5.0% was paid on the bonds, which could be called every 5 years at the discretion of EagleBank. During 2018, the Series 2014B Bonds were fully paid and retired.

Bond issuance costs were fully amortized upon the retirement of the bonds during the nine-month period ended September 30, 2018.

Bond interest expense for the nine-month period ended September 30, 2018 was \$97,177.

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11. Net assets with donor restrictions The consolidated net assets with donor restrictions for purpose are as follows as of September 30, 2018:

Leadership development and state and community capacity building	\$ 1,213,834
Policy and program development and implementation	1,195,690
Public education, media campaigns, internet outreach and publications	105,831
Other	8,866
Total donor restricted net assets for purpose	\$ 2,524,221

The consolidated net assets with donor restrictions for time are as follows as of September 30, 2018:

For periods after September 30, 2018 \$ 1,913,291

Not subject to appropriation or expenditure

Leadership development and state and community capacity building	4,700,600
Public education, media campaigns, internet outreach and publications	2,500,000
Total donor restricted net assets with time restrictions	9,113,891
Total donor restricted net assets	\$ 11,638,112

12. Releases from donor restrictions Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors. Releases from restrictions were as follows for the nine-month period ended September 30:

	2018
Leadership development and state and community capacity building	\$ 2,223,023
Policy and program development and implementation	2,069,403
Public education, media campaigns	28,708
Time restricted and other	824,034
Total releases from restrictions	\$ 5,145,168

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13. Endowment funds

Endowment net assets were comprised of funds with donor restrictions totaling \$7,355,395 as of September 30, 2018.

CDF's endowment consists of permanently restricted contributions established for a variety of purpose. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of the Relevant Law: Management of CDF has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, CDF classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund will be classified as net assets with donor restrictions (to the extent the cumulative balance in the endowment fund exceeds the original corpus amount) until those amounts are appropriated for expenditure by CDF in a manner consistent with the standard prudence prescribed by UPMIFA. Losses from the endowment fund will be allocated against net assets without donor restrictions subsequent earnings and appreciation restoring the net assets without donor restrictions.

In accordance with UPMIFA, CDF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

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The change in endowment net assets is as follows for the nine-month period ended:

September 30, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of period	\$ -	\$ 7,313,159	\$ 7,313,159
Additions	-	25,000	25,000
Investment income	-	17,236	17,236
Endowment net assets, end of period	\$ -	\$ 7,355,395	\$ 7,355,395

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA as of September 30, 2018 is \$7,200,600.

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires CDF to retain as a fund of perpetual duration. There were no deficiencies of this nature as of September 30, 2018.

Spending Policy and How the Investment Objectives Relate to Spending Policy: CDF does not have a formal spending policy at this time.

Return Objectives and Risk Parameters: CDF has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by their endowment while seeking to preserve the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period and board-designated funds.

Strategies Employed for Achieving Objectives: The Finance Committee evaluates, selects and monitors one or more investment managers to directly manage CDF’s investment portfolio of assets within general guidelines provided. To satisfy its long-term rate of return objectives, CDF relies on a return strategy in which investment returns are achieved through current yield (interest and dividends) and capital appreciation.

14. Retirement plan

Employees of CDF participate in a defined contribution plan under Section 403(b) of the Internal Revenue Code, which covers all employees who have completed six months of service and have attained the age of 21. Contributions to the plan are based on percentages of the annual salary of each participating employee ranging from 5% to 7% based upon the employee’s length of service. Employees are fully vested after two years of employment. Retirement plan expense for the nine-month period ended September 30, 2018 was \$311,859.

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15. Operating leases

CDF is obligated under various non-cancelable operating lease agreements for office facilities expiring at various dates through 2023. CDF rents space in multiple locations across the United States, some of which are subject to month-to-month agreements. The minimum payments required under the leases are recorded on a pro rata basis over the term of the leases. The difference between the amounts expensed and the required lease payments is recorded as deferred rent and included in accounts payable and accrued expenses on the accompanying Consolidated Statement of Financial Position. Rent expense for all office space for the nine-month period ended September 30, 2018 was \$312,350. Future minimum lease payments are as follows:

Period Ending September 30:	Amount
2019	\$ 265,321
2020	228,535
2021	126,818
2022	79,758
2023	19,974
Total minimum lease payments	\$ 720,406

16. Related parties

The CDF Marlboro County Office in South Carolina leases office space, for the nominal rate of \$1 per year, in a home that is owned by CDF's founder. CDF rents office space from the sibling of a member of management. The total rent expense related to this office space was \$19,600 in 2018. Future minimum lease payments under their new lease with this party, for the nine-month period ended September 30, 2018 total \$36,750.

17. Sale of national office building

CDF entered into an agreement to sell their national office building located in Washington, D.C., effective April 27, 2018. The sale was closed on June 22, 2018. The sale amount per the agreement was \$23,774,510. As a condition of the agreement, CDF shall remain as a tenant for a term of 12 months beginning on the closing date of the sale, with a tenant option to extend the term for 60 days. Additionally, CDF was subassigned the existing leases of space in the building, including the right and interest to receive and enforce collection of and retain any and all amounts due under the leases, as well as all obligations, duties, and liabilities under the leases for a term of 12 months beginning on the closing date of the sale. The sale of the national office building resulted in a gain on sale of \$18,889,831, which is recorded as revenue without donor restrictions on the Consolidated Statement of Activities and Changes in Net Assets.

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18. Subsequent events

CDF entered into a lease for 22,111 square feet of office space at 840 First Street, NE, Washington, D.C. on February 26, 2019. The lease occupancy date is September 1, 2019 and the lease term is 11 years, ending on August 31, 2030. Monthly rent is \$87,523 with an annual escalation of 2.5%. The lease provisions include an early termination option on August 31, 2026 which includes an early termination fee. Additionally, the lease provisions include an extension option of five years, through August 31, 2035. CDF paid a security deposit related to the lease totaling \$87,523 upon signing the lease on February 26, 2019. The landlord has also provided for a tenant improvement allowance of \$1,768,880. Invoices related to the tenant improvement allowance must be submitted to the landlord by CDF by June 1, 2020 in order to receive reimbursement. If the costs of tenant improvements are less than the allowance, the lesser of remaining tenant improvement allowance funds or \$530,664 may be used by CDF as reimbursement for furniture, trade fixtures and equipment for the premises, consulting fees and other costs incurred in connection with CDF's move into the premises and/or as a credit against the monthly installments of annual fixed rent and additional rent for taxes and operating costs until fully expended.