

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

**AUDITED CONSOLIDATED
FINANCIAL STATEMENTS**

**YEAR ENDED
SEPTEMBER 30, 2019**

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, 2019, and the related Consolidated Statements of Activities and Changes in Net Assets, Functional Expenses, and Cash Flows for the year 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, 2019, and the changes in their net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Aronson LLC

Rockville, Maryland
March 6, 2020

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

Consolidated Statement of Financial Position

<i>September 30,</i>	2019
Assets	
Cash and cash equivalents	\$ 691,964
Investments	22,678,619
Pledges receivable, net	1,403,162
Government contracts and grants receivable	648,366
Property and equipment, net	4,935,752
Other assets	705,014
Total assets	\$ 31,062,877
Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	\$ 1,803,732
Line of credit	2,100,000
Capital lease obligations	117,726
Deferred rent	1,845,630
Total liabilities	5,867,088
Net assets	
Net assets without donor restrictions	13,687,167
Net assets with donor restrictions	11,508,622
Total net assets	25,195,789
Total liabilities and net assets	\$ 31,062,877

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>Year ended September 30, 2019</i>	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support			
Contributions and donations			
Foundations and corporations	\$ 248,446	\$ 6,787,382	\$ 7,035,828
Individuals	3,411,505	-	3,411,505
Organizations and groups	256,315	-	256,315
Contributed services	832,653	-	832,653
Special events	1,673,873	-	1,673,873
Other			
Training and Haley Farm fees	3,611,481	-	3,611,481
Government contracts and grants	2,022,578	-	2,022,578
Rental income	214,589	-	214,589
Miscellaneous	149,810	-	149,810
Investment income			
Interest and dividends	525,479	252,036	777,515
Net realized and unrealized gains	59,383	28,482	87,865
Net assets released from restrictions	7,197,390	(7,197,390)	-
Total revenue, gains and other support	20,203,502	(129,490)	20,074,012
Expenses			
Program services			
Programs that invest in children and communities who will lead the movement	10,687,434	-	10,687,434
Policy advocacy to improve the odds for children	4,635,827	-	4,635,827
Public education, media campaigns, internet outreach and publications	2,229,895	-	2,229,895
Total program services	17,553,156	-	17,553,156
Supporting services			
General and administrative	2,407,022	-	2,407,022
Fundraising	2,403,028	-	2,403,028
Total supporting services	4,810,050	-	4,810,050
Total expenses	22,363,206	-	22,363,206
Change in net assets	(2,159,704)	(129,490)	(2,289,194)
Beginning net assets	15,846,871	11,638,112	27,484,983
Ending net assets	\$ 13,687,167	\$ 11,508,622	\$ 25,195,789

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

Year ended September 30, 2019

	Programs that Invest in Children and Communities Who Will Lead the Movement	Policy Advocacy to Improve the Odds for Children	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.	\$ 846,650	\$ 506,458	\$ 129,039	\$ 1,482,147	\$ -	\$ -	\$ -	\$ 1,482,147
Grants to individuals in U.S.	172,906	-	-	172,906	-	-	-	172,906
Compensation and wages	3,137,497	2,250,826	1,162,626	6,550,949	1,272,545	1,133,218	2,405,763	8,956,712
Retirement plan contributions	143,296	99,878	51,562	294,736	56,436	50,257	106,693	401,429
Other employee benefits	699,722	502,255	259,288	1,461,265	283,802	252,729	536,531	1,997,796
Payroll taxes	248,473	178,352	92,074	518,899	100,779	89,745	190,524	709,423
Consulting fees	1,160,960	401,056	126,640	1,688,656	67,908	75,300	143,208	1,831,864
Legal fees	-	3,459	-	3,459	-	-	-	3,459
Accounting fees	48,992	35,166	18,154	102,312	19,871	17,695	37,566	139,878
Advertising and promotion	257	1,525	13,419	15,201	48	73,880	73,928	89,129
Office expenses	112,869	81,015	41,825	235,709	45,779	40,767	86,546	322,255
Information technology	112,386	10,831	70,175	193,392	94,004	273,885	367,889	561,281
Occupancy	420,355	301,727	155,766	877,848	170,493	151,826	322,319	1,200,167
Travel	1,289,837	119,229	36,089	1,445,155	13,841	9,688	23,529	1,468,684
Conferences and conventions	768,555	21,377	9,433	799,365	15,376	35,701	51,077	850,442
Interest	4,003	-	-	4,003	319	-	319	4,322
Depreciation and amortization	139,553	96,223	49,675	285,451	54,371	48,418	102,789	388,240
Insurance	-	-	-	-	151,726	-	151,726	151,726
Printing and publication	892,341	26,450	14,130	932,921	21,142	63,559	84,701	1,017,622
Miscellaneous expenses	488,782	-	-	488,782	38,582	86,360	124,942	613,724
Total expenses	\$ 10,687,434	\$ 4,635,827	\$ 2,229,895	\$ 17,553,156	\$ 2,407,022	\$ 2,403,028	\$ 4,810,050	\$ 22,363,206

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>Year ended September 30, 2019</i>	
Cash flows from operating activities	
Change in net assets	\$ (2,289,194)
Adjustment to reconcile change in net assets to net cash used by operating activities	
Depreciation and amortization	388,240
Net realized and unrealized gains on investments	(87,865)
Change in assets and liabilities	
Pledges receivable	504,729
Government contracts and grants receivable	(273,360)
Other assets	(156,469)
Accounts payable and accrued expenses	(466,471)
Deferred rent	76,750
Net cash used by operating activities	(2,303,640)
Cash flows from investing activities	
Proceeds from sales of investments	11,006,078
Purchases of investments	(11,848,751)
Purchases of property and equipment	(53,236)
Net cash used by investing activities	(895,909)
Cash flows from financing activities	
Proceeds from line of credit	2,100,000
Payments on capital lease obligation	(428)
Net cash provided by financing activities	2,099,572
Change in cash and cash equivalents	(1,099,977)
Cash and cash equivalents, beginning of year	1,791,941
Cash and cash equivalents, end of year	\$ 691,964
Non-cash investing and financing activities	
Equipment acquired under capital leases	\$ 118,154
Leasehold improvements acquired with tenant improvement allowance	\$ 1,768,880
Supplemental cash flows information	
Actual cash payments of interest	\$ 8,250

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 2019.

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 2019. 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, 2019, 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, 2019.

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, 2019. 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 year ended September 30, 2019. 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, 2019, management expects to fully collect all balances and therefore no allowance for doubtful accounts is deemed necessary.

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:

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

Notes to Consolidated Financial Statements

Buildings	30 years
Building improvements	5 to 30 years
Furniture, equipment and software	2 to 10 years
Leasehold improvements	Life of lease

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, 2019, 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 year ended September 30, 2019, 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 year ended September 30, 2019 was \$452,659, which is included under contributed services on the accompanying Consolidated Statement of Activities and Changes in Net Assets.

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 during the year ended September 30, 2019 was \$379,994, which is included under contributed services on the accompanying Statement of Activities and Changes in Net Assets.

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>
Compensation and wages	Time studies by employee
Employee 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 year ended September 30, 2019 were \$59,219, and are included as part of Advertising and promotion on the accompanying Consolidated Statement of Functional Expenses.

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

Programs that Invest in Children and Communities Who Will Lead the Movement expenses relate to 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 12,000 children and youth in Kindergarten through 12th grade, 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, 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 improve the odds for America's children and youth today and for the future.

CDF Haley Farm: 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 Advocacy to Improve the Odds for Children expenses represent costs associated with the collection and analysis of data and policy proposals that impact children- particularly children of color, poor children, and other children from historically marginalized populations- on topics including: child poverty, child health education, hunger, homelessness, childcare, early childhood development, child welfare, immigration, juvenile justice, and gun 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 and engage 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:

Ending Child Poverty Now seeks to educate the general public and policymakers on how simply improving and investing in existing policies and programs to increase employment, make work pay and meet children's basic needs can help millions of today's children escape poverty now.

State of America's Children® educates the public with stories, statistics, data and trends that show in the clearest terms how we are failing our children. This resource urges advocates, policymakers, parents and families, community and faith leaders, educators and all those who stand up for our children to use the information in this report to push for America to make a different choice.

Protect Children, Not Guns seeks to educate the general public and policymakers about the epidemic of gun violence in America, its effects on children and teens, and the common-sense, effective gun violence prevention measures that must be enacted in order to protect them.

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, particularly children of color and children living in poverty, following a trajectory that too often leads to imprisonment and premature death.

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.

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Notes to Consolidated Financial Statements

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 September 30, 2019, 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 2016 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 6, 2020, which is the date the consolidated financial statements were available to be issued.

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, 2019, 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.

	September 30, 2019
Cash and cash equivalents	\$ 691,964
Investments	22,678,619
Government contracts and grants receivable	648,366
Pledges receivable due in less than one year	657,252
Total financial assets	24,676,201
Endowment funds with permanent restrictions	(7,200,600)
Financial assets available to meet cash needs for general expenditures within one year	\$ 17,475,601

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.

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

Notes to Consolidated Financial Statements

3. Investments

Investments consist of the following:

	September 30, 2019
Mutual funds:	
Money market funds	\$ 917,160
Prime reserves	14,007
Short-term bonds	15,060,141
Intermediate-term bonds	137,024
Inflation-protected bonds	1,211,475
Bank loans	2,056,074
High yield bonds	15,987
Emerging markets bonds	8,460
World bonds	21,398
Nontraditional bonds	548,131
Alternative funds	274,013
U.S. equities	10,646
Exchange-traded funds:	
U.S. equities	1,167,801
International equities	1,128,104
Real estate investment trust fund	108,198
Total investments	\$ 22,678,619

Net investment income consists of the following for the year ended:

	Without Donor Restrictions	With Donor Restrictions	Total
September 30, 2019			
Interest and dividends	\$ 528,710	\$ 248,805	\$ 777,515
Realized and unrealized gains	80,058	37,674	117,732
Management fees	(20,310)	(9,557)	(29,867)
Total investment income	\$ 588,458	\$ 276,922	\$ 865,380

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

Notes to Consolidated Financial Statements

4. Fair value of investments

The fair value of investments is presented as follows:

September 30, 2019	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Mutual funds:				
Money market funds	\$ 917,160	\$ 917,160	\$ -	\$ -
Short-term bonds	15,060,141	15,060,141	-	-
Intermediate-term bonds	137,024	137,024	-	-
Inflation-protected bonds	1,211,475	1,211,475	-	-
Bank loans	2,056,074	2,056,074	-	-
High yield bonds	15,987	15,987	-	-
Emerging markets bonds	8,460	8,460	-	-
World bonds	21,398	21,398	-	-
Nontraditional bonds	548,131	548,131	-	-
Alternative funds	274,013	274,013	-	-
Prime reserves	14,007	14,007	-	-
U.S. Equities	10,646	10,646	-	-
Exchange traded funds:				
U.S. equities	1,167,801	1,167,801	-	-
International equities	1,128,104	1,128,104	-	-
Total assets within the fair value hierarchy	22,570,421	22,570,421	-	-
Investments valued at net asset value ^(a)	108,198			
Total	\$ 22,678,619			

(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, 2019 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 year ended September 30, 2019.

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

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 year ended September 30, 2019. 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, 2019. 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, 2019.

Investments measured at net asset value are as follows:

September 30, 2019	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Real estate investment trust fund	\$ 108,198	\$ -	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 to December 31, 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, 2019, 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, 2019, CDF has made all payments in accordance with the terms of the agreement. There are no anticipated capital calls for this investment fund in 2020.

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, 2019:				
	Due in less than one year	\$		657,252	
	Due in one to five years			745,910	
	Total pledges receivable			1,403,162	

Concentration of pledges receivable and foundation revenue: As of September 30, 2019, four pledges comprised 34% of total pledges receivable in the accompanying Consolidated Statement of Financial Position.

8. Property and equipment	Property and equipment consists of the following as of:				
	September 30, 2019	Headquarters and state and local offices	Haley Farm	Total	
	Land	\$ 31,070	\$ 592,874	\$ 623,944	
	Buildings and improvements	1,898,810	4,754,024	6,652,834	
	Furniture, equipment and software	1,427,577	104,526	1,532,103	
	Total property and equipment	3,357,457	5,451,424	8,808,881	
	Less: Accumulated depreciation and amortization	(944,848)	(2,928,281)	(3,873,129)	
	Net property and equipment	\$ 2,412,609	\$ 2,523,143	\$ 4,935,752	

Depreciation and amortization expense for the year ended September 30, 2019 was \$388,240.

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 \$15,802,008 as of September 30, 2019, and accrues interest at the variable rate of 1.00% plus the 1-month LIBOR rate, which totaled 3.03% as of September 30, 2019. 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. As of September 30, 2019 there was an outstanding balance of \$2,100,000 on the line of credit.

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10. Net assets with donor restrictions The consolidated net assets with donor restrictions for purpose are as follows as of September 30, 2019:

Programs that invest in children and communities who will lead the movement	\$ 744,153
Policy advocacy to improve the odds for children	1,707,442
Public education, media campaigns, internet outreach and publications	317,898
Other	20,000
Total donor restricted net assets for purpose	\$ 2,789,493

The consolidated net assets with donor restrictions for time are as follows as of September 30, 2019:

For periods after September 30, 2019 \$ 1,518,529

Not subject to appropriation or expenditure

Programs that invest in children and communities who will lead the movement	4,700,600
Public education, media campaigns, internet outreach and publications	2,500,000
Total donor restricted net assets with time restrictions	\$ 8,719,129

Total donor restricted net assets **\$ 11,508,622**

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11. 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 year ended September 30:

	2019
Programs that invest in children and communities who will lead the movement	\$ 1,666,605
Policy advocacy to improve the odds for children	3,682,612
Public education, media campaigns, internet outreach, and publications	1,424,705
Time restricted and other	423,468
Total releases from restrictions	\$ 7,197,390

12. Endowment funds Endowment net assets were comprised of funds with donor restrictions totaling \$7,635,913 as of September 30, 2019.

CDF’s endowment consists of permanently restricted contributions established for a variety of purposes. 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.

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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

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

September 30, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of period	\$ -	\$ 7,355,395	\$ 7,355,395
Additions	-	-	-
Investment income	-	280,518	280,518
Endowment net assets, end of period	\$ -	\$ 7,635,913	\$ 7,635,913

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, 2019 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, 2019.

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.

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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.

13. 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 year ended September 30, 2019 was \$401,429.

14. Operating leases

CDF is obligated under various non-cancelable operating lease agreements for office facilities expiring at various dates through 2030. 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 on the accompanying Consolidated Statement of Financial Position. Rent expense for all office space for the year ended September 30, 2019 was \$509,939. Future minimum lease payments are as follows:

Year ending September 30:	
2020	\$ 228,535
2021	579,858
2022	1,185,499
2023	1,153,359
2024	1,161,720
Thereafter	6,259,039
Total minimum lease payments	\$ 10,568,010

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15. Capital leases CDF has entered into multiple leases for office equipment, with terms of 36 to 60 months and capitalized costs totaling \$118,154 as of September 30, 2019. Accumulated depreciation on the capital leases was \$428 as of September 30, 2019.

The future minimum lease payments required under all of the capital leases are as follows:

Year ending September 30:	
2020	\$ 33,361
2021	33,361
2022	29,257
2023	29,257
2024	27,840
Total payments:	153,076
Less: interest payments	(35,350)
Total minimum lease payments	\$ 117,726

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 \$29,400 in 2019. Future minimum lease payments under their lease with this party, for the year ended September 30, 2019 total \$7,350.