

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

**AUDITED CONSOLIDATED
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2015 AND 2014

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

Table of Contents

	Page
Independent Auditor's Report	1 - 2
Audited Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities and Changes in Net Assets	4 - 5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 30
Independent Auditor's Report on Supplementary Information	31
Consolidated Schedules of Functional Expenses	32 - 33



Independent Auditor's Report

Board of Directors

Children's Defense Fund and Children's Defense Fund Action Council
Washington, D.C.

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 Statements of Financial Position as of December 31, 2015 and 2014, and the related Consolidated Statements of Activities and Changes in Net Assets and Cash Flows for the years 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 audits. We conducted our audits 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.

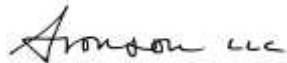
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Rockville, Maryland
September 29, 2016

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

Consolidated Statements of Financial Position

<i>December 31,</i>	2015	2014
Assets		
Cash and cash equivalents	\$ 2,198,000	\$ 2,133,109
Investments	13,774,506	15,771,826
Pledges receivable, net	2,079,681	3,489,043
Government contracts and grants receivable	330,497	358,664
Restricted cash for debt redemption	309,275	308,000
Bond issuance costs, net	402,882	425,276
Property and equipment, net	8,371,931	9,143,674
Other assets	636,111	672,820
Total assets	\$ 28,102,883	\$ 32,302,412
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,624,501	\$ 1,500,913
Lines of credit	7,500,000	7,500,000
Bonds payable	4,740,355	4,860,592
Total liabilities	13,864,856	13,861,505
Net assets		
Unrestricted	2,958,280	5,301,261
Temporarily restricted	4,114,147	5,989,046
Permanently restricted	7,165,600	7,150,600
Total net assets	14,238,027	18,440,907
Total liabilities and net assets	\$ 28,102,883	\$ 32,302,412

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 December 31, 2015</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Revenue, gains and other support				
Contributions and donations				
Foundations and corporations	\$ 2,217,188	\$ 4,887,290	\$ -	\$ 7,104,478
Individuals	2,302,941	-	15,000	2,317,941
Organizations and groups	122,222	-	-	122,222
Contributed services	70,239	-	-	70,239
Special events	1,839,715	-	-	1,839,715
Other				
Training and Haley Farm fees	3,091,514	-	-	3,091,514
Government contracts and grants	3,573,624	-	-	3,573,624
Rental income	504,658	-	-	504,658
Miscellaneous	196,966	-	-	196,966
Investment income				
Endowment				
Interest and dividends	453,849	-	-	453,849
Realized and unrealized losses, net of management fees	(593,384)	-	-	(593,384)
Net assets released from restrictions	6,762,189	(6,762,189)	-	-
Total revenue, gains and other support	20,541,721	(1,874,899)	15,000	18,681,822
Expenses				
Program services				
Leadership development and state and community capacity building	14,994,291	-	-	14,994,291
Policy and program development and implementation	3,409,339	-	-	3,409,339
Public education, media campaigns, internet outreach and publications	1,373,065	-	-	1,373,065
Total program services	19,776,695	-	-	19,776,695
Supporting services				
General and administrative	2,208,680	-	-	2,208,680
Fundraising	899,327	-	-	899,327
Total supporting services	3,108,007	-	-	3,108,007
Total expenses	22,884,702	-	-	22,884,702
Change in net assets	(2,342,981)	(1,874,899)	15,000	(4,202,880)
Beginning net assets	5,301,261	5,989,046	7,150,600	18,440,907
Ending net assets	\$ 2,958,280	\$ 4,114,147	\$ 7,165,600	\$ 14,238,027

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 December 31, 2014</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total
Revenue, gains and other support				
Contributions and donations				
Foundations and corporations	\$ 1,421,322	\$ 4,790,125	\$ -	\$ 6,211,447
Individuals	2,949,095	-	4,000	2,953,095
Organizations and groups	257,111	450,000	-	707,111
Contributed services	90,865	-	-	90,865
Special events	2,048,805	-	-	2,048,805
Other				
Training and Haley Farm fees	2,779,738	-	-	2,779,738
Government contracts and grants	3,844,898	-	-	3,844,898
Service contracts	255,003	-	-	255,003
Rental income	388,136	-	-	388,136
Miscellaneous	266,159	-	-	266,159
Investment income				
Endowment				
Interest and dividends	219,078	179,683	-	398,761
Realized and unrealized losses, net of management fees	(25,063)	(18,990)	-	(44,053)
Net assets released from restrictions	7,764,906	(7,764,906)	-	-
Total revenue, gains and other support	22,260,053	(2,364,088)	4,000	19,899,965
Expenses				
Program services				
Leadership development and state and community capacity building	15,893,531	-	-	15,893,531
Policy and program development and implementation	2,211,601	-	-	2,211,601
Public education, media campaigns, internet outreach and publications	1,406,231	-	-	1,406,231
Total program services	19,511,363	-	-	19,511,363
Supporting services				
General and administrative	2,082,795	-	-	2,082,795
Fundraising	1,026,745	-	-	1,026,745
Total supporting services	3,109,540	-	-	3,109,540
Total expenses	22,620,903	-	-	22,620,903
Change in net assets	(360,850)	(2,364,088)	4,000	(2,720,938)
Beginning net assets	5,662,111	8,353,134	7,146,600	21,161,845
Ending net assets	\$ 5,301,261	\$ 5,989,046	\$ 7,150,600	\$ 18,440,907

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 Statements of Cash Flows

<i>Years Ended December 31,</i>	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (4,202,880)	\$ (2,720,938)
Adjustment to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	778,488	733,450
Realized and unrealized losses (gains) on investments	544,682	(131,357)
Gifts-in-kind	-	(174,297)
Amortization of bond issuance costs	22,394	5,747
Discount on pledges receivable	4,877	(12,656)
Contribution restricted for permanent endowment	(15,000)	(4,000)
Change in assets and liabilities		
Pledges receivable	1,404,485	985,484
Government contracts and grants receivable	28,167	(88,493)
Other assets	36,709	(350,012)
Accounts payable and accrued expenses	123,588	(321,675)
Net cash used by operating activities	(1,274,490)	(2,078,747)
Cash flows from investing activities		
Proceeds from sales of investments	22,094,569	26,776,946
Purchases of investments	(20,641,931)	(23,848,886)
Purchases of property and equipment	(6,745)	(468,484)
Net cash provided from investing activities	1,445,893	2,459,576
Cash flows from financing activities		
Contribution restricted for permanent endowment	15,000	4,000
Proceeds from line of credit	-	7,500,000
Repayment on line of credit	-	(7,500,000)
Restricted cash deposited with trustee	(1,275)	(308,000)
Payments for bond issuance costs	-	(431,023)
Proceeds from issuance of bonds	-	4,900,000
Principal payments and retirement of bonds payable	(120,237)	(4,684,408)
Net cash used by financing activities	(106,512)	(519,431)
Change in cash and cash equivalents	64,891	(138,602)
Cash and cash equivalents, beginning of year	2,133,109	2,271,711
Cash and cash equivalents, end of year	\$ 2,198,000	\$ 2,133,109
Supplemental cash flows information		
Actual cash payments of interest	\$ 112,493	\$ 95,620

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 federal 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 is currently in the process of being dissolved and had no activity in 2015 and 2014.

Basis of consolidation: The consolidated financial statements include the accounts of the Children's Defense Fund, the Children's Defense Fund Action Council and the Washington Research Project (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. Uninvested cash held in certain endowment investment accounts is considered to be an investment as such 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 the 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 and sold as well as held during the year.

Fair value of financial instruments: As of December 31, 2015 and 2014, 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 Statements of Activities and Changes in Net Assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulation, applicable laws, or under the accounting rules for endowments pursuant to the DC 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 December 31, 2015 and 2014.

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 December 31, 2015 and 2014. 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 ranged from 1.75% to 2.40% for the years ended December 31, 2015 and 2014. 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 December 31, 2015 and 2014, management fully expects to 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 cash for debt redemption: Restricted cash represents cash reserved for a specific purpose and therefore not available for immediate and general use. In connection with the bond refinancing (Note 8), a debt service reserve was established with a third-party trustee to be utilized for any bond payment deficiencies.

Bond issuance costs: Bond issuance costs arise in connection with issuing debt. These costs are capitalized and amortized over the terms of the related bonds using the effective-interest method. Accumulated amortization of bond issuance costs totaled \$28,141 and \$5,747 as of December 31, 2015 and 2014, respectively.

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 does an impairment evaluation on 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 assets cost basis to its fair value.

At December 31, 2015 and 2014, CDF has performed a recoverability analysis of all long-lived assets and does not believe an impairment adjustment is required.

Net assets: Unrestricted net assets represent resources that are not restricted, either temporarily or permanently, by donor-imposed stipulations. They are available for support of all organizational operations and services.

Temporarily restricted net assets represent assets contributed whose use is limited by donor-imposed stipulations. These restrictions are temporary in that they either expire by the passage of time, by the fulfillment of certain actions of CDF pursuant to those stipulations, or both.

Permanently restricted net assets represent assets contributed that are received with donor stipulations requiring that the original gift amount be held in perpetuity and only the earnings, if any, be used for the purposes designated by the donor.

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

Notes to Consolidated Financial Statements

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 and to account for board designated funds. The gifts, grants, contributions, and investment income of the endowment fund are recorded as unrestricted, temporarily restricted, or permanently restricted revenue and support, depending on the restrictions, if any, imposed by the donors. The endowment fund is managed according to the guidelines and policies established by CDF's finance committee and approved by the Board of Directors.

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 temporarily or permanently restricted contributions 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, temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted contributions. Applying this policy at times creates 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 are 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 unrestricted net assets 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.

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.

Allocation of functional expenses: The costs of providing the various programs and other activities have been summarized in the accompanying Consolidated Statements 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.

Advertising expenses: CDF expenses advertising costs as incurred. Advertising expenses for the years ended December 31, 2015 and 2014 were \$92,450 and \$101,682, respectively.

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.

Leadership, Development and State and Community Capacity Building expenses relate to child advocacy services across many different programs. The major programs are:

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 grades Kindergarten through 12th grade each year, and also engages over 1,500 young adult Servant Leader Interns as instructors, mentors and role models.

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

Notes to Consolidated Financial Statements

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 through their college experience. Beat the Odds specifically selects youth who have experienced and overcome extraordinary challenges and obstacles in their lives. Youth participants are selected from the following areas currently: California, Minnesota, New York, Ohio, Texas and the Greater Washington DC region.

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 act 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. Training programs at the farm have touched nearly 20,000 leaders.

Policy and Program Development and Implementation expenses represent costs associated with the collection and analysis of data and problems of children, private and governmental health, family income, teen pregnancy prevention, childcare, child protection, 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.

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.

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

Notes to Consolidated Financial Statements

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.

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, 2015 and 2014, 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 2012 through the current year remain open for examination by tax authorities.

Reclassification: Certain changes have been made to the prior year's format to conform to the current year's presentation.

Subsequent events: Management has evaluated subsequent events for disclosure in the consolidated financial statements through September 29, 2016, which is the date the consolidated financial statements were available to be issued.

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

Notes to Consolidated Financial Statements

2. Investments Investments as of December 31 consist of the following:

	2015	2014
Mutual funds:		
Money market funds	\$ 380,614	\$ 143,154
Short-term bonds	4,794,557	6,438,598
Intermediate-term bonds	2,578,264	2,241,275
Inflation-protected bonds	124,517	217,354
Nontraditional bonds	1,228,474	3,498,739
Bank loans	2,097,710	783,188
High yield bonds	146,951	260,722
Emerging markets bonds	74,046	130,146
World bonds	198,909	347,134
Intermediate governments	651,574	1,129,152
Multisector bonds	1,255,180	-
Real estate investment trust fund	227,580	564,349
Stocks	16,130	18,015
Total endowment investments	\$ 13,774,506	\$ 15,771,826

Net investment income (loss) consists of the following for the years ended:

December 31, 2015	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 453,849	\$ -	\$ 453,849
Net realized and unrealized gains (losses)	(544,682)	-	(544,682)
Management fees	(48,702)	-	(48,702)
Total investment income (loss)	\$ (139,535)	\$ -	\$ (139,535)

December 31, 2014	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 219,078	\$ 179,683	\$ 398,761
Net realized and unrealized gains (losses)	72,168	59,188	131,356
Management fees	(97,231)	(78,178)	(175,409)
Total investment income (loss)	\$ 194,015	\$ 160,693	\$ 354,708

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2015 and 2014, in conjunction with a line of credit with Morgan Stanley, Morgan Stanley has a security interest (see Note 7) in the investment account, which had a balance of \$10,735,496 and \$10,837,067 at December 31, 2015 and 2014, respectively.

- 3. Fair value of investments** The fair value of investments is presented as follows:

December 31, 2015	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Mutual funds:				
Money market	\$ 380,614	\$ 380,614	\$ -	\$ -
Short term bond	4,794,557	4,794,557	-	-
Intermediate term bond	2,578,264	2,578,264	-	-
Inflation protected bond	124,517	124,517	-	-
Nontraditional bond	1,228,474	1,228,474	-	-
Bank loan	2,097,710	2,097,710	-	-
High yield bond	146,951	146,951	-	-
Emerging markets bond	74,046	74,046	-	-
World bond	198,909	198,909	-	-
Intermediate government	651,574	651,574	-	-
Multisector bonds	1,255,180	1,255,180	-	-
Stocks	16,130	16,130	-	-
Real estate investment trust fund	227,580	-	-	227,580
Total	\$ 13,774,506	\$ 13,546,926	\$ -	\$ 227,580

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

Notes to Consolidated Financial Statements

December 31, 2014	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Mutual funds:				
Money market	\$ 143,154	\$ 143,154	\$ -	\$ -
Short term bond	6,438,598	6,438,598	-	-
Intermediate term bond	2,241,275	2,241,275	-	-
Inflation protected bond	217,354	217,354	-	-
Nontraditional bond	3,498,739	3,498,739	-	-
Bank loan	783,188	783,188	-	-
High yield bond	260,722	260,722	-	-
Emerging markets bond	130,146	130,146	-	-
World bond	347,134	347,134	-	-
Intermediate government	1,129,152	1,129,152	-	-
Stocks	18,015	18,015	-	-
Real estate investment trust fund	564,349	-	-	564,349
Total	\$ 15,771,826	\$ 15,207,477	\$ -	\$ 564,349

Level 3 values for alternative investments were developed using the 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 years ended December 31, 2015 and 2014. The risk of any derivative exposure is limited to the amount invested with each manager.

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

Notes to Consolidated Financial Statements

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 Level 3 investments are a reasonable estimate of fair value as of December 31, 2015 and 2014. 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 its Level 3 investments for values other than the NAV as of December 31, 2015 and 2014.

CDF has invested in alternative investments for the purpose of diversifying investment risk. The significant Level 3 investments are comprised of the following:

Hedge Fund (Tudor Futures Fund) – The investment manager's objective for the fund was the gradual and consistent appreciation of assets through the speculative trading of commodity interest contracts and securities. The success of the fund depended largely on anticipation of market trends and effective purchase and sale of commodity interest contracts and securities accordingly. The portfolio included trading of commodity and financial interests including futures contracts, spot and forward contracts, other commodity interests and financial instruments, swaps, derivative and hybrid instruments, securities, options and repurchase and reverse repurchase agreements.

The underlying investments of the hedge fund consisted of securities that were valued based on quoted market prices or other observable inputs. The value of the underlying investments was determined by the investment manager's general valuation policies. Depending on the instrument being valued, the investment manager's valuation policies included using independent market closing or settlement prices, third party vendor prices or dealer quotations, model based prices, special rules applicable to illiquid and/or distressed instruments, third party advisors, and private direct investments using a variety of techniques.

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

Notes to Consolidated Financial Statements

Limited partners, including CDF, could redeem units at NAV on the last calendar day of any month following the second anniversary of the issue of such units provided that notice was given at least 60 days prior to the requested redemption date or at another date as the investment manager determined at its sole discretion. Redemptions that would reduce the remaining NAV of the limited partner's units to below \$25,000 were not permitted. Effective December 17, 2014, the General Partner elected to discontinue operations and commence liquidation of the Tudor Futures Fund. Investors received an initial distribution of approximately 95% of their invested balances. The remaining final payment due from the fund manager of \$212,000 was received in January 2015.

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 US 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 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 has 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 2018.

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 December 31, 2015, 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 December 31, 2015, CDF has made all payments in accordance with the terms of the agreement. There are no anticipated capital calls for this investment fund in 2016.

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

Notes to Consolidated Financial Statements

A reconciliation of beginning and ending balances of investments measured using Level 3 inputs is as follows for the years ended:

December 31, 2015	Real Estate Investment	
	Trust Fund	Total
Beginning balance	\$ 564,349	\$ 564,349
Realized gains	-	-
Unrealized gains	31,420	31,420
Purchases	-	-
Sales	(351,371)	(351,371)
Management fees	(16,818)	(16,818)
Ending balance	\$ 227,580	\$ 227,580

December 31, 2014	Hedge Fund	Real Estate Investment Trust Fund	Total
Beginning balance	\$ 4,236,772	\$ 898,019	\$ 5,134,791
Realized gains	150,532	-	150,532
Unrealized gains	-	74,992	74,992
Purchases	-	-	-
Sales	(4,243,723)	(391,758)	(4,635,481)
Management fees	(143,581)	(16,904)	(160,485)
Ending balance	\$ -	\$ 564,349	\$ 564,349

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 years ended December 31, 2015 and 2014.

Gains and losses (realized and unrealized), net of management fees, on all investments included in changes in net assets for the years ended December 31 are reported in investment income (loss) as follows:

December 31	2015	2014
Total realized gain included in change in net assets	\$ 870	\$ 247,344
Change in unrealized loss relating to assets still held at December 31	(545,552)	(117,898)
Management fees	(48,702)	(173,499)
Total investment loss	\$ (593,384)	\$ (44,053)

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

Notes to Consolidated Financial Statements

4. 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.

5. Pledges receivable and concentration CDF has the following pledges receivable as of December 31:

	2015	2014
Due in less than one year	\$ 1,815,562	\$ 1,731,298
Due in one to five years	275,000	1,773,503
Total pledges receivable	2,090,562	3,504,801
Less: Discounts on pledges receivable	(10,881)	(15,758)
Total pledges receivable, net	\$ 2,079,681	\$ 3,489,043

Concentration of pledges receivable and foundation revenue: As of December 31, 2015 and 2014, CDF's pledges receivable included one pledge that comprised 24% and 64%, respectively, of the total pledges receivable in the accompanying Consolidated Statements of Financial Position. Total foundations and corporation revenue for the years ended December 31, 2015 and 2014 in the accompanying Consolidated Statements of Activities and Changes in Net Assets includes one grantor constituting 21% and 13% of the amounts, respectively.

6. Property and equipment Property and equipment consist of the following as of:

	Headquarters and state and local offices	Haley Farm	Total
December 31, 2015			
Land	\$ 2,015,788	\$ 592,874	\$ 2,608,662
Buildings and improvements	13,099,272	4,754,024	17,853,296
Furniture, equipment and software	902,801	47,658	950,459
Total property and equipment	16,017,861	5,394,556	21,412,417
Less: Accumulated depreciation and amortization	(11,410,952)	(1,629,534)	(13,040,486)
Net property and equipment	\$ 4,606,909	\$ 3,765,022	\$ 8,371,931

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

Notes to Consolidated Financial Statements

December 31, 2014	Headquarters and state and local offices	Haley Farm	Total
Land	\$ 2,015,788	\$ 592,874	\$ 2,608,662
Buildings and improvements	13,099,272	4,754,024	17,853,296
Furniture, equipment and software	896,056	47,658	943,714
Total property and equipment	16,011,116	5,394,556	21,405,672
Less: Accumulated depreciation and amortization	(10,135,572)	(2,126,426)	(12,261,998)
Net property and equipment	\$ 5,875,544	\$ 3,268,130	\$ 9,143,674

Depreciation and amortization expense for the years ended December 31, 2015 and 2014 was \$778,488 and \$733,450, respectively.

7. Lines 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 \$10,735,496 and \$10,837,067 as of December 31, 2015 and 2014, respectively, and accrues interest at the variable rate of 1.00% plus the 1-month LIBOR rate, which totaled 1.43% and 1.17% as of December 31, 2015 and 2014, respectively. 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. The outstanding balance on the line of credit at December 31, 2015 and 2014 was \$7,500,000.

8. Bonds payable

In September 2014, CDF restructured their financing arrangement given that Wells Fargo Bank, who had issued the letters of credit to secure prior bonds, did not continue the letters of credit beyond October 15, 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:

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

Notes to Consolidated Financial Statements

\$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% is paid on the bonds, which may be called every 5 years at the discretion of EagleBank. As of December 31, 2015 and 2014, \$3,670,682 and \$3,768,059, respectively, is outstanding on the Series 2014A Bonds.

\$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% is paid on the bonds, which may be called every 5 years at the discretion of EagleBank. As of December 31, 2015 and 2014, \$1,069,673 and \$1,092,533, respectively, is outstanding on the Series 2014B Bonds.

Land, building, furniture, equipment and improvements at the Washington, D.C. headquarters building are pledged as collateral for the Series 2014A and B Bonds. In addition, CDF agreed to a number of covenants as part of the financing agreement. The covenants include quarterly and annual financial reporting requirements and certain affirmative and negative covenants. One of the negative covenants calls for maintaining a debt service coverage ratio of 1.00 to 1.00 for the year ending December 31, 2014, and a ratio of 1.15 to 1.00 for the year ending December 31, 2015 and annually thereafter. If CDF fails to comply with the debt covenants, it would be subject to an interest rate of 5.00% in excess of the stated rates on the bonds. As of December 31, 2015, CDF is not compliant with the annual financial reporting and debt service coverage ratio covenants. CDF subsequently received a waiver from EagleBank for the covenant noncompliance.

Bond interest expense for the years ended December 31, 2015 and 2014 was \$188,981 and \$68,533, respectively.

As of December 31, 2015, the aggregate scheduled principal maturities on the bonds over the next five years and thereafter are as follows:

Year ending December 31	Amount
2016	\$ 132,461
2017	129,388
2018	134,453
2019	139,722
2020	144,740
Thereafter	4,059,591
Total	\$ 4,740,355

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

Notes to Consolidated Financial Statements

- 9. Restricted net assets** The consolidated temporarily restricted net assets are available for the following programs or purposes as of December 31:

	2015	2014
Operating		
Leadership development and state and community capacity building	\$ 2,842,912	\$ 3,557,011
Policy and program development and implementation	921,666	1,892,119
Time restricted for use in future periods	349,569	539,916
Total temporarily restricted net assets	\$ 4,114,147	\$ 5,989,046

In accordance with donor stipulations, permanently restricted net assets are held (and invested) in perpetuity, as of December 31:

	2015	2014
Endowment		
Leadership development and state and community capacity building	\$ 4,665,600	\$ 4,650,600
Publication of "The State of America's Children"	2,500,000	2,500,000
Total permanently restricted net assets	\$ 7,165,600	\$ 7,150,600

- 10. Releases from restrictions** Releases from restrictions were as follows for the years ended December 31:

	2015	2014
Leadership development and state and community capacity building	\$ 5,576,809	\$ 6,048,240
Policy and program development and implementation	1,045,464	1,159,660
Time and other	139,916	196,460
Endowment policy and program development and implementation	-	211,171
Endowment public education, media campaigns, internet outreach and publications	-	149,375
Total releases from restrictions	\$ 6,762,189	\$ 7,764,906

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

Notes to Consolidated Financial Statements

11. Endowment funds Endowment net asset composition is as follows as of December 31:

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (67,609)	\$ -	\$ 7,165,600	\$ 7,097,391
Board-designated funds	6,676,515	-	-	6,676,515
Total endowment net assets	\$ 6,608,906	\$ -	\$ 7,165,600	\$ 13,774,506

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 7,150,600	\$ 7,150,600
Board-designated funds	8,621,226	-	-	8,621,226
Total endowment net assets	\$ 8,621,226	\$ -	\$ 7,150,600	\$ 15,771,826

CDF's endowment consists of permanently restricted contributions established for a variety of purposes and board designated funds available at the discretion of the board. 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.

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

Notes to Consolidated Financial Statements

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 permanently restricted net assets (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 temporarily restricted net assets (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 unrestricted net assets with subsequent earnings and appreciation restoring the unrestricted net assets.

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 years ended:

December 31, 2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 8,621,226	\$ -	\$ 7,150,600	\$ 15,771,826
Additions	-	-	15,000	15,000
Investment loss	(139,535)	-	-	(139,535)
Appropriation of endowment assets for expenditure	(1,872,785)	-	-	(1,872,785)
Endowment net assets, end of year	\$ 6,608,906	\$ -	\$ 7,165,600	\$ 13,774,506

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

Notes to Consolidated Financial Statements

December 31, 2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 11,222,087	\$ 199,842	\$ 7,146,600	\$ 18,568,529
Additions	-	-	4,000	4,000
Investment income	194,015	160,693	-	354,708
Appropriation of endowment assets for expenditure	(2,794,876)	(360,535)	-	(3,155,411)
Endowment net assets, end of year	\$ 8,621,226	\$ -	\$ 7,150,600	\$ 15,771,826

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA as of December 31, 2015 and 2014 is \$7,165,600 and \$7,150,600, respectively.

As discussed in Notes 2 and 7, a portion of the board designated unrestricted endowment is pledged as security for the lines of credit.

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. Deficiencies of this nature that are reported in unrestricted net assets were \$67,609 and \$0 as of December 31, 2015 and 2014, respectively.

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.

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

Notes to Consolidated Financial Statements

12. 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. Pension expense totaled \$379,838 and \$383,473 for the years ended December 31, 2015 and 2014, respectively.

13. Operating leases CDF is obligated under various non-cancelable operating lease agreements for office facilities expiring at various dates through 2018. 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 Statements of Financial Position. Rent expense for all office space for the years ended December 31, 2015 and 2014 was \$478,700 and \$552,168, respectively. Future minimum lease payments are as follows:

Year Ending December 31	Amount
2016	\$ 450,855
2017	383,040
2018	126,017
Total minimum lease payments	\$ 959,912

14. Tenant leases CDF leases, as lessor, certain office space to other tenants under operating leases. The leases require minimum rental payments. The leases expire on various dates through 2024. Rental revenue is recorded on a straight-line basis over the related lease term. Future minimum rents due under tenant leases are as follows:

Year Ending December 31	Amount
2016	\$ 420,868
2017	251,625
2018	173,549
2019	178,322
2020	200,171
Thereafter	762,826
Total minimum rents due	\$ 1,987,361

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

Notes to Consolidated Financial Statements

15. Related parties

The Children's Defense Fund has a contractual agreement with the Southern Coalition for Education Equity, which is run by a member of CDF's Board of Directors. This organization provides services to support CDF's work in Alabama, Georgia and Mississippi. In 2015 and 2014, the total paid to this organization for consulting services was \$0 and \$57,580, respectively.

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.

16. Financial condition

These consolidated financial statements are prepared on a going concern basis. CDF experienced a decrease in net assets of approximately \$4,200,000 in 2015 which is, approximately, a \$1,500,000 decrease from 2014. Of the \$1,500,000 decrease, approximately \$1,300,000 (87%) was due to decreases in contributions and investment income. In addition, CDF does not have sufficient liquid assets to cover the needed liquid amounts for line of credit collateral, current liabilities, permanently restricted net assets, and temporarily restricted net assets. Therefore if CDF had to pay off the line of credit they would need to borrow against restricted assets to cover the shortfall by approximately \$2,000,000. However, CDF continues to have significant investment in real property. The building's depreciated value on CDF's Consolidated Statement of Financial Position is \$2,709,213, while the building has been appraised for \$15,200,000, a difference of approximately \$12,500,000. The fair market value is expected to be higher than this appraised value based on an updated square footage calculation that CDF has conducted. This provides long-term security for the organization. In 2015 CDF managed program and supportive service costs to the same spending levels as in 2014 therefore CDF did not compromise its ability to serve its mission.

As part of CDF's 2015 plan, CDF hired an experienced Chief Development Officer in August 2015. Since that time, CDF has hired a development team of four employees. The strategy being pursued by the new development team encompasses a comprehensive approach to revenue diversification and introducing generally accepted best practices throughout CDF's fundraising efforts and operations.

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

Notes to Consolidated Financial Statements

As of July 2016, CDF has approximately, \$1,100,000 (unaudited) surplus balance which includes an increase of approximately \$1,300,000 (13%) (unaudited) in total revenue from the comparative January-July period in 2015. With the introduction of a new Chief Financial Officer in early 2015, CDF introduced a detailed budgeting process to better control and manage divisional expenses in relationship to funding sources, and provide transparency with respect to organizational costs by program area. With more oversight and understanding of programmatic and operational spending, CDF has reduced overall program and supportive expenditures by 18% (unaudited) for the first seven months of the 2016 year which represents more than \$2,300,000 (unaudited) comparative savings. In 2016, CDF replaced several key leadership positions at the state level, aligning CDF's six state level divisions with national operations. CDF is focusing operations in three strategic areas (Freedom School, policy and advocacy, and movement building) in order to better serve CDF's core mission of focusing on children and also focusing on reducing operational costs.



Independent Auditor's Report on Supplementary Information

Board of Directors
Children's Defense Fund and Children's Defense Fund Action Council
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We have audited the consolidated financial statements of **Children's Defense Fund and Children's Defense Fund Action Council** as of and for the years ended December 31, 2015 and 2014, and our report thereon dated September 29, 2016, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 - 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidated Schedules of Functional Expenses on pages 32 and 33 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Rockville, Maryland
September 29, 2016

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

Consolidated Schedule of Functional Expenses

Year Ended December 31, 2015

	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.	\$ 1,495,035	\$ 169,490	\$ -	\$ 1,664,525	\$ -	\$ -	\$ -	\$ 1,664,525
Grants to individuals in U.S.	225,527	10,082	900	236,509	-	-	-	236,509
Compensation and wages	4,035,825	1,750,795	707,220	6,493,840	934,483	449,551	1,384,034	7,877,874
Pension plan contributions	158,068	68,572	27,699	254,339	36,600	17,607	54,207	308,546
Other employee benefits	352,346	183,676	70,585	606,607	42,003	87,312	129,315	735,922
Payroll taxes	314,360	136,374	55,087	505,821	72,789	35,017	107,806	613,627
Consulting fees	2,763,288	217,361	51,770	3,032,419	92,561	16,445	109,006	3,141,425
Legal fees	70,889	-	500	71,389	-	-	-	71,389
Accounting fees	11,440	-	41	11,481	142,131	81	142,212	153,693
Advertising and promotion	16,385	9,612	22,773	48,770	239	43,441	43,680	92,450
Office expenses	290,930	126,209	50,981	468,120	48,739	32,407	81,146	549,266
Information technology	128,503	38,584	118,675	285,762	38,124	9,215	47,339	333,101
Occupancy	776,591	336,895	136,086	1,249,572	179,817	86,505	266,322	1,515,894
Travel	1,756,538	84,059	40,589	1,881,186	7,386	4,402	11,788	1,892,974
Conferences and conventions	759,649	12,223	8,770	780,642	2,904	13,366	16,270	796,912
Interest	-	-	-	-	301,474	-	301,474	301,474
Depreciation and amortization	398,819	173,013	69,887	641,719	92,345	44,424	136,769	778,488
Insurance	-	-	-	-	161,483	-	161,483	161,483
Printing and publication	1,382,327	50,046	10,376	1,442,749	36,678	5,944	42,622	1,485,371
Miscellaneous expenses	57,771	42,348	1,126	101,245	18,924	53,610	72,534	173,779
Total expenses	\$ 14,994,291	\$ 3,409,339	\$ 1,373,065	\$ 19,776,695	\$ 2,208,680	\$ 899,327	\$ 3,108,007	\$ 22,884,702

Refer to accompanying Independent Auditor's Report on Supplementary Information.

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

Consolidated Schedule of Functional Expenses

Year Ended December 31, 2014

	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.	\$ 1,353,539	\$ 445,059	\$ 1,250	\$ 1,799,848	\$ -	\$ -	\$ -	\$ 1,799,848
Grants to individuals in U.S.	67,455	140,957	2,023	210,435	-	-	-	210,435
Compensation and wages	5,057,508	953,597	759,739	6,770,844	872,764	461,046	1,333,810	8,104,654
Pension plan contributions	220,302	42,829	34,122	297,253	39,198	27,552	66,750	364,003
Other employee benefits	408,396	79,203	63,102	550,701	72,490	49,962	122,452	673,153
Payroll taxes	398,195	77,291	61,578	537,064	70,739	49,094	119,833	656,897
Consulting fees	2,572,472	87,172	75,728	2,735,372	34,984	91,116	126,100	2,861,472
Legal fees	1,396	-	2,004	3,400	64,147	-	64,147	67,547
Accounting fees	1,665	53	-	1,718	159,825	266	160,091	161,809
Advertising and promotion	9,131	65	17,898	27,094	1,208	73,380	74,588	101,682
Office expenses	271,036	52,609	41,914	365,559	48,149	33,417	81,566	447,125
Information technology	125,077	1,138	92,740	218,955	49,458	6,138	55,596	274,551
Occupancy	915,453	148,138	118,023	1,181,614	135,581	97,027	232,608	1,414,222
Travel	1,681,059	43,294	18,551	1,742,904	2,780	7,033	9,813	1,752,717
Conferences and conventions	670,099	8,514	-	678,613	1,902	26	1,928	680,541
Interest	-	-	-	-	243,576	-	243,576	243,576
Depreciation and amortization	444,496	86,298	68,754	599,548	78,983	54,919	133,902	733,450
Insurance	-	-	-	-	161,925	-	161,925	161,925
Printing and publication	1,569,279	39,936	34,009	1,643,224	18,305	17,496	35,801	1,679,025
Training	62,165	-	4,585	66,750	-	-	-	66,750
Miscellaneous expenses	64,808	5,448	10,211	80,467	26,781	58,273	85,054	165,521
Total expenses	\$ 15,893,531	\$ 2,211,601	\$ 1,406,231	\$ 19,511,363	\$ 2,082,795	\$ 1,026,745	\$ 3,109,540	\$ 22,620,903

Refer to accompanying Independent Auditor's Report on Supplementary Information.