

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

**Consolidated Financial Statements
For the Year Ended December 31, 2023
With Independent Auditor's Report**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

**CHILDREN'S DEFENSE FUND AND
CHILDREN'S DEFENSE FUND ACTION COUNCIL**
Consolidated Financial Statements
For the Year Ended December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Children's Defense Fund and
Children's Defense Fund Action Council

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of the Children's Defense Fund and the Children's Defense Fund Action Council (collectively, CDF), which comprise the consolidated statement of financial position as of December 31, 2023, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Children's Defense Fund and the Children's Defense Fund Action Council as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (GAS)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of CDF, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the CDF's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued or are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CDF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the CDF's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 30, 2025 on our consideration of CDF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CDF's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with GAS in considering the CDF's internal control over financial reporting and compliance.

Mitchell Titus, LLP

January 30, 2025

**CHILDREN'S DEFENSE FUND AND
CHILDREN'S DEFENSE FUND ACTION COUNCIL**
Consolidated Statement of Financial Position
As of December 31, 2023

ASSETS

Cash and cash equivalents	\$ 3,499,815
Investments	36,067,981
Accounts receivable, net	31,888
Pledges receivable, net	5,040,802
Government grants receivable	814,642
Property and equipment, net	3,818,728
Right-of-use asset - operating	6,269,909
Right-of-use asset - finance	15,475
Other assets	<u>1,129,018</u>
Total assets	<u>\$ 56,688,259</u>

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable and accrued expenses	\$ 5,375,843
Deferred revenue	748,754
Line of credit	4,500,000
Short-term lease liability	<u>1,284,733</u>
Total current liabilities	11,909,330

Long-term liabilities

Long-term lease liability	<u>7,561,912</u>
Total liabilities	<u>19,471,242</u>

Net assets

Net assets without donor restrictions	18,126,704
Net assets with donor restrictions	<u>19,090,313</u>
Total net assets	<u>37,217,017</u>
Total liabilities and net assets	<u>\$ 56,688,259</u>

The accompanying notes are an integral part of these consolidated financial statements.

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

Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE, GAINS AND OTHER SUPPORT			
<i>Contributions and grants</i>			
Foundations and corporations	\$ 2,332,420	\$ 6,658,500	\$ 8,990,920
Individuals	4,653,885	-	4,653,885
Government grants	1,922,887	-	1,922,887
<i>Revenue from contracts with customers</i>			
Training and Haley Farm fees	5,184,151	-	5,184,151
Miscellaneous	144,189	-	144,189
Interest and dividends	616,474	155,571	772,044
Net realized and unrealized losses	4,600,978	1,316,429	5,917,407
Net assets released from restrictions	8,926,212	(8,926,212)	-
Total revenue, gains and other support	<u>28,381,195</u>	<u>(795,712)</u>	<u>27,585,483</u>
EXPENSES			
<i>Program services</i>			
Building a movement for youth	8,418,564	-	8,418,564
Freedom schools	6,439,639	-	6,439,639
Policy and advocacy	8,717,554	-	8,717,554
Total program services	<u>23,575,757</u>	<u>-</u>	<u>23,575,757</u>
<i>Supporting services</i>			
General and administrative	7,480,159	-	7,480,159
Fundraising	2,393,709	-	2,393,709
Total supporting services	<u>9,873,868</u>	<u>-</u>	<u>9,873,868</u>
Total expenses	<u>33,449,625</u>	<u>-</u>	<u>33,449,625</u>
Change in net assets	(5,068,430)	(795,712)	(5,864,143)
Beginning, net assets	<u>23,195,134</u>	<u>19,886,026</u>	<u>43,081,159</u>
Ending, net assets	<u>\$ 18,126,704</u>	<u>\$ 19,090,313</u>	<u>\$ 37,217,017</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CHILDREN'S DEFENSE FUND AND
CHILDREN'S DEFENSE FUND ACTION COUNCIL**
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2023

	Program Services				Total Supporting Services			Total
	Building a Movement for Youth	Freedom Schools	Policy and Advocacy	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	
Grants to organizations in U.S.	\$ 1,229,106	\$ 1,046,699	\$ 1,228,885	\$ 3,504,690	\$ -	\$ -	\$ -	\$ 3,504,690
Grants to individuals in U.S.	8,329	7,093	8,328	23,750	-	-	-	23,750
Compensation and wages	2,696,158	2,022,119	2,808,498	7,526,775	2,808,315	898,719	3,707,034	11,233,809
Retirement plan contributions	33,078	24,809	34,456	92,343	34,456	11,026	45,482	137,826
Other employee benefits	432,736	324,552	450,766	1,208,054	450,766	144,245	595,011	1,803,065
Payroll taxes	184,180	138,135	191,854	514,170	191,854	61,393	253,248	767,418
Consulting fees	1,196,442	897,332	1,246,294	3,340,068	1,246,294	398,814	1,645,108	4,985,176
Legal fees	55,407	41,555	57,716	154,678	57,716	18,469	76,185	230,863
Accounting fees	54,492	40,869	56,762	152,123	56,762	18,164	74,926	227,049
Advertising and promotion	27,117	20,338	28,247	75,701	28,247	9,039	37,286	112,987
Office expenses	296,507	222,380	308,861	827,748	308,861	98,836	407,697	1,235,445
Information technology	252,245	189,184	262,755	704,183	262,755	84,082	346,837	1,051,020
Occupancy	424,072	318,054	441,742	1,183,869	441,742	141,357	583,100	1,766,969
Travel	760,975	570,731	792,682	2,124,389	792,682	253,658	1,046,341	3,170,729
Conferences and conventions	320,985	240,739	334,359	896,083	334,359	106,995	441,354	1,337,438
Interest	7,117	5,338	7,413	19,868	7,413	2,372	9,786	29,654
Depreciation and amortization	122,579	91,934	127,686	342,199	127,686	40,860	168,546	510,745
Insurance	75,214	56,411	78,348	209,973	78,348	25,071	103,420	313,393
Printing and publication	258,021	193,516	268,772	720,310	268,772	86,007	354,779	1,075,089
Miscellaneous expenses	(16,197)	(12,148)	(16,872)	(45,217)	(16,872)	(5,399)	(22,271)	(67,488)
Total expenses	\$ 8,418,564	\$ 6,439,639	\$ 8,717,554	\$ 23,575,757	\$ 7,480,159	\$ 2,393,709	\$ 9,873,868	\$ 33,449,625

The accompanying notes are an integral part of these consolidated financial statements.

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

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (5,864,143)
<i>Adjustment to reconcile change in net assets to net cash used in operating activities</i>	
Depreciation and amortization	510,746
Net realized and unrealized gains	(5,917,407)
Gain on sale of property and equipment	(181,312)
<i>Change in assets and liabilities</i>	
Accounts receivable	(13,605)
Pledges receivable	(321,556)
Government grants receivable	(359,441)
Other assets	(268,924)
Accounts payable and accrued expenses	3,647,441
Deferred revenue	277,451
Net change in right-of-use asset and liability	1,126,985
Net cash used in operating activities	<u>(7,363,765)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales of investments	20,517,984
Purchases of investments	(15,138,615)
Purchases of property and equipment	(1,060,428)
Disposal of property and equipment	1,131,474
Net cash provided by investing activities	<u>5,450,415</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Advance on line of credit	9,000,000
Repayments on line of credit	(4,500,000)
Payments on lease obligations	(1,364,980)
Net cash provided by financing activities	<u>3,135,020</u>

Change in cash and cash equivalents	1,221,670
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Cash and cash equivalents, beginning of year	<u>2,278,145</u>
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Cash and cash equivalents, end of year	<u>\$ 3,499,815</u>
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SUPPLEMENTAL CASH FLOWS INFORMATION

Cash paid for interest	<u>\$ 3,246</u>
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The accompanying notes are an integral part of these consolidated financial statements.

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

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2023

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The Children's Defense Fund is a public charity that began in 1969 in Washington, DC. The Children's Defense Fund's mission is to build community so young people grow up with dignity, hope and joy. To realize this vision, the Children's Defense Fund pursues a movement building and institutional growth strategy to build power for child-centered public policy informed by racial equity and the lived experience of children and youth. The Children's Defense Fund serves and advocates for the largest, most diverse generation in America: 74 million children and youth under the age of 18 and 30 million young adults under the age of 25, with particular attention to those living in poverty and communities of color. The Children's Defense Fund is the only national, multi-issue advocacy organization working at the intersection of child well-being and racial justice by wielding the moral authority of programmatic proximity and community organizing to inform public policy. 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 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 Section 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 during the year and was dissolved on August 7, 2023.

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). Since 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 (U.S. GAAP). All intercompany accounts and transactions have been eliminated in consolidation.

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

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2023

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and Cash Equivalents

CDF considers demand deposits, money market funds and certificates of deposit 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 that may exceed federally insured limits. Management does not consider this to be a significant credit risk.

Investments

Investments in marketable securities and mutual 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 readily available market for the securities existed. 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

For the year ended December 31, 2023, 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

For the Year Ended December 31, 2023

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair Value of Financial Instruments *(continued)*

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 for the year ended December 31, 2023.

Accounts Receivable

Accounts receivable consist primarily of noninterest-bearing amounts due for CDF Freedom Schools® training and Haley Farm fees, and other miscellaneous revenue. CDF determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. As of December 31, 2023, the allowance for doubtful accounts was \$30,000. Receivables from contracts with customers are reported as accounts receivable, net in the accompanying consolidated statement of financial position.

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 for the year ended December 31, 2023. 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 4.9% for the year ended December 31, 2023. Amortization of the discount is included in contribution revenue.

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

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2023

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government Grants Receivable

Government grants receivable include all current receivables related to federal awards for which applicable conditions have been satisfied. 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. For the year ended December 31, 2023, management expects all balances to be fully collectible 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:

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.

For the year ended December 31, 2023, 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 include net assets not subject to donor-imposed restrictions. They are available for support of all organizational operations and services.

Net assets with donor restrictions include net assets subject to donor-imposed restrictions. These restrictions may expire based on the passage of time, fulfillment of certain requirements as stipulated by the donor, or may require the original gift be held in perpetuity. For gifts held in perpetuity, earnings on these gifts may only be used for the purposes designated.

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

Notes to Consolidated Financial Statements

For the Year Ended December 31, 2023

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Endowment Fund

CDF has established an endowment fund for gifts that are required 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.

Revenue Recognition

Contributions

Contributions, including unconditional promises to give, are recognized when received or 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 stipulated time restriction ends, or the purpose of the restriction is met, 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 or 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.

Government Grants

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

Non-financial Contributions

From time to time, CDF receives non-financial contributions through private organizations. CDF records non-financial contribution revenue at estimated fair value when received or unconditionally promised.

There were no non-financial contributions for the year ended December 31, 2023.

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

Notes to Consolidated Financial Statements

For the Year Ended December 31, 2023

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue Recognition *(continued)*

Exchange Transactions

CDF follows Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC 606). The standard outlines a five-step model, whereby revenue is recognized as performance obligations within a contract are satisfied. The five-step model is outlined below:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Accordingly, the following revenue streams are within the scope of ASC 606:

Training and Haley Farm Fees

CDF provides orientation course access, training, materials, and technical assistance during virtual and in-person training to customers providing summer and after-school enrichment to children as part of CDF Freedom Schools®. Revenue is recognized at the point in time the related services are provided at the predetermined rate paid by the customer. Payments received in advance are recorded as deferred revenue until the services are provided. Amounts not paid at the time services are provided are recorded as accounts receivable.

Miscellaneous Revenue

Miscellaneous revenue consists of product sales and payments received for speaking engagements and similar activities. Revenue is recognized at the point in time the related goods and services are provided. Payments received in advance are recorded as deferred revenue until goods or services are provided. Amounts not paid at the time goods and services are provided are recorded as accounts receivable.

There are no incremental costs of obtaining a contract and no significant financing components. Also, there are no significant changes in the judgments affecting the determination of the amount and timing of revenue from contracts with customers.

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

Notes to Consolidated Financial Statements

For the Year Ended December 31, 2023

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue Recognition *(continued)*

Miscellaneous Revenue (continued)

Contract assets and liabilities from CDF Freedom Schools®-related revenue and miscellaneous revenue are included in accounts receivable and deferred revenue in the accompanying consolidated statement of financial position. The balances are the result of timing differences between when revenue is recognized and when the related payments are received. Balances relating to contracts with customers were as follows:

Accounts receivable, net	<u>\$ 31,888</u>
Deferred revenue	<u>\$ 748,754</u>

Contract Costs

Contract costs generally include compensation, wages, and related employee costs, consulting fees, and occupancy costs related to training and other program events. Costs are expensed as incurred.

Rental Income

Rental income is from short term rentals for events at the Haley Farm property and is recognized when the event occurs.

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 that cannot be specifically identified with a particular function, 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.

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

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2023

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Allocation of Functional Expenses *(continued)*

Allocated expenses 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

Program Services Definitions

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

Building a Movement for Youth

CDF identifies and trains children and young adults nationwide to be leaders and advocates for the support and services that children need to thrive. CDF also trains adults to advocate for the well-being of children and youth.

CDF Freedom Schools®

CDF Freedom Schools provides a high quality, research-based reading enrichment program for children and youth in underserved and impoverished communities, which fosters personal pride and empowerment, academic confidence, and belief in their ability to effect change in themselves, their communities and the world.

Policy and Advocacy

CDF champions policies and programs to improve the odds for America's children and youth. CDF focuses its advocacy on the whole child. To accomplish these goals, CDF educates policy makers and the public on the policies and programs that support children's well-being.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

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

Notes to Consolidated Financial Statements

For the Year Ended December 31, 2023

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 (the 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 Code. Washington Research Project is a public charity exempt from federal income tax under Section 501(c)(3) of the 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 to be realized upon ultimate settlement. For the year ended December 31, 2023, there were no accruals for uncertain tax positions. If applicable, CDF records interest and penalties as a component of income tax expense. Tax years from 2020 through the current year remain open for examination by tax authorities.

New Accounting Pronouncement Not Adopted Yet

During 2024, the Financial Accounting Standards Board issued Accounting Standards Update No. 2024-02, *Codification Improvements – Amendments to Remove References to the Concepts Statements*. CDF is evaluating the impact of adoption of this standard. This standard is required to be adopted for fiscal years beginning after December 15, 2025.

Advertising Expenses

CDF expenses advertising costs as incurred. Advertising expenses for the year ended December 31, 2023, was \$104,246, which is included within advertising and promotion on the accompanying consolidated statement of functional expenses.

Consolidated Statement of Cash Flows

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.

**CHILDREN'S DEFENSE FUND AND
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Notes to Consolidated Financial Statements

For the Year Ended December 31, 2023

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Subsequent Events

Management has evaluated subsequent events for disclosure in the consolidated financial statements through January 30, 2025, which is the date the consolidated financial statements were available to be issued.

NOTE 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 CDF's financial assets as of the year ended December 31, 2023, reduced by amounts that are not available to meet general expenditures within one year of the consolidated 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.

Cash and cash equivalents	\$ 3,499,815
Investments	36,067,981
Accounts receivable, net	31,888
Government grants receivable	814,642
Pledges receivable due in less than one period	<u>5,040,802</u>
Total financial assets	45,455,129
Endowment funds with permanent restrictions	<u>7,200,600</u>
Financial assets available to meet cash needs for general expenditures within one period	<u>\$ 52,655,729</u>

As described in Note 9, CDF also has a committed line of credit with a limit of \$10,000,000, 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

For the Year Ended December 31, 2023

NOTE 3 INVESTMENTS

Investments consist of the following as of December 31, 2023:

Money market funds	\$ 408,327
Stocks and exchange-traded funds	5,933,950
Mutual funds	29,685,880
Real estate investment trust fund	<u>39,824</u>
Total investments	<u>\$ 36,067,981</u>

NOTE 4 FAIR VALUE OF INVESTMENTS

The fair value of investments as of December 31, 2023 is as follows:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 408,327	\$ 408,326	\$ -	\$ -
Stocks and exchange-traded funds	5,933,950	3,476,276	2,457,674	-
Mutual funds	<u>29,685,880</u>	<u>29,685,880</u>	<u>-</u>	<u>-</u>
Total assets within the fair value hierarchy	36,028,157	<u>\$ 33,570,482</u>	<u>\$ 2,457,674</u>	<u>\$ -</u>
Investments valued at net asset value ^(a)	<u>39,824</u>			
Total	<u>\$ 36,067,981</u>			

a) In accordance with ASU 2015-07, certain investments that were measured at NAV per share (or its equivalent) for the year ended December 31, 2023, 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 consolidated 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 December 31, 2023.

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.

**CHILDREN'S DEFENSE FUND AND
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Notes to Consolidated Financial Statements

For the Year Ended December 31, 2023

NOTE 5 INVESTMENTS MEASURED AT NET ASSET VALUE

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 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.

Fair value of underlying securities is determined by external managers based on a combination of discounted cash flow analysis, industry comparisons, and outside appraisals. There have been no changes to the valuation techniques for the year ended December 31, 2023.

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 for the year ended December 31, 2023. 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 for the year ended December 31, 2023.

Investments measured at NAV are as follows:

<u>December 31, 2023</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Real estate investment trust fund	\$ 39,824	\$ -	Semi-annually	75 days

**CHILDREN'S DEFENSE FUND AND
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Notes to Consolidated Financial Statements
For the Year Ended December 31, 2023

NOTE 5 INVESTMENTS MEASURED AT NET ASSET VALUE *(continued)*

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

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 these objectives, REP I invests capital in private real estate managers pursuing traditional commercial property strategies as well as unconventional real estate opportunities.

The 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 semiannually, 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 term to December 31, 2026.

CDF entered into an investment agreement on December 15, 2001 committing up to \$3 million over the life of the fund through December 31, 2016. CDF's total contributions to date for year ended December 31, 2023, were \$2,604,655. 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. For the year ended December 31, 2023, CDF has made all payments in accordance with the terms of the agreement and no payments were required during 2023.

There are no anticipated capital calls for this investment fund in 2024.

NOTE 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. The changes could materially affect the amounts reported in future consolidated financial statements.

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Notes to Consolidated Financial Statements

For the Year Ended December 31, 2023

NOTE 7 PLEDGES RECEIVABLE AND CONCENTRATION

CDF has the following pledges receivable for the year ended December 31, 2023:

Due in less than one year	\$ 4,757,410
Due in one to five years	300,000
Less: Discount on long-term pledges receivable	<u>(16,608)</u>
Total pledges receivable	<u>\$ 5,040,802</u>

Concentration of Pledges Receivable and Revenue

As of December 31, 2023, five pledges comprised 54% of total pledges receivable. As of December 31, 2023, 11 contributions comprised 26% of total revenue in the accompanying consolidated statement of activities and changes in net assets.

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

Land	\$ 603,874
Buildings and improvements	6,641,733
Furniture, equipment, and software	<u>2,193,867</u>
Total property and equipment	9,439,474
Less: Accumulated depreciation and amortization	<u>(5,620,746)</u>
Property and equipment, net	<u>\$ 3,818,728</u>

Depreciation and amortization expense for the year ended December 31, 2023, was \$510,746.

NOTE 9 LINE OF CREDIT

In March 2015, CDF entered into a line of credit agreement with Morgan Stanley. The Morgan Stanley line of credit carries a limit of \$10,000,000 and was primarily obtained for working capital needs. The line of credit is secured by a portion of CDF's investments, totaling \$23,263,152 for the year ended December 31, 2023, and accrues interest at the variable rate of 1.00% plus the 1-month LIBOR rate, which was 6.46% as of December 31, 2023. 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. For the year ended December 31, 2023, there was an outstanding balance of \$4,500,000 on the line of credit.

**CHILDREN'S DEFENSE FUND AND
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Notes to Consolidated Financial Statements

For the Year Ended December 31, 2023

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

The consolidated net assets with donor restrictions for purpose are as follows as of December 31, 2023:

Building a movement for youth	\$ 5,289,977
Freedom schools	113,767
Policy and advocacy	<u>3,923,969</u>
Total donor restricted net assets for purpose	<u>\$ 9,327,713</u>

The consolidated net assets with donor restrictions for time are as follows as of December 31, 2023:

Time restricted	<u>\$ 2,562,000</u>
<i>Perpetually restricted</i>	
Building a movement for youth	<u>7,200,600</u>
Total donor restricted net assets with perpetual restrictions	<u>7,200,600</u>
Total donor restricted net assets	<u>\$ 19,090,313</u>

NOTE 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 December 31, 2023:

Building a movement for youth	\$ 3,491,809
Freedom schools	127,937
Policy and advocacy	4,090,611
Time restricted and other	<u>1,215,855</u>
Total releases from restrictions	<u>\$ 8,926,212</u>

NOTE 12 ENDOWMENT FUNDS

Endowment net assets were comprised of funds with donor restrictions totaling \$9,042,778 for the year ended December 31, 2023.

**CHILDREN'S DEFENSE FUND AND
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Notes to Consolidated Financial Statements
For the Year Ended December 31, 2023

NOTE 12 ENDOWMENT FUNDS *(continued)*

CDF's endowment consists of permanently restricted contributions established for a variety of purposes and investment income that has not yet been used for the restricted purpose. As required by U.S. 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 UPMIFA as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, CDF classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund will be classified as net assets with donor restrictions (to the extent the cumulative balance in the endowment fund exceeds the original corpus amount) until those amounts are appropriated for expenditure by CDF in a manner consistent with the standard prudence prescribed by UPMIFA. Losses from the endowment fund will be allocated against net assets without donor restrictions subsequent earnings and appreciation restoring the net assets without donor restrictions.

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

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

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Notes to Consolidated Financial Statements

For the Year Ended December 31, 2023

NOTE 12 ENDOWMENT FUNDS *(continued)*

Interpretation of the Relevant Law *(continued)*

The change in endowment net assets is as follows for the year ended December 31, 2023:

	2023		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of period	\$ -	\$ 7,521,061	\$ 7,521,061
Additions	-	-	-
Investment income	-	1,472,000	1,472,000
Endowment net assets, end of period	<u>\$ -</u>	<u>\$ 8,993,061</u>	<u>\$ 8,993,061</u>

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA was \$7,200,600 as of December 31, 2023.

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 for the year ended December 31, 2023.

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 fund.

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 their 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
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Notes to Consolidated Financial Statements

For the Year Ended December 31, 2023

NOTE 13 RETIREMENT PLAN

Employees of CDF participate in a defined contribution plan under Section 403(b) of the Code, which covers all employees who have completed six months of service and have attained the age of 21. Matching contributions to the plan are at the discretion of CDF. In 2023, CDF matched up to 3% of the salary of each participating employee per payroll period. CDF Employees are fully vested after two years of employment. Retirement plan expense for the year ended December 31, 2023 was \$195,673.

NOTE 14 LEASES

CDF is obligated under various non-cancelable operating lease agreements for office facilities and office equipment 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.

CDF determines if an arrangement is a lease at inception of the contract. The ROU assets represent CDF's right to use the underlying assets for the lease term and the lease liabilities represent the Fund's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at their commencement date based on the present value of lease payments over the lease term. CDF uses a risk-free borrowing rate, which is derived from information available at the lease commencement date.

Total lease expense was \$1,155,254 for the year ended December 31, 2023, and is included in occupancy expense in the accompanying consolidated statement of functional expenses. Included in this expense are fixed rental payments. The lease does not include any variable rental payments.

Future minimum lease payments as of December 31, 2023, are as follows:

<u>Year</u>	<u>Amount</u>
2024	\$ 1,413,980
2025	1,455,065
2026	1,515,982
2027	1,533,998
2028	1,371,084
Thereafter	<u>2,302,039</u>
	9,592,148
Less: Present value discount	<u>(745,502)</u>
	<u>\$ 8,846,646</u>

**CHILDREN'S DEFENSE FUND AND
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Notes to Consolidated Financial Statements
For the Year Ended December 31, 2023

NOTE 14 LEASES *(continued)*

Other information related to leases after the adoption date was as follows:

Cash paid for rent was \$1,456,150 for the year ended December 31, 2023.

The weighted-average remaining lease term for operating lease is 6.4 years.

The weighted-average discount rate for operating lease is 1.81%.

No sublease income/expense is recorded as of December 31, 2023.

The lease agreements do not provide CDF with extension terms.

NOTE 15 RELATED PARTIES

The CDF Marlboro County Office in South Carolina leased office space through spring 2023 in a home that was owned by CDF's founder, who is a former board member. CDF also rented office space from the sibling of a member of management. The total rent expense related to this office space was \$9,800 for the year ended December 31, 2023. This lease ceased in March 2023 and there are no future minimum lease payments under this lease as of December 31, 2023.

During the year ended December 31, 2023, contributions totaling \$252,500 were made by board members or organizations where CDF board members were also part of leadership or governance.

