

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

**AUDITED CONSOLIDATED
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2014 AND 2013

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, 2014 and 2013, 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.

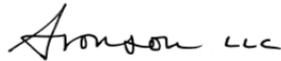
Independent Auditor's Report (Continued)

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, 2014 and 2013, 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.

Emphasis of Matter Regarding Investment Valuation

As discussed in Notes 2 and 3 to the consolidated financial statements, the consolidated financial statements include investments valued at approximately \$564,000 and \$5,135,000 (3% and 24% of net assets) at December 31, 2014 and 2013, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the investment fund managers. Our opinion is not modified with respect to that matter.



Rockville, Maryland
July 2, 2015

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

Consolidated Statements of Financial Position

<i>December 31,</i>	2014	2013
Assets		
Cash and cash equivalents	\$ 2,133,109	\$ 2,271,711
Investments	15,771,826	18,568,529
Pledges receivable, net	3,489,043	4,461,871
Government contracts and grants receivable	358,664	270,171
Restricted cash for debt redemption	308,000	-
Bond issuance costs, net	425,276	-
Property and equipment, net	9,143,674	9,234,343
Other assets	672,820	322,808
Total assets	\$ 32,302,412	\$ 35,129,433
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,500,913	\$ 1,822,588
Lines of credit	7,500,000	7,500,000
Bonds payable	4,860,592	4,645,000
Total liabilities	13,861,505	13,967,588
 Net assets		
Unrestricted	5,301,261	5,662,111
Temporarily restricted	5,989,046	8,353,134
Permanently restricted	7,150,600	7,146,600
Total net assets	18,440,907	21,161,845
Total liabilities and net assets	\$ 32,302,412	\$ 35,129,433

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
Other				
Special events	2,048,805	-	-	2,048,805
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 gains, 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 Statement of Activities and Changes in Net Assets

<i>Year Ended December 31, 2013</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total
Revenue, gains and other support				
Contributions and donations				
Foundations and corporations	\$ 593,454	\$ 10,004,660	\$ 40,000	\$ 10,638,114
Individuals	1,608,164	-	-	1,608,164
Organizations and groups	131,548	-	-	131,548
Contributed services	182,604	-	-	182,604
Other				
Special events	3,378,982	-	-	3,378,982
Training and Haley Farm fees	2,571,032	-	-	2,571,032
Government contracts and grants	2,903,513	-	-	2,903,513
Service contracts	621,369	-	-	621,369
Rental income	387,938	-	-	387,938
Miscellaneous	277,960	-	-	277,960
Investment income				
Endowment				
Interest and dividends	211,650	131,214	-	342,864
Realized and unrealized losses, net of management fees	(18,329)	(11,362)	-	(29,691)
Net assets released from restrictions	8,033,301	(8,033,301)	-	-
Total revenue, gains and other support	20,883,186	2,091,211	40,000	23,014,397
Expenses				
Program services				
Leadership development and state and community capacity building	17,277,036	-	-	17,277,036
Policy and program development and implementation	1,321,631	-	-	1,321,631
Public education, media campaigns, internet outreach and publications	1,581,446	-	-	1,581,446
Total program services	20,180,113	-	-	20,180,113
Supporting services				
General and administrative	2,458,761	-	-	2,458,761
Fundraising	886,708	-	-	886,708
Total supporting services	3,345,469	-	-	3,345,469
Total expenses	23,525,582	-	-	23,525,582
Change in net assets	(2,642,396)	2,091,211	40,000	(511,185)
Beginning net assets	8,304,507	6,261,923	7,106,600	21,673,030
Ending net assets	\$ 5,662,111	\$ 8,353,134	\$ 7,146,600	\$ 21,161,845

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>	2014	2013
Cash flows from operating activities		
Change in net assets	\$ (2,720,938)	\$ (511,185)
Adjustment to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	733,450	714,670
Realized and unrealized gains on investments	(131,357)	(165,840)
Donated securities	-	(80,533)
Gifts-in-kind	(174,297)	-
Amortization of bond issuance costs	5,747	-
Discount on pledges receivable	(12,656)	15,070
Contribution restricted for permanent endowment	(4,000)	(40,000)
Change in assets and liabilities		
Pledges receivable	985,484	(1,110,182)
Government contracts and grants receivable	(88,493)	(94,163)
Other assets	(350,012)	11,179
Accounts payable and accrued expenses	(321,675)	(122,315)
Net cash used by operating activities	(2,078,747)	(1,383,299)
Cash flows from investing activities		
Proceeds from sales of investments	26,776,946	17,086,226
Purchases of investments	(23,848,886)	(15,154,778)
Purchases of property and equipment	(468,484)	(57,993)
Net cash provided from investing activities	2,459,576	1,873,455
Cash flows from financing activities		
Contribution restricted for permanent endowment	4,000	40,000
Proceeds from line of credit	7,500,000	-
Repayment on line of credit	(7,500,000)	-
Restricted cash deposited with trustee	(308,000)	-
Payments for bond issuance costs	(431,023)	-
Proceeds from issuance of bonds	4,900,000	-
Principal payments and retirement on bonds payable	(4,684,408)	(395,000)
Net cash used by financing activities	(519,431)	(355,000)
Change in cash and cash equivalents	(138,602)	135,156
Cash and cash equivalents, beginning of year	2,271,711	2,136,555
Cash and cash equivalents, end of year	\$ 2,133,109	\$ 2,271,711
Supplemental cash flows information		
Actual cash payments of interest	\$ 95,620	\$ 124,324

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

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- 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 2014 and 2013.

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, 2014 and 2013, 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).

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:

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

Notes to Consolidated Financial Statements

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, 2014 and 2013.

Pledges receivable: Pledges receivable represent unconditional promises to give and are recorded in the consolidated financial statements at the time the promises are 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, 2014 and 2013. 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, 2014 and 2013. 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, 2014 and 2013, management fully expects to collect all balances and therefore no allowance for doubtful accounts is deemed necessary.

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 of \$308,000 was established with a third-party trustee to be utilized for any bond payment deficiencies.

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

Notes to Consolidated Financial Statements

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 \$5,747 and \$0 as of December 31, 2014 and 2013, 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 evaluates the carrying value of its long-lived assets held for use for impairment 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 its assets cost basis to its fair value.

At December 31, 2014 and 2013, 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 either 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. 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 not regularly conducted. Special events, training and Haley Farm fees, and miscellaneous revenue are recognized when the services are performed or the event is held.

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.

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.

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

Notes to Consolidated Financial Statements

Advertising expenses: CDF expenses advertising costs as incurred. Advertising expenses for the years ended December 31, 2014 and 2013 were \$101,682 and \$115,497, respectively.

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

Freedom Schools: This program provides summer and after-school enrichment through a research-based and multicultural curriculum that supports children and families.

Beat the Odds Scholarship and Leadership Development: For more than 20 years, the Children's Defense Fund has honored outstanding high school students with our *Beat the Odds* college scholarship and leadership training program.

Young Advocate Leadership Training (YALT): CDF believes that the next great movement for children will have to be led by the next generation of servant leaders. YALT is an action-oriented training series for young leaders to empower them at the national, state, and local level to take action for justice and social progress on behalf of children.

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

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

Notes to Consolidated Financial Statements

Public Education, Media Campaigns, Internet Outreach and Publications expenses are related to external communications and publications. Some of the major campaigns in this area include:

Cradle to Prison Pipeline campaign seeks to replace the pipeline that sends children to prison with a pipeline to college, work, and successful adulthood.

Be Careful What You Cut campaign makes the economic case that cutting children from the budget now will cost all of us later.

All Healthy Children campaign seeks to ensure that 95 percent of all children will have access to health care under the Affordable Care Act.

Protect Children, Not Guns campaign seeks to educate the public and policy makers about children injured or killed by guns and to support common sense gun safety laws.

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, 2014 and 2013, 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 2011 through the current year remain open for examination by tax authorities.

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

Notes to Consolidated Financial Statements

Subsequent events: Management has evaluated subsequent events for disclosure in the consolidated financial statements through July 2, 2015, which is the date the consolidated financial statements were available to be issued.

New accounting standard adopted during 2014: In October 2012 the Financial Accounting Standards Board issued Accounting Standards Update 2012-05 (“ASU 2012-05”) Statement of Cash Flows (Topic 230): *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. ASU 2012-05 requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets that upon receipt were converted nearly immediately into cash consistently with cash donations in the Consolidated Statement of Cash Flows. Accordingly, cash receipts from the sale of donated securities with no donor-imposed restrictions should be 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 should be classified as financing activities. Otherwise, receipts from the sale of donated financial assets should be classified as cash flows from investing activities. This ASU is effective prospectively for fiscal years beginning after June 15, 2013. Retrospective application and early application are permitted, but not required.

The Organization has elected to adopt ASU 2012-05 prospectively for the year ended December 31, 2014. The adoption resulted in an increase in net cash flows from operating activities of \$157,642 with a corresponding reduction to net cash flows from investing activities for the year ended December 31, 2014.

2. Investments

Investments as of December 31 consist of the following:

	<u>2014</u>	<u>2013</u>
Mutual funds:		
Money market funds	\$ 143,154	\$ 85,033
Short-term bonds	6,438,598	6,518,157
Intermediate-term bonds	2,241,275	1,212,837
Inflation-protected bonds	217,354	219,536
Nontraditional bonds	3,498,739	2,521,614
Bank loans	783,188	1,721,160
High yield bonds	260,722	163,522
Emerging markets bonds	130,146	79,923
World bonds	347,134	216,131
Intermediate governments	1,129,152	693,944
Hedge fund	-	4,236,772
Real estate investment trust fund	564,349	898,019
Stocks	18,015	1,881
Total endowment investments	\$ 15,771,826	\$ 18,568,529

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

Notes to Consolidated Financial Statements

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

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

December 31, 2013	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 211,650	\$ 131,214	\$ 342,864
Net realized and unrealized gains	102,373	63,467	165,840
Management fees	(120,702)	(74,829)	(195,531)
Total investment income	\$ 193,321	\$ 119,852	\$ 313,173

For the year ended December 31, 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 \$10,837,067 at December 31, 2014.

For the year ended December 31, 2013, in conjunction with a line of credit with BB&T, BB&T had a security interest (see Note 7) in the investment account, which had a balance of \$10,647,276 at December 31, 2013.

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

Notes to Consolidated Financial Statements

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

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

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

Notes to Consolidated Financial Statements

December 31, 2013	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Mutual funds:				
Money market	\$ 85,033	\$ 85,033	\$ -	\$ -
Short term bond	6,518,157	6,518,157	-	-
Intermediate term bond	1,212,837	1,212,837	-	-
Inflation protected bond	219,536	219,536	-	-
Nontraditional bond	2,521,614	2,521,614	-	-
Bank loan	1,721,160	1,721,160	-	-
High yield bond	163,522	163,522	-	-
Emerging markets bond	79,923	79,923	-	-
World bond	216,131	216,131	-	-
Intermediate government	693,944	693,944	-	-
Stocks	1,881	1,881	-	-
Hedge fund	4,236,772	-	-	4,236,772
Real estate investment trust fund	898,019	-	-	898,019
Total	\$ 18,568,529	\$ 13,433,738	\$ -	\$ 5,134,791

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, 2014 and 2013. 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, 2014 and 2013. 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, 2014 and 2013.

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 is the gradual and consistent appreciation of assets through the speculative trading of commodity interest contracts and securities. The success of the fund depends largely on anticipation of market trends and effective purchase and sale of commodity interest contracts and securities accordingly. The portfolio includes 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 consist of securities that are valued based on quoted market prices or other observable inputs. The value of the underlying investments is determined by the investment manager's general valuation policies. Depending on the instrument being valued, the investment manager's valuation policies include 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, may 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 is given at least 60 days prior to the requested redemption date or at another date as the investment manager may determine 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. CDF's undistributed balance is included in Other Assets as a receivable on the Consolidated Statement of Financial Position as of December 31, 2014.

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. 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.

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, 2014, 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, 2014, CDF has made all payments in accordance with the terms of the agreement. CDF anticipates contributions required in 2015 will be approximately \$40,000.

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, 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

December 31, 2013	Hedge Fund	Real Estate Investment Trust Fund	Total
Beginning balance	\$ 3,849,082	\$ 1,030,635	\$ 4,879,717
Realized gains	-	55,528	55,528
Unrealized gains	548,582	27,526	576,108
Purchases	970	1,453	2,423
Sales	-	(199,235)	(199,235)
Management fees	(161,862)	(17,888)	(179,750)
Ending balance	\$ 4,236,772	\$ 898,019	\$ 5,134,791

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, 2014 and 2013.

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	2014	2013
Total realized gain (loss) included in change in net assets	\$ 247,344	\$ (37,833)
Change in unrealized (loss) gain relating to assets still held at December 31	(117,898)	203,673
Management fees	(173,499)	(195,531)
Total investment loss	\$ (44,053)	\$ (29,691)

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:

	2014	2013
Due in less than one year	\$ 1,731,298	\$ 3,390,783
Due in one to five years	1,773,503	1,099,502
Total pledges receivable	3,504,801	4,490,285
Less: Discounts on pledges receivable	(15,758)	(28,414)
Total pledges receivable, net	\$ 3,489,043	\$ 4,461,871

Concentration of pledges receivable and foundation revenue: One of the receivables as of December 31, 2014 and 2013 included in CDF's pledges receivable in the accompanying Consolidated Statements of Financial Position comprise 64% and 50% of the amounts, respectively. Total foundations and corporation revenue for the years ended December 31, 2014 and 2013 in the accompanying Consolidated Statements of Activities and Changes in Net Assets includes one grantor constituting 13% and two grantors consisting of 47% of the amounts, respectively.

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

	Headquarters and State and		
December 31, 2014	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	(10,135,572)	(2,126,426)	(12,261,998)
Net property and equipment	\$ 5,875,544	\$ 3,268,130	\$ 9,143,674

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

Notes to Consolidated Financial Statements

December 31, 2013	Headquarters and State and Local Offices	Haley Farm	Total
Land	\$ 2,015,788	\$ 592,874	\$ 2,608,662
Buildings and improvements	13,139,350	5,185,845	18,325,195
Furniture, equipment and software	4,544,955	737,048	5,282,003
Total property and equipment	19,700,093	6,515,767	26,215,860
Less: Accumulated depreciation	(13,891,835)	(3,089,682)	(16,981,517)
Net property and equipment	\$ 5,808,258	\$ 3,426,084	\$ 9,234,343

Depreciation and amortization expense for the years ended December 31, 2014 and 2013 was \$733,450 and \$714,670, respectively.

7. Lines of credit In March 2014, CDF entered into a new 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 new line of credit is secured by a portion of CDF's investments, totaling \$10,837,067 as of December 31, 2014, and accrues interest at the variable rate of 1.00% plus the 1-month LIBOR rate, which totaled 1.17% as of December 31, 2014. 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, 2014 was \$7,500,000.

In May 2012, CDF entered into a \$7.5 million line of credit agreement with BB&T, primarily for working capital needs. The line of credit was secured by a portion of CDF's investments, totaling \$10,647,276 as of December 31, 2013. During the term of the line of credit the outstanding balance was not to exceed 85% of the above mentioned investment balance. Borrowings accrued interest at an average rate of 1.56% at December 31, 2013. Monthly payments consisted of accrued interest only. In July 2013, the line of credit agreement was amended to mature in May 2015. At that time principal and interest would be due in full. CDF was compliant with all covenants related to the line of credit as of December 31, 2013. In connection with entering the line of credit arrangement with Morgan Stanley in March 2014, CDF closed the BB&T line of credit and financed repayment through the new line of credit with Morgan Stanley. The outstanding balance on the line of credit at December 31, 2013 was \$7,500,000.

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

Notes to Consolidated Financial Statements

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, DC headquarters building. As of December 31, 2014, \$4,900,000 of the available bonds had been purchased by EagleBank. Funds from the issuance of these new bonds repaid the \$4,230,000 remaining balance on prior variable rate demand bonds which were originally issued in April 1997. The following classes of bonds were issued:

\$3,800,000 of District of Columbia Tax-Exempt Refunding Revenue Bonds Series 2014A (Series 2014A Bonds), requiring fixed payments of \$19,125 per month through their maturity on September 1, 2039. Fixed interest at the annual rate of 3.5% is paid on the bonds, which may be called every 5 years at the discretion of EagleBank. As of December 31, 2014, \$3,768,059 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, 2014, \$1,092,533 is outstanding on the Series 2014B Bonds.

Land, building, furniture, equipment and improvements at the Washington, DC 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 new 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, 2014, CDF is compliant with all covenants related to the debt except for the timely filing of audited financial statements. CDF subsequently received a waiver from EagleBank for the noncompliance of this covenant.

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

Notes to Consolidated Financial Statements

In April 1997, CDF issued variable rate demand bonds (the bonds) in the amount of \$9,000,000, as follows:

\$7,500,000 of Tax-exempt Variable Rate Demand Bonds issued through the District of Columbia which provided for scheduled principal payments every April 1 commencing in 1998 in the amount of \$150,000, increasing to a final scheduled payment of \$510,000 in 2022.

\$1,500,000 of Taxable Variable Rate Demand Bonds which provided for scheduled principal payments on April 1, commencing in 1998 in the scheduled amount of \$30,000, increasing to a final scheduled payment of \$120,000 in 2022.

Interest rates on those bonds were determined weekly by a remarketing agent based on prevailing financial market conditions for bonds with comparable maturity dates. The interest rates at December 31, 2013 for the tax-exempt and taxable bonds were .14% and .22%, respectively.

Land, building, furniture, equipment and improvements at CDF's Washington, DC headquarters were pledged as collateral. In order to provide enhanced security and liquidity for the remarketing of the bonds, CDF entered into letters of credit with Wells Fargo Bank. Under the terms of the letters of credit, Wells Fargo Bank was obligated to lend funds to CDF in amounts sufficient to pay the purchase price of any bonds tendered. Those agreements contained financial covenants and were subject to periodic review by Wells Fargo Bank. As of December 31, 2013, CDF was compliant with all letter of credit financial covenant requirements except for the timely filing of audited financial statements and related compliance certification with the bank. CDF subsequently received a waiver from Wells Fargo Bank for the noncompliance of these covenants.

In connection with CDF's refinancing, CDF repaid the \$4,230,000 balance of the 1997 bonds in September 2014 with proceeds from the Series 2014A Bonds and Series 2014B Bonds purchased by EagleBank.

Bond interest expense for the years ended December 31, 2014 and 2013 was \$68,533 and \$7,681, respectively.

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

Notes to Consolidated Financial Statements

As of December 31, 2014, the aggregate scheduled principal maturities on the bonds over the next five years and thereafter are as follows:

Year ending December 31	Amount
2015	\$ 119,855
2016	124,019
2017	129,388
2018	134,453
2019	139,722
Thereafter	4,213,155
Total	\$ 4,860,592

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

	2014	2013
Operating		
Leadership development and state and community capacity building	\$ 3,557,011	\$ 5,125,041
Policy and program development and implementation	1,892,119	2,831,791
Time restricted for use in future periods	539,916	196,460
Total operating	5,989,046	8,153,292
Endowment		
Leadership development and state and community capacity building	-	106,659
Publication of "The State of America's Children"	-	93,183
Total endowment	-	199,842
Total temporarily restricted net assets	\$ 5,989,046	\$ 8,353,134

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

	2014	2013
Endowment		
Leadership development and state and community capacity building	\$ 4,650,600	\$ 4,646,600
Publication of "The State of America's Children"	2,500,000	2,500,000
Total permanently restricted net assets	\$ 7,150,600	\$ 7,146,600

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

Notes to Consolidated Financial Statements

10. Releases from restrictions	Releases from restrictions were as follows for the years ended December 31:	
	2014	2013
Leadership development and state and community capacity building	\$ 6,048,240	\$ 6,460,916
Policy and program development and implementation	1,159,660	1,441,572
Time and other	196,460	130,813
Endowment policy and program development and implementation	211,171	-
Endowment public education, media campaigns, internet outreach and publications	149,375	-
Total releases from restrictions	\$ 7,764,906	\$ 8,033,301

11. Endowment funds 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.

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.

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

Notes to Consolidated Financial Statements

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, 2014	Board Designated 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

December 31, 2013	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 13,067,014	\$ 79,990	\$ 7,106,600	\$ 20,253,604
Additions	1,150	-	40,000	41,150
Investment income	193,321	119,852	-	313,173
Appropriation of endowment assets for expenditure	(2,039,398)	-	-	(2,039,398)
Endowment net assets, end of year	\$ 11,222,087	\$ 199,842	\$ 7,146,600	\$ 18,568,529

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, 2014 and 2013 is \$7,150,600 and \$7,146,600, respectively.

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

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

Notes to Consolidated Financial Statements

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.

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 \$383,473 and \$369,941 for the years ended December 31, 2014 and 2013, respectively.

13. Operating leases

CDF is obligated under various noncancelable 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, 2014 and 2013 was \$552,168 and \$569,717, respectively. Future minimum lease payments are as follows:

Year Ending December 31	Offices	Sublease	Total
2015	\$ 492,196	\$ (39,018)	\$ 453,178
2016	403,604	-	403,604
2017	362,486	-	362,486
2018	122,483	-	122,483
Total minimum lease payments	\$1,380,769	\$ (39,018)	\$ 1,341,751

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

Notes to Consolidated Financial Statements

- 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
2015	\$ 406,554
2016	263,368
2017	251,625
2018	173,549
2019	178,322
Thereafter	962,997
Total minimum rents due	\$ 2,236,415

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 2014 and 2013, the total paid to this organization for consulting services was \$57,580 and \$83,171, 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. Additional office space for the expansion of the Freedom Schools program in Marlboro County was acquired in 2012 from a family member of CDF's Founder at a cost of \$150,000. This transaction occurred in October 2012, but ownership did not pass hands until 2013.

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

Notes to Consolidated Financial Statements

16. Financial condition

These financial statements are prepared on a going concern basis as shown in the accompanying consolidated financial statements. CDF experienced a decrease of net assets of approximately \$2,721,000 in 2014 as a result of significant decline in contributions of approximately \$2,597,000 from the prior year along with other revenue reductions of approximately \$558,000. Although CDF reduced program service expenses and support service expenses by approximately \$668,000 and \$235,000, respectively, CDF's total expense reduction of approximately \$904,000 was not enough to offset the decreased revenue.

In 2015, management is prioritizing increasing unrestricted fundraising efforts by re-engaging lapsed donors and executing direct mail campaign initiatives using internal staff and board member networks and connections. CDF entered into a search process for a Chief Development Officer whose primary focus will be to restructure the development team and introduce new fundraising strategies. CDF is seeking increased federal and foundation grant funding by adding capacity to grant proposal writing. CDF continues to be engaged with real estate consultants to explore all options to maximize the value of its real property, which is appraised significantly above its book value. CDF is introducing new financial system improvements to enhance financial and operational oversight with the goal of improving operational efficiency. Management believes that these combined steps will allow the organization to fund future operations.



Independent Auditor's Report on Supplementary Information

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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, 2014 and 2013, and our report thereon dated July 2, 2015, which expressed an unmodified opinion on those 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 audit 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
July 2, 2015

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	2,662,272	87,172	75,728	2,825,172	34,984	91,116	126,100	2,951,272
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	34,924	161,139	49,458	6,138	55,596	216,735
Occupancy	760,263	148,138	118,023	1,026,424	135,581	97,027	232,608	1,259,032
Travel	1,681,059	43,294	18,551	1,742,904	2,780	7,033	9,813	1,752,717
Conferences and conventions	707,952	8,514	-	716,466	1,902	26	1,928	718,394
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	-	62,401	124,566	-	-	-	124,566
Miscellaneous expenses	92,345	5,448	10,211	108,004	26,781	58,273	85,054	193,058
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.

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

Consolidated Schedule of Functional Expenses

Year Ended December 31, 2013

	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.	\$ 1,456,322	\$ 177,822	\$ -	\$ 1,634,144	\$ -	\$ -	\$ -	\$ 1,634,144
Grants to individuals in U.S.	240,223	-	-	240,223	-	-	-	240,223
Compensation and wages	5,745,086	603,181	814,523	7,162,790	1,047,857	352,788	1,400,645	8,563,435
Pension plan contributions	216,125	22,691	30,642	269,458	39,419	13,272	52,691	322,149
Other employee benefits	630,891	66,238	89,446	786,575	115,069	38,741	153,810	940,385
Payroll taxes	450,328	47,280	63,846	561,454	82,136	27,653	109,789	671,243
Consulting fees	1,997,222	23,675	44,450	2,065,347	77,561	121,124	198,685	2,264,032
Legal fees	14,375	129,000	-	143,375	41,814	-	41,814	185,189
Accounting fees	-	-	-	-	157,119	-	157,119	157,119
Advertising and promotion	40,546	-	42,514	83,060	1,868	30,569	32,437	115,497
Office expenses	376,445	39,523	53,371	469,339	68,660	23,116	91,776	561,115
Information technology	99,466	-	3,466	102,932	70,806	6,319	77,125	180,057
Occupancy	857,083	89,986	121,515	1,068,584	156,325	52,631	208,956	1,277,540
Travel	1,806,504	19,885	8,805	1,835,194	71,037	53,013	124,050	1,959,244
Conferences and conventions	1,105,432	23,587	3,432	1,132,451	15,561	85,933	101,494	1,233,945
Interest	-	-	-	-	176,778	-	176,778	176,778
Depreciation and amortization	479,462	50,339	67,977	597,778	87,450	29,442	116,892	714,670
Insurance	2,878	-	513	3,391	141,535	-	141,535	144,926
Printing and publication	1,520,751	25,756	93,834	1,640,341	27,583	18,334	45,917	1,686,258
Training	-	-	118,452	118,452	-	-	-	118,452
Miscellaneous expenses	237,897	2,668	24,660	265,225	80,183	33,773	113,956	379,181
Total expenses	\$ 17,277,036	\$ 1,321,631	\$ 1,581,446	\$ 20,180,113	\$ 2,458,761	\$ 886,708	\$ 3,345,469	\$ 23,525,582

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