

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

**AUDITED CONSOLIDATED
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

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Independent Auditor's Report

Board of Directors
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We have audited the accompanying Consolidated Statements of Financial Position of **Children's Defense Fund and Children's Defense Fund Action Council** (collectively **CDF**, a nonprofit organization) as of December 31, 2010 and 2009, and the related Consolidated Statements of Activities and Changes in Net Assets and Cash Flows for the years then ended. These financial statements are the responsibility of **CDF's** management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of **CDF's** internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **CDF** as of December 31, 2010 and 2009, and the consolidated changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 2, the financial statements include investments valued at approximately \$5,676,000 and \$5,616,000 (18.1% and 17.9% of net assets) at December 31, 2010 and 2009, 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.

Rockville, Maryland
June 7, 2011

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

Consolidated Statements of Financial Position

<i>December 31,</i>	2010	2009
Assets		
Cash and cash equivalents	\$ 333,603	\$ 1,838,365
Investments	20,095,190	19,713,641
Pledges receivable, net	8,778,896	7,276,637
Property and equipment, net	11,212,980	11,999,308
Other assets	989,457	949,333
Total assets	\$ 41,410,126	\$ 41,777,284
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,710,060	\$ 2,484,184
Line of credit	2,500,000	1,900,000
Bonds payable	5,770,000	6,105,000
Total liabilities	9,980,060	10,489,184
Net assets		
Unrestricted		
Children's Defense Fund	5,477,370	7,868,202
Children's Defense Fund Action Council	4,147,942	1,559,269
Total unrestricted	9,625,312	9,427,471
Temporarily restricted	14,698,154	14,754,029
Permanently restricted	7,106,600	7,106,600
Total net assets	31,430,066	31,288,100
Total liabilities and net assets	\$ 41,410,126	\$ 41,777,284

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, 2010</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total
Revenue, gains and other support				
Contributions and donations				
Foundations and corporations	\$ 627,958	\$ 13,025,923	\$ -	\$ 13,653,881
Individuals	2,033,118	-	-	2,033,118
Organizations and groups	620,006	-	-	620,006
Other				
Sales of publications and merchandise	82,529	-	-	82,529
Special events	2,243,428	-	-	2,243,428
Training fees	1,837,925	-	-	1,837,925
Haley Farm fees	35,578	-	-	35,578
Miscellaneous	356,416	-	-	356,416
Investment income				
Endowment				
Interest and dividends	345,537	188,523	-	534,060
Realized and unrealized gains, net of management fees	183,832	100,298	-	284,130
Operating interest and dividends	1,254	-	-	1,254
Net assets released from restrictions	13,370,619	(13,370,619)	-	-
Total revenue, gains and other support	21,738,200	(55,875)	-	21,682,325
Expenses				
Program services				
Leadership development and state and community capacity building	15,332,437	-	-	15,332,437
Policy and program development and implementation	1,289,389	-	-	1,289,389
Public education, media campaigns, internet outreach and publications	825,681	-	-	825,681
Total program services	17,447,507	-	-	17,447,507
Supporting services				
General and administrative	2,850,691	-	-	2,850,691
Fundraising	1,242,161	-	-	1,242,161
Total supporting services	4,092,852	-	-	4,092,852
Total expenses	21,540,359	-	-	21,540,359
Change in net assets	197,841	(55,875)	-	141,966
Beginning net assets	9,427,471	14,754,029	7,106,600	31,288,100
Ending net assets	\$ 9,625,312	\$ 14,698,154	\$ 7,106,600	\$ 31,430,066

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, 2009</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total
Revenue, gains and other support				
Contributions and donations				
Foundations and corporations	\$ 2,433,480	\$ 11,972,803	\$ -	\$ 14,406,283
Individuals	2,534,405	-	-	2,534,405
Organizations and groups	351,538	-	-	351,538
Other				
Sales of publications and merchandise	125,764	-	-	125,764
Special events	995,416	-	-	995,416
Training fees	1,559,331	-	-	1,559,331
Haley Farm fees	17,925	-	-	17,925
Miscellaneous	727,819	-	-	727,819
Investment income (loss)				
Endowment				
Interest and dividends	231,150	135,907	-	367,057
Realized and unrealized gains, net of management fees	(16,705)	(14,565)	-	(31,270)
Operating	10,462	-	-	10,462
Net assets released from restrictions	19,890,346	(19,890,346)	-	-
Total revenue, gains and other support	28,860,931	(7,796,201)	-	21,064,730
Expenses				
Program services				
Leadership development and state and community capacity building	21,282,887	-	-	21,282,887
Policy and program development and implementation	1,699,751	-	-	1,699,751
Public education, media campaigns, internet outreach and publications	873,162	-	-	873,162
Total program services	23,855,800	-	-	23,855,800
Supporting services				
General and administrative	3,752,587	-	-	3,752,587
Fundraising	1,503,732	-	-	1,503,732
Total supporting services	5,256,319	-	-	5,256,319
Total expenses	29,112,119	-	-	29,112,119
Change in net assets	(251,188)	(7,796,201)	-	(8,047,389)
Beginning net assets	9,678,659	22,550,230	7,106,600	39,335,489
Ending net assets	\$ 9,427,471	\$ 14,754,029	\$ 7,106,600	\$ 31,288,100

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>	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 141,966	\$ (8,047,389)
Adjustment to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	902,356	973,257
Realized and unrealized gains on investments	(485,016)	(124,030)
Donated securities	(29,921)	(41,716)
(Recovery) provision for doubtful accounts	(160,869)	249,495
Discount on pledges receivable	(80,973)	(11,021)
Change in assets and liabilities		
Pledges receivable	(1,295,352)	1,411,316
Other assets	(5,189)	(48,531)
Accounts payable and accrued expenses	(774,124)	536,650
Net cash used by operating activities	(1,787,122)	(5,101,969)
Cash flows from investing activities		
Proceeds from sales of investments	823,464	7,632,696
Purchases of investments	(690,076)	(7,734,199)
Purchases of property and equipment	(116,028)	(516,441)
Net cash provided (used) by investing activities	17,360	(617,944)
Cash flows from financing activities		
Proceeds from line of credit	600,000	1,900,000
Principal payments on bonds payable	(335,000)	(315,000)
Net cash provided by financing activities	265,000	1,585,000
Decrease in cash and cash equivalents	(1,504,762)	(4,134,913)
Cash and cash equivalents, beginning of year	1,838,365	5,973,278
Cash and cash equivalents, end of year	\$ 333,603	\$ 1,838,365
Supplemental cash flows information		
Actual cash payments of interest	\$ 18,152	\$ 37,902

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

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

Notes to Consolidated Financial Statements

1. Organization and significant accounting policies

Organization: The Children's Defense Fund is a private, nonprofit corporation that began in 1973. The Children's Defense Fund 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 provides a strong, effective and independent voice for *all* the children of America who cannot vote, lobby or speak for themselves. They pay 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 and individual donations.

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 of the Children's Defense Fund Action Council.

Basis of consolidation: The consolidated financial statements include the accounts of the Children's Defense Fund and the Children's Defense Fund Action Council (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.

Cash and cash equivalents: CDF considers demand deposits, money market funds and commercial paper with original maturities of three months or less as cash and cash equivalents. Uninvested cash held in certain endowment investment accounts are considered investments 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.

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

Notes to Consolidated Financial Statements

1. Organization and significant accounting policies (continued)

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 have been estimated by management in the absence of readily determinable fair values. Management's estimates are based primarily on information provided by the investment 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.

Gains and losses on investments, including changes in fair value, are reported in the 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).

For the year ended December 31, 2010, in conjunction with the line of credit, the bank has a continuing security interest in the endowment money market funds account, which had a balance of \$7,573,059 at December 31, 2010.

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

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

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

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

In the case of multiple inputs being used in the fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

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

Notes to Consolidated Financial Statements

1. Organization and significant accounting policies (continued)

Pledges receivable: Pledges receivable represent unconditional promises to give and are recorded in the financial statements at the time the promises are made. Pledges receivable, less an appropriate allowance, are recorded at their estimated fair value. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience. Amounts due in excess of one year are discounted using the credit adjusted cash flow discounted at the risk-free rate ranging from 1.35% to 4.75% and 3.16% to 4.75% for the years ended December 31, 2010 and 2009, respectively. Amortization of the discount is included in contribution revenue.

Property and equipment: Property and equipment over \$1,000 are stated at cost 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

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 gifts and other assets whose use is limited by donor-imposed stipulations. These restrictions are temporary in that they either expire by the passage of time or by the fulfillment of certain actions of CDF pursuant to those stipulations.

Permanently restricted net assets represent gifts of cash and other assets 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.

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 investment committee and approved by the Board of Directors.

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

Notes to Consolidated Financial Statements

1. Organization and significant accounting policies (continued)

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. Conditional promises to give are not included as support until the conditions are substantially met.

Revenue from sales of publications and merchandise are recognized at the point of sale. Special events are activities not regularly carried on. Special events, training fees, Haley Farm fees, and miscellaneous revenue is recognized when the services are performed.

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.

Program services definitions: Leadership Development and State and Community Capacity Building expenses relate to child advocacy services to children and public education, technical assistance and information on children's needs and solutions to religious congregations, local leaders, service providers, child advocates, and others.

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

Public Education, Media Campaigns, Internet Outreach and Publications expenses are related to external communications and publications.

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.

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

Notes to Consolidated Financial Statements

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 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.

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 and is recognized in CDF's financial statements. To the extent that CDF's estimates change or the final tax outcome of these matters is different than the amounts that have been recorded, such differences will impact the financial statements of CDF when such determinations are made. As of December 31, 2010 and 2009, 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 2007 through the current year remain open for examination by tax authorities.

Reclassifications: Certain 2009 balances have been reclassified to conform with the 2010 presentation.

Subsequent events: Management has evaluated subsequent events for disclosure in the financial statements through June 7, 2011, which is the date the financial statements were available to be issued.

2. Investments

Investments as of December 31 consist of the following:

	2010	2009
Endowment		
Hedge fund	\$ 4,519,439	\$ 4,439,536
Real estate investment trust fund	1,156,171	1,176,298
U.S. bond funds	6,842,896	5,065,269
Money market funds	7,576,684	7,559,421
Total endowment	20,095,190	18,240,524
Operating		
Common stocks	-	68,802
U.S. bond funds	-	1,320,000
Money market funds	-	84,315
Total investments	\$ 20,095,190	\$ 19,713,641

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

Notes to Consolidated Financial Statements

2. Investments (continued)

The hedge fund and real estate investment trust fund in which CDF invests consist of domestic and foreign securities, including stocks, bonds, currencies, futures contracts, forward contracts, options, swaps, real estate and other commodity interests, as well as securities and options contracts sold short, but not yet purchased. CDF has invested in these alternative investments for the purpose of diversifying investment risk. The underlying investments of the hedge fund consist of securities that are valued based on quoted market prices or other observable inputs. The underlying assets of the real estate investment trust fund consist primarily of investments in other domestic real estate funds that invest in real estate assets or natural resources that do not have readily determinable fair values.

Net investment income consists of the following for the years ended December 31:

	Unrestricted	Temporarily Restricted	Total
2010			
Interest and dividends	\$ 345,537	\$ 188,523	\$ 534,060
Net realized and unrealized gains	313,805	171,211	485,016
Management fees	(129,973)	(70,913)	(200,886)
Operating	1,254	-	1,254
Total investment income	\$ 530,623	\$ 288,821	\$ 819,444
2009			
Interest and dividends	\$ 231,150	\$ 135,907	\$ 367,057
Net realized and unrealized gains	82,687	41,343	124,030
Management fees	(99,392)	(55,908)	(155,300)
Operating	10,462	-	10,462
Total investment income	\$ 224,907	\$ 121,342	\$ 346,249

3. Fair value of investments

Fair Value Measurements at December 31 Using:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant unobservable inputs (Level 3)
2010			
Money market funds	\$ 7,576,684	\$ 7,576,684	\$ -
Hedge fund	4,519,439	-	4,519,439
Real estate investment trust fund	1,156,171	-	1,156,171
U.S. bond funds	6,842,896	6,842,896	-
Total	\$ 20,095,190	\$ 14,419,580	\$ 5,675,610

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

Notes to Consolidated Financial Statements

3. Fair value of investments (continued) **Fair Value Measurements at December 31 Using:**

2009	Total	Quoted prices in active markets for identical assets (Level 1)	Significant unobservable inputs (Level 3)
Common stocks	\$ 68,802	\$ 68,802	\$ -
Money market funds	7,643,736	7,643,736	-
Hedge fund	4,439,536	-	4,439,536
Real estate investment trust fund	1,176,298	-	1,176,298
U.S. bond funds	6,385,269	6,385,269	-
Total	\$ 19,713,641	\$ 14,097,807	\$ 5,615,834

A reconciliation of beginning and ending balances of investments measured with Level 3 inputs is as follows:

Year Ended December 31, 2010

	Tudor Futures	TIFF Real Estate	Total
Beginning balance	\$ 4,439,536	\$ 1,176,298	\$ 5,615,834
Total gains (realized and unrealized)	252,591	100,285	352,876
Purchases, sales, issuance, and settlements	(172,688)	(120,412)	(293,100)
Ending balance	\$ 4,519,439	\$ 1,156,171	\$ 5,675,610

Year Ended December 31, 2009

	State Street Rexiter	State Street Global	Tudor Futures	Rock Creek Group	TIFF Real Estate	Total
Beginning balance	\$1,256,669	\$ 681,763	\$4,085,980	\$1,730,304	\$1,406,785	\$9,161,501
Total gains or losses (realized and unrealized)	(97,126)	(46,087)	353,556	84,914	(389,015)	(93,758)
Purchases, sales, issuance, and settlements	(1,159,543)	(635,676)	-	(1,815,218)	158,528	(3,451,909)
Ending balance	\$ -	\$ -	\$4,439,536	\$ -	\$1,176,298	\$5,615,834

Unrealized gains (losses) related to level 3 assets held at December 31, 2010 and 2009, for the years then ended were \$232,464 and \$(35,459), respectively.

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

Notes to Consolidated Financial Statements

4. **Pledges receivable and concentration** CDF has received the following multi-year commitments as of December 31:

	2010	2009
Due in less than one year	\$ 5,606,383	\$ 5,726,466
Due in two to five years	3,337,983	1,922,548
Total pledges receivable	8,944,366	7,649,014
Less: Discounts on pledges receivable	(133,404)	(214,377)
Less: Allowance for doubtful accounts	(32,066)	(158,000)
Total pledges receivable, net	\$ 8,778,896	\$ 7,276,637

Concentration of pledges receivable and foundation revenue: Two of the receivables as of December 31, 2010 and 2009 included in CDF's pledges receivable in the accompanying Consolidated Statements of Financial Position comprise 58% and 65% of the amounts, respectively. Total foundation and corporation revenue for the years ended December 31, 2010 and 2009 in the accompanying Consolidated Statements of Activities and Changes in Net Assets includes two grantor's support constituting 51% and 42% of the amounts, respectively.

5. **Property and equipment** Property and equipment consist of the following as of December 31:

	2010		
	Headquarters and State and Local Offices	Haley Farm	Total
Land	\$ 1,995,718	\$ 592,874	\$ 2,588,592
Buildings and improvements	13,011,662	5,170,488	18,182,150
Furniture, equipment and software	4,405,050	727,225	5,132,275
Total property and equipment	19,412,430	6,490,587	25,903,017
Less: Accumulated depreciation	(12,192,731)	(2,497,306)	(14,690,037)
Net property and equipment	\$ 7,219,699	\$ 3,993,281	\$ 11,212,980

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

Notes to Consolidated Financial Statements

**5. Property and equipment
(continued)**

	2009		
	Headquarters and State and Local Offices	Haley Farm	Total
Land	\$ 1,984,718	\$ 592,874	\$ 2,577,592
Buildings and improvements	12,970,959	5,170,488	18,141,447
Furniture, equipment and software	4,356,216	711,734	5,067,950
Total property and equipment	19,311,893	6,475,096	25,786,989
Less: Accumulated depreciation	(11,443,775)	(2,343,906)	(13,787,681)
Net property and equipment	\$ 7,868,118	\$ 4,131,190	\$ 11,999,308

Depreciation expense for the years ended December 31, 2010 and 2009 was \$902,356 and \$973,257, respectively.

6. Line of credit

In September 2010, CDF entered into a \$5 million line of credit agreement with Wells Fargo Bank, primarily for working capital needs. The line of credit is secured by a portion of CDF's investments. Borrowings accrue interest at a fluctuating per annum interest rate equal to the 1-month LIBOR rate plus 2.0% (2.26% at December 31, 2010). CDF is charged a fee of .25% on the entire unused line of credit, payable monthly. During the term of the line of credit, CDF must pay down the balance to zero at least thirty consecutive days annually. Monthly payments of accrued interest only started in October 2010 and all principal and interest on the line of credit is due on June 30, 2011.

At December 31, 2009, CDF had a \$2.5 million line of credit at a rate of interest of LIBOR plus 2.0% on any outstanding balance.

The outstanding balances on the line of credit at December 31, 2010 and 2009 were \$2,500,000 and \$1,900,000, respectively.

Under the terms of the line of credit, the agreement contains certain financial covenants and is subject to periodic review by the bank. As of December 31, 2010, CDF was in compliance with all line of credit financial covenant requirements except for the covenant to deliver to the bank within 150 days of the end of the fiscal year the annual audited financial statements. CDF received a waiver from the bank dated May 27, 2011 for the noncompliance of this covenant.

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

Notes to Consolidated Financial Statements

7. Bonds payable

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/Fixed Rate Demand Bonds issued through the District of Columbia which provide 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 Taxable Variable Rate/Fixed Rate Demand Bonds which provide 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.

The interest rates at December 31, 2010 for the tax-exempt and taxable bonds were .43% and .34%, respectively. The interest rates at December 31, 2009 for the tax exempt and taxable bonds were .34% and .29%, respectively. Bond interest expense for the years ended December 31, 2010 and 2009 was \$18,152 and \$37,902 respectively.

Land, building, furniture, equipment and improvements at CDF's Washington, DC headquarters are pledged as collateral. In order to provide enhanced security and liquidity for the remarketing of the bonds, CDF has entered into letters of credit. Under the terms of the letters of credit, the bank is obligated to lend funds to CDF in amounts sufficient to pay the purchase price of any bonds tendered. These agreements contain financial covenants and are subject to periodic review by the bank. As of December 31, 2010, CDF was in compliance with all letter of credit financial covenant requirements except for the covenant to deliver to the bank within 150 days of the end of the fiscal year the annual audited financial statements. CDF received a waiver from the bank dated May 27, 2011 for the noncompliance of this covenant.

As of December 31, 2010, the aggregate scheduled principal maturities on the Bonds over the next five years and thereafter are as follows:

Year ending December 31	Amount
2011	\$ 355,000
2012	375,000
2013	395,000
2014	415,000
2015	435,000
Thereafter	3,795,000
Total	\$ 5,770,000

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

Notes to Consolidated Financial Statements

8. Restricted net assets

The consolidated temporarily restricted net assets as of December 31, 2010 and 2009, respectively, are available for the following programs or purposes:

	2010	2009
Operating		
Policy and program development and implementation	\$ 6,968,100	\$ 5,298,554
Leadership development and state and community capacity building	5,811,184	7,386,834
Time restricted for use in future periods	647,742	577,742
Total operating	13,427,026	13,263,130
Endowment		
Policy and program development and implementation	456,960	535,966
Public education, media campaigns, Internet outreach and publications	814,168	954,933
Total endowment	1,271,128	1,490,899
Total temporarily restricted net assets	\$ 14,698,154	\$ 14,754,029

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

	2010	2009
Endowment		
Leadership development and state and community capacity building	\$ 4,606,600	\$ 4,606,600
Public education, media campaigns, Internet outreach and publications	2,500,000	2,500,000
Total permanently restricted net assets	\$ 7,106,600	\$ 7,106,600

Earnings on these balances are available for use for the indicated purposes.

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

Notes to Consolidated Financial Statements

9. Releases from restrictions

Releases from restrictions were as follows for the years ended December 31:

	2010	2009
Policy and program development and implementation	\$ 7,404,753	\$ 9,415,442
Leadership development and state and community capacity building	5,457,274	10,342,822
Time and other	-	60,000
Endowment policy and program development and implementation	182,835	26,091
Endowment public education, media campaigns, Internet outreach and publications	325,757	45,991
Total releases from restrictions	\$ 13,370,619	\$ 19,890,346

10. 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 Generally Accepted Accounting Principles (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

**10. Endowment funds
(continued)**

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 for the year ended December 31, 2010 is as follows:

	<u>Board Designated Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 9,643,025	\$ 1,490,899	\$ 7,106,600	\$ 18,240,524
Additions	1,783,956	-	-	1,783,956
Investment income	529,369	288,821	-	818,190
Appropriation of endowment assets for expenditure	(238,888)	(508,592)	-	(747,480)
Endowment net assets, end of year	\$ 11,717,462	\$ 1,271,128	\$ 7,106,600	\$ 20,095,190

The change in endowment net assets for the year ended December 31, 2009 is as follows:

	<u>Board Designated Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 9,481,627	\$ 1,441,639	\$ 7,106,600	\$ 18,029,866
Investment income	214,445	121,342	-	335,787
Appropriation of endowment assets for expenditure	(53,047)	(72,082)	-	(125,129)
Endowment net assets, end of year	\$ 9,643,025	\$ 1,490,899	\$ 7,106,600	\$ 18,240,524

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

Notes to Consolidated Financial Statements

-
- 10. Endowment funds (continued)** 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, 2010 is \$7,106,600.

Spending Policy and How the Investment Objectives Relate to Spending Policy

CDF's investment policies will be based on the assumption that annual spending over the long term will approximate 5% of the trailing twelve-quarter average market value of the endowment. Because the endowment's spending is expected to equal or be less than the long-term real investment return, the real value of the endowment should be maintained over the long-term.

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 its 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. Under the investment policy, the Endowment Investment Program is to outperform, over time, the Lipper Analytical Services, Inc.'s Index of Balanced Funds and achieve total return equal to a real rate of return of more than 5%.

Strategies Employed for Achieving Objectives

The Investment 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.

- 11. 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 \$237,904 and \$233,429 for the years ended December 31, 2010 and 2009, respectively.

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

Notes to Consolidated Financial Statements

12. Leases

CDF is obligated under various noncancelable operating lease agreements for office facilities expiring at various dates through 2017. Rent expense for office space for the year ended December 31, 2010 and 2009 was \$534,800 and \$649,236, respectively. Future minimum lease payments, less rental income, are as follows:

Year Ending December 31	Payments	Income	Total
2011	\$ 491,410	\$ (211,200)	\$ 280,210
2012	484,077	(205,728)	278,349
2013	351,235	(176,517)	174,718
2014	314,163	(30,596)	283,567
2015	271,179	-	271,179
Thereafter	558,486	-	558,486
Total minimum lease payments	\$ 2,470,550	\$ (624,041)	\$ 1,846,509

13. 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 2010 and 2009, the total paid to this organization for consulting services was \$78,000 and \$303,966, 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.

14. Commitments and contingencies

CDF entered into an investment agreement on December 14, 2001 with a real estate partnership committing up to \$3 million over the life of the company through December 31, 2016. As of December 31, 2010, CDF has invested \$2,520,000. 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, 2010, CDF has made all payments in accordance with the terms of the agreement. CDF anticipates having the ability to continue capital contributions as required by the commitment.



Independent Auditor's Report on Supplementary Information

To the Board of Directors of
Children's Defense Fund and Children's Defense Fund Action Council
Washington, D.C.

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Rockville, Maryland 20850

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We have audited the consolidated financial statements of **Children's Defense Fund and Children's Defense Fund Action Council** (collectively **CDF**, a nonprofit organization) as of and for the years ended December 31, 2010 and 2009, and our report thereon dated June 7, 2011, which expressed an unqualified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedules of Functional Expenses 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.

Aronson LLC

Rockville, Maryland
June 7, 2011

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

Consolidated Schedule of Functional Expenses

Year Ended December 31, 2010

	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.	\$ 1,592,830	\$ -	\$ -	\$ 1,592,830	\$ -	\$ -	\$ -	\$ 1,592,830
Grants to individuals in U.S.	404,667	-	-	404,667	-	-	-	404,667
Compensation and wages	5,329,857	674,282	355,319	6,359,458	968,931	590,467	1,559,398	7,918,856
Pension plan contributions	160,109	20,222	10,706	191,037	29,025	17,842	46,867	237,904
Other employee benefits	685,658	86,599	45,846	818,103	124,295	76,411	200,706	1,018,809
Payroll taxes	382,249	48,278	25,559	456,086	69,293	42,598	111,891	567,977
Consulting fees	1,481,344	38,747	-	1,520,091	652,042	23,998	676,040	2,196,131
Legal fees	-	-	-	-	25,961	-	25,961	25,961
Accounting fees	-	-	-	-	130,709	-	130,709	130,709
Professional fundraising fees	-	-	-	-	-	115,915	115,915	115,915
Advertising and promotion	17,674	-	676	18,350	-	3,460	3,460	21,810
Office expenses	335,025	42,314	22,401	399,740	60,733	37,336	98,069	497,809
Information technology	155,211	19,603	10,378	185,192	28,137	17,297	45,434	230,626
Occupancy	1,231,063	155,483	82,315	1,468,861	223,165	137,191	360,356	1,829,217
Travel	798,977	35,819	4,130	838,926	143,989	3,264	147,253	986,179
Conferences and conventions	854,402	-	682	855,084	44,558	35,816	80,374	935,458
Interest	-	-	-	-	127,249	-	127,249	127,249
Depreciation and amortization	607,286	76,700	40,606	724,592	110,087	67,677	177,764	902,356
Insurance	127,107	16,054	8,499	151,660	23,041	14,165	37,206	188,866
Printing and publication	890,013	40,054	43,619	973,686	27,810	27,636	55,446	1,029,132
Training	-	-	156,292	156,292	11,096	-	11,096	167,388
Miscellaneous expenses	278,965	35,234	18,653	332,852	50,570	31,088	81,658	414,510
Total expenses	\$ 15,332,437	\$ 1,289,389	\$ 825,681	\$ 17,447,507	\$ 2,850,691	\$ 1,242,161	\$ 4,092,852	\$ 21,540,359

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, 2009

	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.	\$ 2,738,841	\$ -	\$ -	\$ 2,738,841	\$ -	\$ -	\$ -	\$ 2,738,841
Grants to individuals in U.S.	321,937	-	-	321,937	-	-	-	321,937
Compensation and wages	7,221,105	913,544	481,400	8,616,049	1,312,748	799,988	2,112,736	10,728,785
Pension plan contributions	157,097	19,842	10,505	187,444	28,479	17,506	45,985	233,429
Other employee benefits	935,711	118,181	62,566	1,116,458	169,624	104,277	273,901	1,390,359
Payroll taxes	510,674	64,498	34,146	609,318	92,573	56,910	149,483	758,801
Consulting fees	2,044,860	53,487	-	2,098,347	900,085	33,127	933,212	3,031,559
Legal fees	-	-	-	-	32,208	-	32,208	32,208
Accounting fees	-	-	-	-	113,988	-	113,988	113,988
Advertising and promotion	143,288	-	5,481	148,769	-	28,051	28,051	176,820
Office expenses	534,229	67,474	35,721	637,424	96,845	59,536	156,381	793,805
Information technology	326,198	41,199	21,811	389,208	59,134	36,352	95,486	484,694
Occupancy	898,422	113,471	60,073	1,071,966	162,864	100,121	262,985	1,334,951
Travel	1,522,831	68,270	7,872	1,598,973	274,439	6,221	280,660	1,879,633
Conferences and conventions	1,397,174	-	1,115	1,398,289	72,864	58,569	131,433	1,529,722
Interest	-	-	-	-	125,256	-	125,256	125,256
Depreciation and amortization	655,002	82,727	43,797	781,526	118,737	72,994	191,731	973,257
Insurance	129,625	16,372	8,667	154,664	23,498	14,446	37,944	192,608
Printing and publication	981,845	44,187	48,120	1,074,152	30,679	30,487	61,166	1,135,318
Training	-	-	801	801	58	-	58	859
Miscellaneous expenses	764,048	96,499	51,087	911,634	138,508	85,147	223,655	1,135,289
Total expenses	\$ 21,282,887	\$ 1,699,751	\$ 873,162	\$ 23,855,800	\$ 3,752,587	\$ 1,503,732	\$ 5,256,319	\$ 29,112,119

Refer to accompanying Independent Auditor's Report on Supplementary Information