

**CHILDREN'S DEFENSE FUND  
AND AFFILIATES**

**AUDITED CONSOLIDATED  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2011 AND 2010**

# Children's Defense Fund and Affiliates

## Table of Contents

---

	<b>Page</b>
<b>Independent Auditor's Report</b>	1
<b>Audited Consolidated Financial Statements</b>	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities and Changes in Net Assets	3 - 4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 - 21
<b>Independent Auditor's Report on Supplementary Information</b>	22
Consolidated Schedules of Functional Expenses	23 - 24



## Independent Auditor's Report

Board of Directors  
**Children's Defense Fund and Affiliates**  
Washington, D.C.

We have audited the accompanying Consolidated Statements of Financial Position of **Children's Defense Fund and Affiliates** ("CDF") as of December 31, 2011 and 2010, 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, 2011 and 2010, 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 \$6,026,000 and \$5,676,000 (23.5% and 18.1% of net assets) at December 31, 2011 and 2010, 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  
July 26, 2012

## Children's Defense Fund and Affiliates

### Consolidated Statements of Financial Position

<i>December 31,</i>	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,850,591	\$ 333,603
Investments	20,961,119	20,095,190
Pledges receivable, net	2,916,452	8,778,896
Property and equipment, net	10,428,369	11,212,980
Other assets	317,518	989,457
<b>Total assets</b>	<b>\$ 36,474,049</b>	<b>\$ 41,410,126</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,362,772	\$ 1,710,060
Line of credit	4,000,000	2,500,000
Bonds payable	5,415,000	5,770,000
<b>Total liabilities</b>	<b>10,777,772</b>	<b>9,980,060</b>
<b>Net assets</b>		
Unrestricted	9,783,266	9,625,312
Temporarily restricted	8,806,411	14,698,154
Permanently restricted	7,106,600	7,106,600
<b>Total net assets</b>	<b>25,696,277</b>	<b>31,430,066</b>
<b>Total liabilities and net assets</b>	<b>\$ 36,474,049</b>	<b>\$ 41,410,126</b>

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

## Children's Defense Fund and Affiliates

### Consolidated Statement of Activities and Changes in Net Assets

<i>Year Ended December 31, 2011</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	<b>2011 Total</b>
<b>Revenue, gains and other support</b>				
Contributions and donations				
Foundations and corporations	\$ 1,363,000	\$ 5,843,098	\$ -	\$ 7,206,098
Individuals	1,235,906	-	-	1,235,906
Organizations and groups	429,324	-	-	429,324
Other				
Special events	2,220,875	-	-	2,220,875
Training and Haley Farm fees	2,040,284	-	-	2,040,284
Federal grants	433,238	-	-	433,238
Service contracts	484,700	-	-	484,700
Rental income	247,073	-	-	247,073
Miscellaneous	250,759	-	-	250,759
Investment income				
Endowment				
Interest and dividends	242,527	124,382	-	366,909
Realized and unrealized gains, net of management fees	490,577	251,597	-	742,174
Operating interest and dividends	211	-	-	211
Net assets released from restrictions	12,110,820	(12,110,820)	-	-
<b>Total revenue, gains and other support</b>	<b>21,549,294</b>	<b>(5,891,743)</b>	<b>-</b>	<b>15,657,551</b>
<b>Expenses</b>				
Program services				
Leadership development and state and community capacity building	15,246,319	-	-	15,246,319
Policy and program development and implementation	1,454,345	-	-	1,454,345
Public education, media campaigns, internet outreach and publications	1,210,040	-	-	1,210,040
<b>Total program services</b>	<b>17,910,704</b>	<b>-</b>	<b>-</b>	<b>17,910,704</b>
Supporting services				
General and administrative	2,520,607	-	-	2,520,607
Fundraising	960,029	-	-	960,029
<b>Total supporting services</b>	<b>3,480,636</b>	<b>-</b>	<b>-</b>	<b>3,480,636</b>
<b>Total expenses</b>	<b>21,391,340</b>	<b>-</b>	<b>-</b>	<b>21,391,340</b>
<b>Change in net assets</b>	<b>157,954</b>	<b>(5,891,743)</b>	<b>-</b>	<b>(5,733,789)</b>
<b>Beginning net assets</b>	<b>9,625,312</b>	<b>14,698,154</b>	<b>7,106,600</b>	<b>31,430,066</b>
<b>Ending net assets</b>	<b>\$ 9,783,266</b>	<b>\$ 8,806,411</b>	<b>\$ 7,106,600</b>	<b>\$ 25,696,277</b>

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

## Children's Defense Fund and Affiliates

### Consolidated Statement of Activities and Changes in Net Assets

<i>Year Ended December 31, 2010</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total
<b>Revenue, gains and other support</b>				
Contributions and donations				
Foundations and corporations	\$ 627,958	\$ 13,025,923	\$ -	\$ 13,653,881
Individuals	2,033,118	-	-	2,033,118
Organizations and groups	191,501	-	-	191,501
Other				
Special events	2,243,428	-	-	2,243,428
Training and Haley Farm fees	1,909,863	-	-	1,909,863
Federal grants	428,505	-	-	428,505
Rental income	200,164	-	-	200,164
Miscellaneous	202,421	-	-	202,421
Investment income (loss)				
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	1,254	-	-	1,254
Net assets released from restrictions	13,370,619	(13,370,619)	-	-
<b>Total revenue, gains and other support</b>	<b>21,738,200</b>	<b>(55,875)</b>	<b>-</b>	<b>21,682,325</b>
<b>Expenses</b>				
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
<b>Total program services</b>	<b>17,447,507</b>	<b>-</b>	<b>-</b>	<b>17,447,507</b>
Supporting services				
General and administrative	2,850,691	-	-	2,850,691
Fundraising	1,242,161	-	-	1,242,161
<b>Total supporting services</b>	<b>4,092,852</b>	<b>-</b>	<b>-</b>	<b>4,092,852</b>
<b>Total expenses</b>	<b>21,540,359</b>	<b>-</b>	<b>-</b>	<b>21,540,359</b>
<b>Change in net assets</b>	<b>197,841</b>	<b>(55,875)</b>	<b>-</b>	<b>141,966</b>
<b>Beginning net assets</b>	<b>9,427,471</b>	<b>14,754,029</b>	<b>7,106,600</b>	<b>31,288,100</b>
<b>Ending net assets</b>	<b>\$ 9,625,312</b>	<b>\$ 14,698,154</b>	<b>\$ 7,106,600</b>	<b>\$ 31,430,066</b>

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

## Children's Defense Fund and Affiliates

### Consolidated Statements of Cash Flows

<i>Years Ended December 31,</i>	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (5,733,789)	\$ 141,966
<b>Adjustment to reconcile change in net assets to net cash provided (used) by operating activities</b>		
Depreciation and amortization	<b>833,780</b>	902,356
Realized and unrealized gains on investments	<b>(1,086,180)</b>	(485,016)
Donated securities	<b>(6,848)</b>	(29,921)
Provision (recovery) for doubtful accounts	<b>68,924</b>	(160,869)
Discount on pledges receivable	<b>(130,468)</b>	(80,973)
<b>Change in assets and liabilities</b>		
Pledges receivable	<b>6,014,978</b>	(1,295,352)
Other assets	<b>580,949</b>	(5,189)
Accounts payable and accrued expenses	<b>(347,288)</b>	(774,124)
<b>Net cash provided (used) by operating activities</b>	<b>194,058</b>	(1,787,122)
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments	<b>7,894,807</b>	823,464
Purchases of investments	<b>(7,667,708)</b>	(690,076)
Purchases of property and equipment	<b>(49,169)</b>	(116,028)
<b>Net cash provided by investing activities</b>	<b>177,930</b>	17,360
<b>Cash flows from financing activities</b>		
Proceeds from line of credit	<b>6,500,000</b>	600,000
Principal payments on line of credit	<b>(5,000,000)</b>	-
Principal payments on bonds payable	<b>(355,000)</b>	(335,000)
<b>Net cash provided by financing activities</b>	<b>1,145,000</b>	265,000
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,516,988</b>	(1,504,762)
<b>Cash and cash equivalents, beginning of year</b>	<b>333,603</b>	1,838,365
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,850,591</b>	\$ 333,603
<b>Supplemental cash flows information</b>		
Actual cash payments of interest	<b>\$ 93,845</b>	\$ 18,152

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

# Children’s Defense Fund and Affiliates

## 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.

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. The organizations are under common management.

**Basis of consolidation:** The consolidated financial statements include the accounts of the Children's Defense Fund, the Children's Defense Fund Action Council 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 Affiliates

## Notes to Consolidated Financial Statements

**1. Organization and significant accounting policies (continued)**

**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.

**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 and reviewed by CDF. Money market funds are recorded at cost, which approximates fair value.

**Fair value of financial instruments:** As of December 31, 2011 and 2010, 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. Considerable judgment is involved in developing these estimates and, therefore, are not necessarily indicative of the actual amounts that could be realized in a current market exchange.

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).

For the year ended December 31, 2011, in conjunction with a line of credit with Morgan Stanley Bank, the bank has a continuing security interest in a board designated endowment investment account, which had a balance of \$7,235,530 at December 31, 2011.

**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;

# Children's Defense Fund and Affiliates

## Notes to Consolidated Financial Statements

### 1. Organization and significant accounting policies (continued)

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.

**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 recorded at the present value of their estimated future cash flows, using discount rates equal to the prevailing local borrowing rates which ranged from 1.53% to 1.75% and 1.35% to 4.75% for the years ended December 31, 2011 and 2010, 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.

# Children's Defense Fund and Affiliates

## Notes to Consolidated Financial Statements

**1. Organization and significant accounting policies (continued)**

**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.

**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. 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. These financial statements present just such a situation, with a significant amount of multi-year grant revenue recognized in 2010 and the expenses of implementing those grants mainly incurred in 2011. Conditional promises to give are not included as support until the conditions are substantially met.

Special events are activities not regularly carried on. Special events, Training and 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.

# Children's Defense Fund and Affiliates

## Notes to Consolidated Financial Statements

**1. Organization and significant accounting policies (continued)**

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.

**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, 2011 and 2010, 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 2008 through the current year remain open for examination by tax authorities.

**Reclassifications:** Certain 2010 balances have been reclassified to conform with the 2011 presentation.

**Subsequent events:** Management has evaluated subsequent events for disclosure in the financial statements through July 26, 2012, which is the date the financial statements were available to be issued.

## Children's Defense Fund and Affiliates

### Notes to Consolidated Financial Statements

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

	<b>2011</b>	2010
Endowment investments		
Hedge fund	\$ <b>4,870,841</b>	\$ 4,519,439
Real estate investment trust fund	<b>1,154,931</b>	1,156,171
Conservative allocation mutual fund	<b>1,548,413</b>	-
Short-term bond mutual fund	<b>3,545,593</b>	-
Inflation-protected bond mutual fund	<b>4,319,800</b>	-
U.S. bond funds	-	6,842,896
Money market funds	<b>5,521,541</b>	7,576,684
<b>Total endowment investments</b>	<b>\$ 20,961,119</b>	\$ 20,095,190

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 hedge fund shares may be redeemed, as of the last calendar day of any month, following the second anniversary of their issuance, provided that notice is given at least 60 days prior to the requested redemption date.

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. The primary objective is to assist organizations in maintaining endowment purchasing power by generating returns in a manner that will cause CDF's total portfolio to be less volatile. The real estate investment trust fund 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.

## Children's Defense Fund and Affiliates

### Notes to Consolidated Financial Statements

<b>2. Investments (continued)</b>	Net investment income consists of the following for the years ended December 31:			
	<b>2011</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Interest and dividends	\$ 242,527	\$ 124,382	\$ 366,909	
Net realized and unrealized gains	717,965	368,215	1,086,180	
Management fees	(227,388)	(116,618)	(344,006)	
Operating	211	-	211	
<b>Total investment income</b>	<b>\$ 733,315</b>	<b>\$ 375,979</b>	<b>\$ 1,109,294</b>	
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	
<b>Total investment income</b>	<b>\$ 530,623</b>	<b>\$ 288,821</b>	<b>\$ 819,444</b>	

<b>3. Fair value of investments</b>	Fair Value Measurements at December 31, 2011 Using:			
		<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant unobservable inputs (Level 3)</b>	
	<b>Total</b>			
Money market funds	\$ 5,521,541	\$ 5,521,541	\$ -	
Hedge fund	4,870,841	-	4,870,841	
Real estate investment trust fund	1,154,931	-	1,154,931	
Conservative allocation mutual funds	1,548,413	1,548,413	-	
Short-term bond mutual funds	3,545,593	3,545,593	-	
Inflation-protected bond mutual funds	4,319,800	4,319,800	-	
<b>Total</b>	<b>\$ 20,961,119</b>	<b>\$ 14,935,347</b>	<b>\$ 6,025,772</b>	
Fair Value Measurements at December 31, 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	
Intermediate term bond fund	6,842,896	6,842,896	-	
<b>Total</b>	<b>\$ 20,095,190</b>	<b>\$ 14,419,580</b>	<b>\$ 5,675,610</b>	

## Children's Defense Fund and Affiliates

### Notes to Consolidated Financial Statements

- 3. Fair value of investments (continued)** Level 3 values for alternative investments were developed using the net asset value (NAV) as reported by the underlying fund managers and reviewed by CDF. The NAV is determined by the fund managers based on either the fair market value of the underlying investments on the most recent practical date, or their acquisition cost less related expenses in the case of non-publicly traded securities. 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. CDF has determined through its monitoring activities to rely on the fair market value as decided by the fund managers. The risk of any derivative exposure is limited to the amount invested with each manager.

A reconciliation of beginning and ending balances of investments measured with Level 3 inputs is as follows for the year ended December 31:

2011	Hedge Fund	Real Estate Investment Trust Fund	Total
Beginning balance	\$ 4,519,439	\$ 1,156,171	\$ 5,675,610
Total gains (realized and unrealized)	679,467	239,254	918,721
Sales	-	(224,553)	(224,553)
Management fees	(328,065)	(15,941)	(344,006)
<b>Ending balance</b>	<b>\$ 4,870,841</b>	<b>\$ 1,154,931</b>	<b>\$ 6,025,772</b>
2010			
Beginning balance	\$ 4,439,536	\$ 1,176,298	\$ 5,615,834
Total gains (realized and unrealized)	252,591	100,285	352,876
Sales	-	(104,214)	(104,214)
Management fees	(172,688)	(16,198)	(188,886)
<b>Ending balance</b>	<b>\$ 4,519,439</b>	<b>\$ 1,156,171</b>	<b>\$ 5,675,610</b>

Unrealized gains related to level 3 assets held at December 31, 2011 and 2010 and for the years then ended were \$902,780 and \$232,464, respectively.

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 in the years ended December 31, 2011 and 2010.

## Children's Defense Fund and Affiliates

### Notes to Consolidated Financial Statements

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

	2011	2010
Due in less than one year	\$ 2,797,721	\$ 5,606,383
Due in two to five years	131,667	3,337,983
<b>Total pledges receivable</b>	<b>2,929,388</b>	8,944,366
Less: Discounts on pledges receivable	(2,936)	(133,404)
Less: Allowance for doubtful accounts	(10,000)	(32,066)
<b>Total pledges receivable, net</b>	<b>\$ 2,916,452</b>	\$ 8,778,896

**Concentration of pledges receivable and foundation revenue:** Two of the receivables as of December 31, 2011 and 2010 included in CDF's pledges receivable in the accompanying Consolidated Statements of Financial Position comprise 66% and 58% of the amounts, respectively. Total foundations and corporations revenue for the years ended December 31, 2011 and 2010 in the accompanying Consolidated Statements of Activities and Changes in Net Assets includes three grantor's constituting 33% and 51% of the amounts, respectively.

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

	2011		
	Headquarters and State and Local Offices	Haley Farm	Total
Land	\$ 1,995,718	\$ 592,874	\$ 2,588,592
Buildings and improvements	13,011,001	5,177,488	18,188,489
Furniture, equipment and software	4,448,416	726,689	5,175,105
<b>Total property and equipment</b>	<b>19,455,135</b>	<b>6,497,051</b>	<b>25,952,186</b>
Less: Accumulated depreciation	(12,800,835)	(2,722,982)	(15,523,817)
<b>Net property and equipment</b>	<b>\$ 6,654,300</b>	<b>\$ 3,774,069</b>	<b>\$ 10,428,369</b>



## Children's Defense Fund and Affiliates

### Notes to Consolidated Financial Statements

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

	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

Depreciation expense for the years ended December 31, 2011 and 2010 was \$833,780 and \$902,356, respectively.

**6. Line of credit**

In December 2011, CDF entered into a \$4.6 million line of credit agreement with Morgan Stanley Bank, primarily for working capital needs. The line of credit is secured by a portion of CDF's investments. Borrowings accrue interest at various rate tiers (2.75% at December 31, 2011). Monthly payments consist of accrued interest only and started in January 2012.

At December 31, 2010, CDF had a \$5 million line of credit with Wells Fargo Bank at a rate of interest of LIBOR plus 2.0% on any outstanding balance (2.29% at December 31, 2011).

The outstanding balances on the lines of credit at December 31, 2011 and 2010 were \$4,000,000 and \$2,500,000, respectively.

**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 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 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.

## Children's Defense Fund and Affiliates

### Notes to Consolidated Financial Statements

**7. Bonds payable (continued)**

Interest rates on these bonds are determined weekly by a remarketing agent based on prevailing financial market conditions for bonds with comparable maturity dates. The interest rates at December 31, 2011 for the tax-exempt and taxable bonds were 0.19% and 0.27%, respectively. The interest rates at December 31, 2010 for the tax exempt and taxable bonds were 0.43% and 0.34%, respectively. Bond interest expense for the years ended December 31, 2011 and 2010 was \$20,750 and \$18,152 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, 2011, 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 July 13, 2012 for the noncompliance of this covenant.

As of December 31, 2011, the aggregate scheduled principal maturities on the Bonds over the next five years and thereafter are as follows:

Year ending December 31	Amount
2012	\$ 375,000
2013	395,000
2014	415,000
2015	435,000
2016	460,000
Thereafter	3,335,000
<b>Total</b>	<b>\$ 5,415,000</b>

**8. Restricted net assets**

The consolidated temporarily restricted net assets as of December 31, 2011 and 2010, respectively, are available for the following programs or purposes:

	2011	2010
Operating		
Leadership development and state and community capacity building	\$ 5,663,678	\$ 9,672,533
Policy and program development and implementation	1,655,874	3,106,751
Time restricted for use in future periods	89,752	647,742
<b>Total operating</b>	<b>7,409,304</b>	<b>13,427,026</b>

## Children's Defense Fund and Affiliates

### Notes to Consolidated Financial Statements

8. Restricted net assets (continued)	Endowment	2011	2010
	Policy and program development and implementation	502,248	456,960
	Public education, media campaigns, Internet outreach and publications	894,859	814,168
	<b>Total endowment</b>	<b>1,397,107</b>	<b>1,271,128</b>

**Total temporarily restricted net assets**      \$    **8,806,411**    \$ 14,698,154

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

	Endowment	2011	2010
	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
	<b>Total permanently restricted net assets</b>	<b>\$ 7,106,600</b>	<b>\$ 7,106,600</b>

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

		2011	2010
	Leadership development and state and community capacity building	\$ 9,851,953	\$ 7,404,753
	Policy and program development and implementation	1,450,877	5,457,274
	Time and other	557,990	-
	Endowment policy and program development and implementation	89,873	182,835
	Endowment public education, media campaigns, Internet outreach and publications	160,127	325,757
	<b>Total releases from restrictions</b>	<b>\$ 12,110,820</b>	<b>\$ 13,370,619</b>

# Children's Defense Fund and Affiliates

## Notes to Consolidated Financial Statements

**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.

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, 2011 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	\$ 11,717,462	\$ 1,271,128	\$ 7,106,600	\$ 20,095,190
Additions	6,846	-	-	6,846
Investment income	733,104	375,979	-	1,109,083
Appropriation of endowment assets for expenditure	-	(250,000)	-	(250,000)
Endowment net assets, end of year	\$ 12,457,412	\$ 1,397,107	\$ 7,106,600	\$ 20,961,119

# Children's Defense Fund and Affiliates

## Notes to Consolidated Financial Statements

**10. Endowment funds  
(continued)**

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 portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA as of December 31, 2011 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.

# Children's Defense Fund and Affiliates

## Notes to Consolidated Financial Statements

**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 \$431,242 and \$237,904 for the years ended December 31, 2011 and 2010, respectively.

**12. Leases** CDF is obligated under various noncancelable operating lease agreements for office facilities expiring at various dates through 2017. CDF rents space in multiple locations across the United States, some of which are subject to month-to-month agreements. CDF also subleases some of its space. 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, 2011 and 2010 was \$671,500 and \$582,451, respectively. Future minimum lease payments, less rental income, are as follows:

Year Ending December 31,	Payments	Income	Total
2012	\$ 538,925	\$ (241,728)	\$ 297,197
2013	429,248	(176,517)	252,731
2014	430,672	(30,596)	400,076
2015	383,266	-	383,266
2016	343,637	-	343,637
Thereafter	384,565	-	384,565
<b>Total minimum lease payments</b>	<b>\$ 2,510,313</b>	<b>\$ (448,841)</b>	<b>\$ 2,061,472</b>

**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 2011 and 2010, the total paid to this organization for consulting services was \$246,000 and \$78,000, 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.

# Children's Defense Fund and Affiliates

## Notes to Consolidated Financial Statements

---

**14. Commitments and contingencies**

CDF entered into an investment agreement on December 14, 2001 with a real estate investment trust fund (See Note 2) committing up to \$3 million over the life of the company through December 31, 2016. As of December 31, 2011, CDF has contributed \$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, 2011, 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.

**15. Financial condition**

As shown in the accompanying consolidated financial statements, CDF experienced a loss of \$5,733,789 in 2011. This loss is primarily driven by a significant amount of multi-year grant revenue recognized in 2010 (temporarily restricted net asset additions) and the expenses of implementing those grants mainly incurred in 2011 (releases of temporarily restricted net assets).



## Independent Auditor's Report on Supplementary Information

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

We have audited the consolidated financial statements of **Children's Defense Fund and Affiliates** as of and for the years ended December 31, 2011 and 2010, and our report thereon dated July 26, 2012, 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 Consolidated 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.

Rockville, Maryland  
July 26, 2012

805 King Farm Boulevard  
Suite 300  
Rockville, Maryland 20850

☎ 301.231.6200  
☎ 301.231.7630  
www.aronsonllc.com  
info@aronsonllc.com



## Children's Defense Fund and Affiliates

### Consolidated Schedule of Functional Expenses

Year Ended December 31, 2011

	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.	\$ 1,444,159	\$ -	\$ -	\$ 1,444,159	\$ -	\$ -	\$ -	\$ 1,444,159
Grants to individuals in U.S.	275,516	-	-	275,516	-	-	-	275,516
Compensation and wages	5,369,955	813,495	622,230	6,805,680	1,059,572	477,290	1,536,862	8,342,542
Pension plan contributions	277,583	42,051	32,164	351,798	54,772	24,672	79,444	431,242
Other employee benefits	651,310	98,667	75,469	825,446	128,513	57,889	186,402	1,011,848
Payroll taxes	384,860	58,303	44,595	487,758	75,939	34,207	110,146	597,904
Consulting fees	1,753,513	58,669	27,320	1,839,502	224,896	582	225,478	2,064,980
Legal fees	-	-	-	-	36,058	-	36,058	36,058
Accounting fees	-	-	-	-	149,118	-	149,118	149,118
Professional fundraising fees	-	-	-	-	-	76,828	76,828	76,828
Advertising and promotion	14,225	-	7,735	21,960	673	14,982	15,655	37,615
Office expenses	348,532	52,799	40,385	441,716	68,770	30,978	99,748	541,464
Information technology	94,806	14,362	10,985	120,153	18,706	8,426	27,132	147,285
Occupancy	931,301	141,083	107,912	1,180,296	183,760	82,776	266,536	1,446,832
Travel	992,974	24,984	7,391	1,025,349	67,574	10,390	77,964	1,103,313
Conferences and conventions	862,841	4,915	5,486	873,242	42,808	32,344	75,152	948,394
Interest	-	-	-	-	113,644	-	113,644	113,644
Depreciation and amortization	536,570	81,336	62,213	680,119	105,940	47,721	153,661	833,780
Insurance	101,721	15,410	11,787	128,918	20,071	9,041	29,112	158,030
Printing and publication	917,493	1,290	34,544	953,327	56,166	24,338	80,504	1,033,831
Training	250	-	83,889	84,139	52,434	-	52,434	136,573
Miscellaneous expenses	288,710	46,981	35,935	371,626	61,193	27,565	88,758	460,384
<b>Total expenses</b>	<b>\$ 15,246,319</b>	<b>\$ 1,454,345</b>	<b>\$ 1,210,040</b>	<b>\$ 17,910,704</b>	<b>\$ 2,520,607</b>	<b>\$ 960,029</b>	<b>\$ 3,480,636</b>	<b>\$ 21,391,340</b>

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

## Children's Defense Fund and Affiliates

### 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	<b>Total</b>
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
<b>Total expenses</b>	<b>\$ 15,332,437</b>	<b>\$ 1,289,389</b>	<b>\$ 825,681</b>	<b>\$ 17,447,507</b>	<b>\$ 2,850,691</b>	<b>\$ 1,242,161</b>	<b>\$ 4,092,852</b>	<b>\$ 21,540,359</b>

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