

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

CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2006 (WITH
SUMMARIZED FINANCIAL INFORMATION FOR
THE YEAR ENDED DECEMBER 31, 2005)**

PERFECTING THE NATURE OF YOUR BUSINESS



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

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Independent Auditor's Report

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

We have audited the accompanying Consolidated Statement of Financial Position of **Children's Defense Fund and Children's Defense Fund Action Council** as of December 31, 2006, and the related Consolidated Statements of Activities and Changes in Net Assets, and Cash Flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the **Children's Defense Fund and Children's Defense Fund Action Council's** 2005 financial statements and in our report dated March 27, 2006 we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Children's Defense Fund and Children's Defense Fund Action Council** as of December 31, 2006, and the consolidated changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Certain expense categories have been restated as discussed in Note 13 to the Consolidated Financial Statements.

Rockville, Maryland
July 3, 2007

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

Consolidated Statement of Financial Position

December 31, 2006

*(With Summarized Financial Information
as of December 31, 2005)*

	Operating	Endowment	2006 Total	2005 Total
Assets				
Cash and cash equivalents	\$ 665,685	\$ -	\$ 665,685	\$ 1,104,242
Investments	86,153	31,801,725	31,887,878	30,109,508
Pledges receivable, net	9,260,645	-	9,260,645	12,120,695
Property and equipment, net	13,606,189	-	13,606,189	14,040,617
Other assets	994,629	399	995,028	823,114
Total assets	\$ 24,613,301	\$ 31,802,124	\$ 56,415,425	\$ 58,198,176

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 1,358,717	\$ -	\$ 1,358,717	\$ 1,124,138
Bonds payable	6,995,000	-	6,995,000	7,260,000
Total liabilities	8,353,717	-	8,353,717	8,384,138

Net assets

Unrestricted				
Children's Defense Fund	1,855,919	21,380,595	23,236,514	23,807,928
Children's Defense Fund Action Council	82,720	-	82,720	77,125
Total unrestricted	1,938,639	21,380,595	23,319,234	23,885,053
Temporarily restricted	14,320,945	3,314,929	17,635,874	18,822,385
Permanently restricted	-	7,106,600	7,106,600	7,106,600
Total net assets	16,259,584	31,802,124	48,061,708	49,814,038
Total liabilities and net assets	\$ 24,613,301	\$ 31,802,124	\$ 56,415,425	\$ 58,198,176

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, 2006 (With Summarized Financial Information for the Year Ended December 31, 2005)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total	RESTATED 2005 Total
Revenue, gains and other support					
Contributions and donations					
Foundations and corporations	\$ 689,174	\$ 9,991,092	\$ -	\$ 10,680,266	\$ 12,080,462
Individuals	2,706,146	183,500	-	2,889,646	2,700,891
Organizations and groups	286,476	-	-	286,476	264,191
Other					
Sales of publications and merchandise	162,637	-	-	162,637	122,011
Special events	1,259,368	-	-	1,259,368	1,019,117
Training fees	1,109,658	-	-	1,109,658	772,790
Haley Farm Fees	128,922	-	-	128,922	75,777
Miscellaneous	278,854	-	-	278,854	230,768
Investment income					
Endowment					
Interest and dividends	515,729	248,657	-	764,386	625,524
Realized and unrealized gains, net of manager fees	2,689,743	1,296,856	-	3,986,599	2,094,599
Operating	57,940	-	-	57,940	24,284
Net assets released from restrictions	12,906,616	(12,906,616)	-	-	-
Total revenue	22,791,263	(1,186,511)	-	21,604,752	20,010,414
Expenses					
Program services					
Leadership development and state and community capacity building	1,818,260	-	-	1,818,260	1,856,753
Policy and program development and implementation	7,762,461	-	-	7,762,461	7,779,980
Public education, media campaigns, Internet outreach and publications	1,299,909	-	-	1,299,909	1,325,357
Black Community Crusade for Children	8,319,786	-	-	8,319,786	5,100,473
Total program services	19,200,416	-	-	19,200,416	16,062,563
Supporting services					
General and administrative	2,162,424	-	-	2,162,424	2,218,552
Fundraising	1,994,242	-	-	1,994,242	972,573
Total supporting services	4,156,666	-	-	4,156,666	3,191,125
Total expenses	23,357,082	-	-	23,357,082	19,253,688
Change in net assets	(565,819)	(1,186,511)	-	(1,752,330)	756,726
Beginning net assets	23,885,053	18,822,385	7,106,600	49,814,038	49,057,312
Ending net assets	\$ 23,319,234	\$ 17,635,874	\$ 7,106,600	\$ 48,061,708	\$ 49,814,038

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 Cash Flows

<i>Year Ended December 31, 2006 (With Summarized Financial Information for the Year Ended December 31, 2005)</i>	2006	2005
Cash flows from operating activities		
Change in net assets	\$ (1,752,330)	\$ 756,726
Adjustment to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	842,375	804,369
Realized and unrealized gain on investments	(3,986,599)	(2,094,599)
Increase (decrease) in assets and liabilities		
Pledges receivable	2,860,050	(1,559,728)
Other assets	(172,698)	(166,128)
Accounts payable and accrued expenses	234,579	123,529
Net cash used in operating activities	(1,974,623)	(2,135,831)
Cash flows from investing activities		
Proceeds from sales of investments	6,727,895	15,651,479
Purchases of investments	(4,519,666)	(13,606,541)
Purchases of property and equipment	(407,163)	(133,119)
Net cash provided by investing activities	1,801,066	1,911,819
Cash flows used in financing activities		
Repayments of bonds payable	(265,000)	(255,000)
Decrease in cash and cash equivalents	(438,557)	(479,012)
Cash and cash equivalents, beginning of year	1,104,242	1,583,254
Cash and cash equivalents, end of year	\$ 665,685	\$ 1,104,242
Supplemental cash flows information		
Actual cash payments of interest	\$ 266,604	\$ 194,477
Noncash investing activities		
Gifts of securities	\$ 40,699	\$ 43,156

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 mission of the Children's Defense Fund is to Leave No Child Behind and 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 exists to provide a strong, effective voice for all the children of America who cannot vote, lobby, or speak for themselves. The Children's Defense Fund pays particular attention to the needs of poor and minority children and those with disabilities. The Children's Defense Fund educates the nation about the needs of children and encourages preventive investment before they get sick or into trouble, drop out of school, 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 has never taken government funds.

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 are comprised of common and preferred stock, money market funds, fixed income funds, real estate, and equity shares of limited partnerships. Common and preferred stocks, money market funds, real estate, and fixed income funds are carried at fair value based on quoted market prices. Investments in limited partnerships are carried at the value determined by applying the value of a partnership unit to the number of partnership units held. The value of a partnership unit is determined by the general partner based upon the fair market value of the partnership's capital.

Investment earnings, including net gains or losses, are accounted for in the applicable net assets classification based upon any donor-imposed restrictions.

Pledges receivable: CDF receives contributions for various programs. Unrestricted contributions and restricted contributions expected to be collected within one year are recorded at net realizable value. Unrestricted and restricted contributions expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using risk-free interest rates applicable to the years in which the amounts are pledged.

Property and equipment: Property, equipment, and intangible assets 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

Intangible assets: CDF capitalizes expenses related to trademarks. These expenses are amortized over a period of ten years. Intangible assets are included with other assets on the accompanying Consolidated Statement of Financial Position.

Bonds payable: CDF records bonds payable at book value as management believes it approximates fair value.

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.

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

Notes to Consolidated Financial Statements

1. Organization and significant accounting policies (continued)

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 and to account for internally designated endowment 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. All internally designated endowment funds and related income are classified as unrestricted. 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. 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.

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

Notes to Consolidated Financial Statements

1. Organization and significant accounting policies (continued)

Allocation of functional expenses: The costs of providing the various programs and other activities have been summarized in the accompanying Consolidated Statement of Activities and Changes in Net Assets. Costs 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, the square footage of space assigned to each division, 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.

Black Community Crusade for Children® (BCCC) expenses represent those that seek to weave and reweave the rich fabric of community that historically has been the cornerstone of the healthy development of Black children; tap into and strengthen the strong Black community tradition of self-help; rebuild the bridges between generations and between the Black middle class and poor; assist and galvanize current Black leadership around specific goals for ALL children; and identify, train, nurture, link, and empower a new generation of effective Black servant-leaders younger than 30.

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.

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

Notes to Consolidated Financial Statements

1. Organization and significant accounting policies (continued) **Reclassification:** Certain 2005 amounts were reclassified to conform to the 2006 presentation.

2. Investments Investments as of December 31, 2006 and 2005 consist of the following:

	2006	2005
Endowment		
U.S. equities	\$ 5,605,889	\$ 5,722,221
International equities	6,243,987	7,831,635
Hedge funds	7,072,821	4,274,579
Real estate investment trust funds	3,310,868	3,476,058
Real asset fund	2,761,135	2,477,497
U.S. bond funds	5,977,822	5,476,913
Certificates of deposit/money market funds	829,203	809,682
Total endowment	31,801,725	30,068,585
Operating		
Common stocks	86,153	40,923
Total investments	\$ 31,887,878	\$ 30,109,508

The hedge funds 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 invests in these hedge funds with the principal objective of achieving maximum capital appreciation of the endowment fund with acceptable risk.

The real asset fund consists of domestic and international equities, commodities, real estate investment trust funds, and bond funds.

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

Notes to Consolidated Financial Statements

2. Investments (continued)	Net endowment investment earnings consist of the following for the years ended December 31, 2006 and 2005:			
		2006		2005
	Unrestricted	Temporarily Restricted	Total	Total
Interest and dividends	\$ 515,729	\$ 248,657	\$ 764,386	\$ 625,524
Net realized and unrealized gains	2,877,809	1,387,532	4,265,341	2,291,638
Management fees	(188,066)	(90,676)	(278,742)	(197,039)
Total endowment investment earnings	\$ 3,205,472	\$ 1,545,513	\$ 4,750,985	\$ 2,720,123

3. Pledges receivable and concentration	As of December 31, 2006 and 2005, CDF has received the following multi-year commitments:	
		2006
Due in less than one year	\$ 5,089,127	\$ 7,406,598
Due in two to five years	4,603,937	4,557,406
Due in six to ten years	-	542,650
Total pledges receivable	9,693,064	12,506,654
Less: Discounts on pledges receivable	(432,419)	(385,959)
Total pledges receivable, net	\$ 9,260,645	\$ 12,120,695

In 2006 and 2005, amounts due in more than one year are discounted at rates ranging from 4.71% - 5.09% and 3.65% - 4.39%, respectively. Management considers all pledges to be fully collectible.

Concentration of pledges receivable and foundation revenue: Two of the receivables in CDF's pledges receivable in the accompanying Consolidated Statement of Financial Position comprise 62% of the balance. Total foundation revenue in the accompanying Consolidated Statement of Activities and Changes in Net Assets includes three grantor's support constituting 58% of this balance.

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

Notes to Consolidated Financial Statements

4. Property and equipment

Property and equipment as of December 31, 2006 and 2005 consist of the following:

	2006			2005
	Headquarters and State and Local Offices	Haley Farm	Total	Total
Land	\$ 1,984,718	\$ 592,874	\$ 2,577,592	\$ 2,577,592
Buildings and improvements	12,862,282	5,125,278	17,987,560	17,916,414
Furniture, equipment and software	3,391,359	681,964	4,073,323	3,737,306
Total property and equipment	18,238,359	6,400,116	24,638,475	24,231,312
Less: Accumulated depreciation	(9,327,485)	(1,704,801)	(11,032,286)	(10,190,695)
Net property and equipment	\$ 8,910,874	\$ 4,695,315	\$ 13,606,189	\$ 14,040,617

Depreciation expense for the year ended December 31, 2006 and 2005 was \$841,590 and \$803,585, respectively, and is included in depreciation and amortization expense in the accompanying Consolidated Statements of Functional Expenses.

5. 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.

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

Notes to Consolidated Financial Statements

- 5. Bonds payable (continued)** The interest rates vary weekly and the Bonds are convertible to fixed interest rates for both the taxable and tax-exempt bonds. The interest rates at December 31, 2006 for the tax-exempt and taxable bonds were 3.90% and 5.40%, respectively. The interest rates at December 31, 2005 for the tax-exempt and taxable bonds were 3.50% and 4.48%, respectively. Bond interest expense for 2006 and 2005 were \$266,604 and \$194,477 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. CDF is required to maintain at least \$12,500,000 in unrestricted liquid assets.

As of December 31, 2006, the aggregate scheduled principal maturities on the Bonds over the next five years and thereafter are as follows:

Year Ending December 31	Amount
2007	\$ 275,000
2008	300,000
2009	315,000
2010	335,000
2011	355,000
Thereafter	5,415,000
Total	\$ 6,995,000

- 6. Temporarily restricted net assets** The consolidated temporarily restricted net assets as of December 31, 2006 and 2005, respectively, are available for the following programs or purposes:

	2006	2005
Operating		
Policy and program development and implementation	\$ 5,772,693	\$ 4,120,827
Black Community Crusade for Children	3,806,145	5,699,799
Leadership development and state and community capacity building	3,310,605	3,612,153
Time restricted for use in future periods	1,431,502	2,714,786
Total operating	\$ 14,320,945	\$ 16,147,565

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

Notes to Consolidated Financial Statements

	<u>2006</u>	<u>2005</u>
6. Temporarily restricted net assets (continued)		
Endowment		
Policy and program development and implementation	\$ 651,292	\$ 530,821
Black Community Crusade for Children	156,633	125,000
Leadership development and state and community capacity building	472,792	403,964
Public education, media campaigns, Internet outreach and publications	2,034,212	1,615,035
Total endowment	3,314,929	2,674,820
Total temporarily restricted net assets	\$ 17,635,874	\$ 18,822,385
7. Permanently restricted net assets		
In accordance with donor stipulations, permanently restricted net assets are held (and invested) in perpetuity. Income earned on permanently restricted net assets as of December 31, 2006 and 2005, respectively, is to be used as follows:		
	<u>2006</u>	<u>2005</u>
Endowment		
Black Community Crusade for Children	\$ 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
8. Release from restrictions		
Donor restrictions met were as follows for the years ended December 31:		
	<u>2006</u>	<u>2005</u>
Policy and program development and implementation	\$ 4,592,148	\$ 4,857,073
Black Community Crusade for Children	5,729,402	2,718,506
Leadership development and state and community capacity building	966,595	802,773
Public education, media campaigns, Internet outreach and publications	231,019	457,860
Time and other	1,387,452	704,267
Total release from restrictions	\$ 12,906,616	\$ 9,540,479

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

Notes to Consolidated Financial Statements

9. 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 \$342,662 and \$331,082 for the years ended December 31, 2006 and 2005 respectively.

10. Leases CDF is obligated under various noncancelable operating lease agreements for office facilities expiring at various dates through 2016. Rent expense for office space for the year ended December 31, 2006 and 2005 was \$502,935 and \$407,991, respectively. As of December 31, 2006, the future minimum lease payments under operating leases with initial or remaining noncancelable lease terms in excess of one year are:

Year Ending December 31	Amount
2007	\$ 379,217
2008	220,806
2009	131,074
2010	135,004
2011	130,265
Thereafter	259,780
Total minimum lease payments	\$ 1,256,146

11. 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 2006, the total paid to this organization for consulting services was \$264,500.

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 Children's Defense Fund Action Council

Notes to Consolidated Financial Statements

12. 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, 2006 and 2005, CDF has invested \$2,340,000 and \$2,280,000, respectively. 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, 2006, 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 real estate commitment.

13. Restatement of prior year The 2005 expense categories have been restated based on evolving program goals and administrative utilization by the various program service areas resulting in changes to the underlying allocations.

The effect of the prior year restatement is as follows:

	As Reported	Change	Restated 2005
Expenses			
Program services			
Leadership development and state and community capacity building	\$ 3,311,919	\$ (1,455,166)	\$ 1,856,753
Policy and program development and implementation	8,049,766	(269,786)	7,779,980
Public education, media campaigns, internet outreach and publications	1,001,544	323,813	1,325,357
Black Community Crusade for Children	3,607,646	1,492,827	5,100,473
Total program services	15,970,875	91,688	16,062,563
Supporting services			
General and administrative	2,310,240	(91,688)	2,218,552
Fundraising	972,573	-	972,573
Total supporting services	3,282,813	(91,688)	3,191,125
Total expenses	\$ 19,253,688	\$ -	\$ 19,253,688



Independent Auditor's Report on Other Financial Information

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other financial information included on pages 17 to 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Aronson & Company".

Rockville, Maryland
July 3, 2007

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

Consolidating Statement of Financial Position - Operating

<i>December 31, 2006 (With Summarized Financial Information as of December 31, 2005)</i>	Children's Defense Fund Operating	Children's Defense Fund Action Council	2006 Total	2005 Total
Assets				
Cash and cash equivalents	\$ 641,165	\$ 24,520	\$ 665,685	\$ 1,104,242
Intercompany Loan	(65,696)	65,696	-	-
Investments	86,153	-	86,153	40,923
Pledges receivable	9,260,645	-	9,260,645	12,120,695
Property and equipment, net	13,606,189	-	13,606,189	14,040,617
Other assets	987,848	6,781	994,629	823,114
Total assets	24,516,304	96,997	24,613,301	28,129,591
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	1,344,440	14,277	1,358,717	1,124,138
Bonds payable	6,995,000	-	6,995,000	7,260,000
Total liabilities	8,339,440	14,277	8,353,717	8,384,138
Net assets				
Unrestricted				
Children's Defense Fund	1,855,919	-	1,855,919	3,520,763
Children's Defense Fund Action Council	-	82,720	82,720	77,125
Total unrestricted	1,855,919	82,720	1,938,639	3,597,888
Temporarily restricted	14,320,945	-	14,320,945	16,147,565
Permanently restricted	-	-	-	-
Total net assets	16,176,864	82,720	16,259,584	19,745,453
Total liabilities and net assets	\$ 24,516,304	\$ 96,997	\$ 24,613,301	\$ 28,129,591

See Independent Auditor's Report on Other Financial Information.

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

Consolidating Statement of Unrestricted Activities

<i>For the Year Ended December 31, 2006 (With Summarized Financial Information for the Year Ended December 31, 2005)</i>	Children's Defense Fund Operating	Children's Defense Fund Action Council	2006 Total	RESTATE D 2005 Total
Revenue, gains and other support				
Contributions and donations				
Foundations and corporations	\$ 689,174	\$ -	\$ 689,174	\$ 855,538
Individuals	2,322,978	383,168	2,706,146	2,700,891
Organizations and groups	285,976	500	286,476	264,191
Other				
Sales of publications and merchandise	162,637	-	162,637	122,011
Special events	1,259,368	-	1,259,368	1,019,117
Training fees	1,109,658	-	1,109,658	772,790
Haley farm fees	128,922	-	128,922	75,777
Miscellaneous	278,854	-	278,854	230,768
Investment income				
Endowment				
Interest and dividends	515,729	-	515,729	426,196
Realized and unrealized gains	2,689,743	-	2,689,743	1,425,577
Operating	57,825	115	57,940	24,284
Net assets released from restrictions	12,906,616	-	12,906,616	9,540,479
Total revenue	22,407,480	383,783	22,791,263	17,457,619
Expenses				
Program services				
Leadership development and state and community capacity building	1,818,157	103	1,818,260	1,856,753
Policy and program development and implementation	7,723,411	39,050	7,762,461	7,779,980
Public education, media campaigns, Internet outreach and publications	1,268,104	31,805	1,299,909	1,325,357
Black Community Crusade for Children	8,319,786	-	8,319,786	5,100,473
Total program services	19,129,458	70,958	19,200,416	16,062,563

See Independent Auditor's Report on Other Financial Information.

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

Consolidating Statement of Unrestricted Activities (Continued)

<i>For the Year Ended December 31, 2006 (With Summarized Financial Information for the Year Ended December 31, 2005)</i>	Children's Defense Fund Operating	Children's Defense Fund Action Council	2006 Total	RESTATED 2005 Total
Supporting services				
General and administrative	2,033,155	129,269	2,162,424	2,218,552
Fundraising	1,816,281	177,961	1,994,242	972,573
Total supporting services	3,849,436	307,230	4,156,666	3,191,125
Total expenses	22,978,894	378,188	23,357,082	19,253,688
Change in net assets	(571,414)	5,595	(565,819)	(1,796,069)
Beginning net assets	23,807,928	77,125	23,885,053	25,681,122
Ending net assets	\$ 23,236,514	\$ 82,720	\$ 23,319,234	\$ 23,885,053

See Independent Auditor's Report on Other Financial Information.

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

Consolidated Statements of Functional Expenses

Year Ended December 31, 2006

	Leadership Development and State and Community Capacity Building	Policy and Program Development and Implementation	Public Education, Media Campaigns, Internet Outreach and Publications	Black Community Crusade for Children	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total
Salaries & benefits	\$ 703,120	\$ 4,532,227	\$ 527,361	\$ 2,213,645	\$ 7,976,353	\$ 1,417,651	\$ 526,277	\$ 1,943,928	\$ 9,920,281
Contracted services	254,257	1,018,849	221,388	2,921,161	4,415,655	85,450	216,263	301,713	4,717,368
Corporate insurance	6,486	32,529	18,356	113,608	170,979	27,503	10,541	38,044	209,023
Travel & training	627,817	718,045	30,218	1,571,905	2,947,985	104,506	51,154	155,660	3,103,645
Printing & publications	96,025	275,290	164,126	400,278	935,719	10,581	52,485	63,066	998,785
Occupancy	23,951	494,063	35,678	262,470	816,162	78,814	29,870	108,684	924,846
Depreciation and amortization	38,542	154,395	68,888	354,468	616,293	163,439	62,643	226,082	842,375
Office expenses & postage	16,246	103,529	27,986	101,688	249,449	25,771	270,043	295,814	545,263
Interest & fees	21,971	83,967	39,270	58,911	204,119	91,800	35,710	127,510	331,629
Rental & equipment maintenance	10,223	89,975	14,694	86,547	201,439	20,630	20,367	40,997	242,436
Telephone	11,204	92,232	2,756	51,010	157,202	14,150	2,267	16,417	173,619
Computer services	7,143	108,435	91,967	54,948	262,493	14,868	25,575	40,443	302,936
Professional services & fees	703	20,268	48,122	16,994	86,087	88,676	652,805	741,481	827,568
Other expenses	572	38,657	9,099	112,153	160,481	18,585	38,242	56,827	217,308
Total Expenses	\$ 1,818,260	\$ 7,762,461	\$ 1,299,909	\$ 8,319,786	\$ 19,200,416	\$ 2,162,424	\$ 1,994,242	\$ 4,156,666	\$ 23,357,082

See Independent Auditor's Report on Other Financial Information

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

Consolidated Statements of Functional Expenses

Year Ended December 31, 2005 RESTATED

	Leadership Development and State and Community Capacity Building	Policy and Program Development and Implementation	Public Education, Media Campaigns, Internet Outreach and Publications	Black Community Crusade for Children	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total
Salaries & benefits	\$ 925,726	\$ 4,557,170	\$ 791,549	\$ 1,400,061	\$ 7,674,506	\$ 1,468,353	\$ 342,068	\$ 1,810,421	\$ 9,484,927
Contracted services	232,513	1,252,473	43,341	1,652,249	3,180,576	42,687	70,874	113,561	3,294,137
Corporate insurance	15,660	26,332	19,600	120,688	182,280	25,271	7,881	33,152	215,432
Travel & training	354,666	527,989	6,393	931,938	1,820,986	101,190	33,285	134,475	1,955,461
Printing & publications	37,705	268,745	169,451	334,262	810,163	30,891	15,518	46,409	856,572
Occupancy	51,052	475,543	42,132	190,255	758,982	74,497	23,241	97,738	856,720
Depreciation and amortization	87,005	152,069	122,635	258,469	620,178	140,404	43,787	184,191	804,369
Office expenses & postage	43,350	133,909	23,437	51,302	251,998	25,679	112,567	138,246	390,244
Interest & fees	42,803	72,137	37,290	39,464	191,694	69,095	21,547	90,642	282,336
Rental & equipment maintenance	18,605	86,305	12,571	39,650	157,131	23,767	10,234	34,001	191,132
Telephone	34,882	98,893	3,421	37,928	175,124	12,871	1,485	14,356	189,480
Computer services	4,291	91,124	23,350	21,348	140,113	11,690	16,646	28,336	168,449
Professional services & fees	2,461	20,415	2,778	13,034	38,688	134,031	265,951	399,982	438,670
Other expenses	6,034	16,876	27,409	9,825	60,144	58,126	7,489	65,615	125,759
Total Expenses	\$ 1,856,753	\$ 7,779,980	\$ 1,325,357	\$ 5,100,473	\$ 16,062,563	\$ 2,218,552	\$ 972,573	\$ 3,191,125	\$ 19,253,688

See Independent Auditor's Report on Other Financial Information