

**CHILDREN'S DEFENSE FUND AND  
CHILDREN'S DEFENSE FUND ACTION COUNCIL  
CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2008 AND 2007**

**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 Statements of Financial Position of **Children's Defense Fund and Children's Defense Fund Action Council** as of December 31, 2008 and 2007, 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 the Organization'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 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 audits provide 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, 2008 and 2007, 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 \$9,161,501 (23% of net assets), 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 fund managers or the general partners.



Rockville, Maryland  
August 12, 2009

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

**Consolidated Statements of Financial Position**

<i>December 31,</i>	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 5,973,278	\$ 458,131
Investments	19,446,392	32,131,269
Pledges receivable, net	8,829,932	9,252,442
Property and equipment, net	12,456,124	12,955,550
Other assets	997,297	981,943
<b>Total assets</b>	<b>\$ 47,703,023</b>	<b>\$ 55,779,335</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,947,534	\$ 1,757,830
Bonds payable	6,420,000	6,720,000
<b>Total liabilities</b>	<b>8,367,534</b>	<b>8,477,830</b>
<b>Net assets</b>		
Unrestricted		
Children's Defense Fund - undesignated	113,875	137,380
Children's Defense Fund - board designated endowment	9,481,627	21,612,672
Children's Defense Fund Action Council	83,157	184,919
<b>Total unrestricted</b>	<b>9,678,659</b>	<b>21,934,971</b>
Temporarily restricted	22,550,230	18,259,934
Permanently restricted	7,106,600	7,106,600
<b>Total net assets</b>	<b>39,335,489</b>	<b>47,301,505</b>
<b>Total liabilities and net assets</b>	<b>\$ 47,703,023</b>	<b>\$ 55,779,335</b>

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, 2008</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	<b>2008 Total</b>
<b>Revenue, gains and other support</b>				
Contributions and donations				
Foundations and corporations	\$ 1,477,244	\$ 18,088,428	\$ -	\$ 19,565,672
Individuals	2,426,375	-	-	2,426,375
Organizations and groups	599,440	-	-	599,440
Other				
Sales of publications and merchandise	120,717	-	-	120,717
Special events	778,187	-	-	778,187
Training fees	1,425,173	-	-	1,425,173
Haley Farm Fees	13,494	-	-	13,494
Miscellaneous	744,848	-	-	744,848
Investment income (loss)				
Endowment				
Interest and dividends	457,777	224,391	-	682,168
Realized and unrealized losses, net of manager fees	(4,662,869)	(1,898,523)	-	(6,561,392)
Operating	54,570	-	-	54,570
Net assets released from restrictions	12,124,000	(12,124,000)	-	-
<b>Total revenue, gains and other support</b>	<b>15,558,956</b>	<b>4,290,296</b>	<b>-</b>	<b>19,849,252</b>
<b>Expenses</b>				
Program services				
Leadership development and state and community capacity building	19,056,744	-	-	19,056,744
Policy and program development and implementation	1,808,633	-	-	1,808,633
Public education, media campaigns, internet outreach and publications	1,833,523	-	-	1,833,523
<b>Total program services</b>	<b>22,698,900</b>	<b>-</b>	<b>-</b>	<b>22,698,900</b>
Supporting services				
General and administrative	2,004,973	-	-	2,004,973
Fundraising	3,111,395	-	-	3,111,395
<b>Total supporting services</b>	<b>5,116,368</b>	<b>-</b>	<b>-</b>	<b>5,116,368</b>
<b>Total expenses</b>	<b>27,815,268</b>	<b>-</b>	<b>-</b>	<b>27,815,268</b>
<b>Change in net assets</b>	<b>(12,256,312)</b>	<b>4,290,296</b>	<b>-</b>	<b>(7,966,016)</b>
<b>Beginning net assets</b>	<b>21,934,971</b>	<b>18,259,934</b>	<b>7,106,600</b>	<b>47,301,505</b>
<b>Ending net assets</b>	<b>\$ 9,678,659</b>	<b>\$ 22,550,230</b>	<b>\$ 7,106,600</b>	<b>\$ 39,335,489</b>

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, 2007</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total
<b>Revenue, gains and other support</b>				
Contributions and donations				
Foundations and corporations	\$ 1,127,617	\$ 13,799,317	\$ -	\$ 14,926,934
Individuals	3,676,230	-	-	3,676,230
Organizations and groups	429,557	-	-	429,557
Other				
Sales of publications and merchandise	115,768	-	-	115,768
Special events	1,291,436	-	-	1,291,436
Training fees	1,419,586	-	-	1,419,586
Haley Farm Fees	97,146	-	-	97,146
Miscellaneous	437,555	-	-	437,555
Investment income				
Endowment				
Interest and dividends	505,525	246,407	-	751,932
Realized and unrealized gains, net of manager fees	1,262,871	615,560	-	1,878,431
Operating	78,585	-	-	78,585
Net assets released from restrictions	14,037,224	(14,037,224)	-	-
<b>Total revenue, gains and other support</b>	<b>24,479,100</b>	<b>624,060</b>	<b>-</b>	<b>25,103,160</b>
<b>Expenses</b>				
Program services				
Leadership development and state and community capacity building	16,121,802	-	-	16,121,802
Policy and program development and implementation	1,825,855	-	-	1,825,855
Public education, media campaigns, internet outreach and publications	3,524,787	-	-	3,524,787
<b>Total program services</b>	<b>21,472,444</b>	<b>-</b>	<b>-</b>	<b>21,472,444</b>
Supporting services				
General and administrative	2,230,867	-	-	2,230,867
Fundraising	2,160,052	-	-	2,160,052
<b>Total supporting services</b>	<b>4,390,919</b>	<b>-</b>	<b>-</b>	<b>4,390,919</b>
<b>Total expenses</b>	<b>25,863,363</b>	<b>-</b>	<b>-</b>	<b>25,863,363</b>
<b>Change in net assets</b>	<b>(1,384,263)</b>	<b>624,060</b>	<b>-</b>	<b>(760,203)</b>
<b>Beginning net assets</b>	<b>23,319,234</b>	<b>17,635,874</b>	<b>7,106,600</b>	<b>48,061,708</b>
<b>Ending net assets</b>	<b>\$ 21,934,971</b>	<b>\$ 18,259,934</b>	<b>\$ 7,106,600</b>	<b>\$ 47,301,505</b>

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>	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (7,966,016)	\$ (760,203)
<b>Adjustment to reconcile change in net assets to net cash provided (used) in operating activities</b>		
Depreciation and amortization	<b>893,810</b>	889,235
Realized and unrealized loss (gain) on investments	<b>6,561,392</b>	(1,878,431)
Provision for doubtful accounts	<b>(10,000)</b>	-
Discount on pledge receivable	<b>(104,776)</b>	-
<b>Increase (decrease) in assets and liabilities</b>		
Pledges receivable	<b>537,286</b>	678,203
Other assets	<b>(15,354)</b>	(656,915)
Accounts payable and accrued expenses	<b>189,704</b>	399,113
<b>Net cash provided (used) in operating activities</b>	<b>86,046</b>	(1,328,998)
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments	<b>9,953,136</b>	5,158,584
Purchases of investments	<b>(3,829,651)</b>	(3,523,544)
Purchases of property and equipment	<b>(394,384)</b>	(238,596)
<b>Net cash provided by investing activities</b>	<b>5,729,101</b>	1,396,444
<b>Cash flows used in financing activities</b>		
Repayments of bonds payable	<b>(300,000)</b>	(275,000)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>5,515,147</b>	(207,554)
<b>Cash and cash equivalents, beginning of year</b>	<b>458,131</b>	665,685
<b>Cash and cash equivalents, end of year</b>	<b>\$ 5,973,278</b>	\$ 458,131
<b>Supplemental cash flows information</b>		
Actual cash payments of interest	<b>\$ 156,902</b>	\$ 268,053
<b>Noncash investing activities</b>		
Gifts of securities	<b>\$ 49,783</b>	\$ 136,813

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. CDF provides a strong, effective and independent voice for *all* the children of America who cannot vote, lobby or speak for themselves. We pay particular attention to the needs of poor and minority children and those with disabilities. CDF 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 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 generally accepted accounting principles 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 funds, 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 (See Note 2).

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 interest rates applicable to the years in which the amounts were 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

**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 Children's Defense Fund Action Council

## 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 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.

**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, 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 Children's Defense Fund Action Council

## 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.

**Uncertainties in income taxes:** In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48). FIN 48 requires changes in recognition and measurement for uncertain tax positions. CDF has elected to defer the implementation of FIN 48 until its fiscal year beginning January 1, 2009, as permitted by FASB Staff Position (FSP) FIN 48-3, and is currently assessing the impact of this change on its financial position and changes in net assets.

CDF currently evaluates uncertain tax positions under the provisions of Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. The effects of tax positions are generally recognized in the financial statements consistent with amounts reflected in returns filed, or expected to be filed, with taxing authorities. For tax positions that CDF considers to be uncertain, current and deferred tax liabilities are recognized, or assets derecognized, when it is probable that an income tax liability has been incurred and the amount of the liability is reasonably estimable.

**Reclassifications:** Certain 2007 balances have been reclassified to conform with 2008 presentation.

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

### Notes to Consolidated Financial Statements

**2. Investments**      Investments as of December 31, 2008 and 2007 consist of the following:

	2008	2007
Endowment		
U.S. equities	\$ 2,223,859	\$ 6,512,825
International equities	2,932,488	7,858,388
Hedge funds	5,816,284	5,439,962
Real estate investment trust funds	1,798,555	2,506,522
Real asset fund	681,763	3,088,046
U.S. bond funds	4,182,050	6,257,561
Certificates of deposit/money market funds	334,194	453,036
<b>Total endowment</b>	<b>17,969,193</b>	<b>32,116,340</b>
Operating		
Common stocks	157,199	14,929
U.S. bond funds	1,320,000	-
<b>Total investments</b>	<b>\$ 19,446,392</b>	<b>\$ 32,131,269</b>

The hedge funds in which CDF invest 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.

Subsequent to year end, CDF liquidated 30% of their investments held in securities due to the uncertainty in the investment markets; the realized loss incurred was approximately \$3,125,654 at the point of sale. The unrealized loss related to these investments was \$6,057,489 as of December 31, 2008.

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

## Notes to Consolidated Financial Statements

**2. Investments  
(continued)**

Net investment (losses) earnings consist of the following for the years ended December 31, 2008 and 2007:

	2008		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 457,777	\$ 224,391	\$ 682,168
Net realized and unrealized (losses) gains	(4,477,516)	(1,807,668)	(6,285,184)
Management fees	(185,353)	(90,855)	(276,208)
Operating	54,570	-	54,570
<b>Total investment (losses) earnings</b>	<b>\$ (4,150,522)</b>	<b>\$ (1,674,132)</b>	<b>\$ (5,824,654)</b>

	2007		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 505,525	\$ 246,407	\$ 751,932
Net realized and unrealized (losses) gains	1,417,853	691,103	2,108,956
Management fees	(154,982)	(75,543)	(230,525)
Operating	78,585	-	78,585
<b>Total investment earnings</b>	<b>\$ 1,846,981</b>	<b>\$ 861,967</b>	<b>\$ 2,708,948</b>

CDF values investments in accordance with a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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.

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

## Notes to Consolidated Financial Statements

**2. Investments  
(continued)**

The fair value of investments as of December 31, 2008 is as follows:

	Total	Fair Value Measurements At Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. and international equities	\$ 4,448,647	\$ 4,448,647	\$ -	\$ -
US bond funds	5,502,050	5,502,050	-	-
Certificates of deposit	334,194	-	334,194	-
Hedge funds and alternative investments	9,161,501	-	-	9,161,501
<b>Total</b>	<b>\$ 19,446,392</b>	<b>\$ 9,950,697</b>	<b>\$ 334,194</b>	<b>\$ 9,161,501</b>

Level 2 values were developed utilizing the current interest rates for certificates of deposit with similar time to maturity, discounting the future payments to present value at December 31, 2008.

Level 3 values were developed utilizing the net asset value (NAV) as reported by the finance committee. The committee receives an initial NAV from the underlying fund manager, and adjusts said calculation to a final reported NAV based on a review of annual audited financial statements to ensure underlying funds have received an unqualified opinion and that the financial statements are free of material misstatement, and whether there is a history of significant adjustments to the NAV as a result of the annual financial statements.

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

### Notes to Consolidated Financial Statements

**2. Investments  
(continued)**

CDF measured the fair value of certain investments using significant unobservable inputs for the year ended December 31, 2008 as follows:

<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</b>						
	<b>State Street Rexiter</b>	<b>State Street Global</b>	<b>Tudor Futures</b>	<b>Rock Creek Group</b>	<b>TIFF Real Estate</b>	<b>Total</b>
<b>Beginning balance</b>	\$ 3,340,773	\$3,088,046	\$3,320,370	\$2,119,592	\$1,884,635	\$13,753,416
<b>Total gains or losses (realized and unrealized)</b>	(1,593,992)	(626,165)	857,077	(389,288)	(422,813)	(2,175,181)
<b>Purchases, sales, issuance, and settlements</b>	(490,112)	(1,780,118)	(91,467)	-	(55,037)	(2,416,734)
<b>Ending balance</b>	<b>\$ 1,256,669</b>	<b>\$ 681,763</b>	<b>\$ 4,085,980</b>	<b>\$ 1,730,304</b>	<b>\$ 1,406,785</b>	<b>\$ 9,161,501</b>

Gains and losses (realized and unrealized) included in change in net assets for the year ended December 31, 2008 are reported in investment income as follows:

	<b>Investment income</b>
Total realized gains included in change in net assets	\$ 1,452,421
Unrealized losses relating to assets still held at reporting date	\$ (3,627,602)

**3. Risks and  
uncertainties**

CDF holds investments in various securities, fixed income funds and alternative investments that are exposed to risks, such as interest rate and overall volatility risks. Recent market conditions have resulted in an unusually high degree of volatility and increased the risks associated with certain investments held by CDF. This will impact the value of investments after the date of these financial statements. Consistent with market conditions, CDF's investments may incur losses subsequent to December 31, 2008.

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

### Notes to Consolidated Financial Statements

- 4. Pledges receivable and concentration** As of December 31, 2008 and 2007, CDF has received the following multi-year commitments:

	2008	2007
Due in less than one year	\$ 6,908,877	\$ 6,028,623
Due in two to five years	2,151,453	3,568,993
<b>Total pledges receivable</b>	<b>9,060,330</b>	9,597,616
Less: Discounts on pledges receivable	(225,398)	(330,174)
Less: Allowance for doubtful accounts	(5,000)	(15,000)
<b>Total pledges receivable, net</b>	<b>\$ 8,829,932</b>	\$ 9,252,442

In 2008 and 2007, amounts due in more than one year are discounted at rates ranging from 4.60% - 4.80%.

**Concentration of pledges receivable and foundation revenue:** Two of the receivables as of December 31, 2008 and 2007 included in CDF's pledges receivable in the accompanying Consolidated Statement of Financial Position comprise 85% and 56% of the balance, respectively. Total foundation revenue for the years ended December 31, 2008 and 2007 in the accompanying Consolidated Statement of Activities and Changes in Net Assets includes two grantor's support constituting 71% and 61% of this balance, respectively.

- 5. Property and equipment** Property and equipment as of December 31, 2008 and 2007 consist of the following:

	2008		
	Headquarters and State and Local Offices	Haley Farm	Total
Land	\$ 1,984,718	\$ 592,874	\$ 2,577,592
Buildings and improvements	12,862,282	5,170,488	18,032,771
Furniture, equipment and software	3,948,570	711,734	4,660,304
<b>Total property and equipment</b>	<b>18,795,570</b>	<b>6,475,096</b>	<b>25,270,667</b>
Less: Accumulated depreciation	(10,648,136)	(2,166,406)	(12,814,543)
<b>Net property and equipment</b>	<b>\$ 8,147,434</b>	<b>\$ 4,308,690</b>	<b>\$ 12,456,124</b>



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

## Notes to Consolidated Financial Statements

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

	2007		
	Headquarters and State and Local Offices		Haley Farm
	Total	Total	Total
Land	\$ 1,984,718	\$ 592,874	\$ 2,577,592
Buildings and improvements	12,862,282	5,125,278	17,987,560
Furniture, equipment and software	3,624,933	686,198	4,311,131
<b>Total property and equipment</b>	<b>18,471,933</b>	<b>6,404,350</b>	<b>24,876,283</b>
Less: Accumulated depreciation	(9,983,233)	(1,937,500)	(11,920,733)
<b>Net property and equipment</b>	<b>\$ 8,488,700</b>	<b>\$ 4,466,850</b>	<b>\$ 12,955,550</b>

Depreciation expense for the years ended December 31, 2008 and 2007 was \$893,810 and \$889,235, respectively, and is included in depreciation and amortization expense in the accompanying Consolidated Statements of Functional Expenses.

**6. 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, 2008 for the tax-exempt and taxable bonds were 1.4% and 2.0%, respectively. The interest rates at December 31, 2007 for the tax exempt and taxable bonds were 3.55% and 5.17%, respectively. Bond interest expense for the years ended December 31, 2008 and 2007 was \$156,902 and \$268,053, respectively.

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

### Notes to Consolidated Financial Statements

- 6. Bonds payable (continued)** 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 liquid assets.

As of December 31, 2008, the aggregate scheduled principal maturities on the Bonds over the next five years and thereafter are as follows:

Year ending December 31	Amount
2009	\$ 315,000
2010	335,000
2011	355,000
2012	375,000
2013	395,000
Thereafter	4,645,000
<b>Total</b>	<b>\$ 6,420,000</b>

- 7. Temporarily restricted net assets** The consolidated temporarily restricted net assets as of December 31, 2008 and 2007, respectively, are available for the following programs or purposes:

	2008	2007
Operating		
Policy and program development and implementation	\$ 6,239,729	\$ 4,710,855
Leadership development and state and community capacity building	14,868,862	10,036,736
Time restricted for use in future periods	-	49,525
<b>Total operating</b>	<b>\$ 21,108,591</b>	<b>\$ 14,797,116</b>

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

**Notes to Consolidated Financial Statements**

<b>7. Temporarily restricted net assets (continued)</b>	Endowment		
	Policy and program development and implementation	\$ 521,813	\$ 723,879
	Leadership development and state and community capacity building	-	634,663
	Public education, media campaigns, Internet outreach and publications	<b>919,826</b>	2,104,276
	<b>Total endowment</b>	<b>1,441,639</b>	3,462,818
	<b>Total temporarily restricted net assets</b>	<b>\$ 22,550,230</b>	\$ 18,259,934

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

	2008	2007
Endowment		
Leadership development and state and community capacity building	\$ 4,606,600	\$ 4,606,600
Public education, media campaigns, Internet outreach and publications	<b>2,500,000</b>	2,500,000
<b>Total permanently restricted net assets</b>	<b>\$ 7,106,600</b>	\$ 7,106,600

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

<b>8. Release from restrictions</b>	Donor restrictions met were as follows for the years ended December 31:		
		2008	2007
	Policy and program development and implementation	\$ 6,181,556	\$ 5,806,748
	Leadership development and state and community capacity building	<b>5,555,868</b>	6,523,014
	Public education, media campaigns, Internet outreach and publications	<b>337,051</b>	307,878
	Time and other	<b>49,525</b>	1,399,584
	<b>Total release from restrictions</b>	<b>\$ 12,124,000</b>	\$ 14,037,224

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

## Notes to Consolidated Financial Statements

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### 9. 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 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 that is classified in temporarily restricted net assets until those amounts are appropriated for expenditure by CDF in a manner consistent with the standard prudence prescribed by UPMIFA.

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.

Endowment net assets consist of donor-restricted endowment funds of \$7,106,600, temporarily restricted funds of \$1,441,639 and board designated funds of \$9,481,627 as of December 31, 2008.

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

**Notes to Consolidated Financial Statements**

**9. Endowment funds  
(continued)**

The change in endowment net assets for the year ended December 31, 2008:

	<u>Board Designated Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, beginning of year</b>	<b>\$ 21,612,672</b>	<b>\$ 3,462,818</b>	<b>\$ 7,106,600</b>	<b>\$32,182,090</b>
<b>Investment loss</b>	<b>(4,205,092)</b>	<b>(1,674,132)</b>	<b>-</b>	<b>(5,879,224)</b>
<b>Expenditures</b>	<b>(7,925,953)</b>	<b>(347,047)</b>	<b>-</b>	<b>(8,273,000)</b>
<b>Endowment net assets, end of year</b>	<b>\$ 9,481,627</b>	<b>\$ 1,441,639</b>	<b>\$ 7,106,600</b>	<b>\$18,029,866</b>

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, 2008 is \$7,106,600.

**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.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

It is the policy of CDF to approve an amount for spending that remains level for fiscal year 2001 until the growth of the endowment reaches a level where that amount is equal to or less than 5% of the total market value of the endowment fund.

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

## Notes to Consolidated Financial Statements

**10. 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 \$451,712 and \$361,148 for the years ended December 31, 2008 and 2007 respectively.

**11. 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, 2008 and 2007 was \$655,222 and \$574,281, respectively. As of December 31, 2008, 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
2009	\$ 568,095
2010	489,962
2011	431,117
2012	434,429
2013	377,727
Thereafter	1,143,828
<b>Total minimum lease payments</b>	<b>\$ 3,445,158</b>

**12. 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 2008 and 2007, the total paid to this organization for consulting services was \$323,048 and \$372,796, 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 Children's Defense Fund Action Council

## Notes to Consolidated Financial Statements

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### **13. 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, 2008 and 2007, CDF has invested \$2,340,000. 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, 2008, 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.

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## 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 report on our audit of the basic financial statements of Children's Defense Fund and Children's Fund Action Council for 2008 appears on page 1. That 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 23 to 24 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.

*Aronson & Company*

Rockville, Maryland  
August 12, 2009



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

**Consolidated Statements of Functional Expenses**

*Year Ended December 31, 2008*

	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
Salaries & benefits	\$ 8,503,439	\$ 1,208,929	\$ 1,177,391	\$ 10,889,759	\$ 646,447	\$ 1,088,693	\$ 1,735,140	\$ 12,624,899
Contracted services	4,131,400	138,606	133,179	4,403,185	701,420	580,170	1,281,590	5,684,775
Corporate insurance	103,435	21,185	25,676	150,296	30,000	14,998	44,998	195,294
Travel & training	2,956,243	85,254	26,141	3,067,638	167,308	310,656	477,964	3,545,602
Printing & publications	988,347	51,186	115,035	1,154,568	28,221	148,032	176,253	1,330,821
Occupancy	910,800	27,983	24,450	963,233	196,202	17,767	213,969	1,177,202
Depreciation and amortization	509,497	95,404	87,710	692,611	115,432	85,767	201,199	893,810
Office expenses & postage	209,654	10,264	17,559	237,477	15,781	170,928	186,709	424,186
Interest & fees	70,309	41,109	36,827	148,245	46,123	30,506	76,629	224,874
Rental & equipment maintenance	206,538	17,322	13,932	237,792	21,340	15,217	36,557	274,349
Telephone	155,166	12,362	4,847	172,375	13,516	5,238	18,754	191,129
Computer services	115,936	48,011	156,826	320,773	9,072	55,276	64,348	385,121
Professional services & fees	118,455	23,903	11,411	153,769	11,048	548,854	559,902	713,671
Other expenses	77,525	27,115	2,539	107,179	3,063	39,293	42,356	149,535
<b>Total expenses</b>	<b>\$ 19,056,744</b>	<b>\$ 1,808,633</b>	<b>\$ 1,833,523</b>	<b>\$ 22,698,900</b>	<b>\$ 2,004,973</b>	<b>\$ 3,111,395</b>	<b>\$ 5,116,368</b>	<b>\$ 27,815,268</b>

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, 2007

	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
Salaries & benefits	\$ 6,328,186	\$ 1,070,393	\$ 1,133,205	\$ 8,531,784	\$ 1,388,245	\$ 678,593	\$ 2,066,838	\$ 10,598,622
Contracted services	3,937,547	231,442	400,259	4,569,248	136,810	414,684	551,494	5,120,742
Corporate insurance	110,625	20,832	19,558	151,015	6,493	11,217	17,710	168,725
Travel & training	2,474,921	129,190	211,810	2,815,921	136,104	101,850	237,954	3,053,875
Printing & publications	880,305	49,079	1,331,816	2,261,200	13,203	51,348	64,551	2,325,751
Occupancy	842,723	52,359	35,787	930,869	73,652	29,126	102,778	1,033,647
Depreciation and amortization	503,951	106,443	66,501	676,895	148,449	63,891	212,340	889,235
Office expenses & postage	267,575	10,722	26,496	304,793	52,915	184,733	237,648	542,441
Interest & fees	111,070	62,724	38,600	212,394	87,660	33,775	121,435	333,829
Rental & equipment maintenance	144,153	9,845	10,669	164,667	14,139	24,256	38,395	203,062
Telephone	143,022	9,521	17,363	169,906	13,301	2,899	16,200	186,106
Computer services	162,163	66,699	174,552	403,414	20,342	94,448	114,790	518,204
Professional services & fees	75,223	4,429	53,816	133,468	112,654	442,085	554,739	688,207
Other expenses	140,338	2,177	4,355	146,870	26,900	27,147	54,047	200,917
<b>Total expenses</b>	<b>\$ 16,121,802</b>	<b>\$ 1,825,855</b>	<b>\$ 3,524,787</b>	<b>\$ 21,472,444</b>	<b>\$ 2,230,867</b>	<b>\$ 2,160,052</b>	<b>\$ 4,390,919</b>	<b>\$ 25,863,363</b>

See Independent Auditor's Report on Other Financial Information