

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2007**



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# 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, 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 audit. The prior year summarized comparative information has been derived from the Organization's 2006 financial statements and, in our report dated July 3, 2007, 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, 2007, 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.

A handwritten signature in black ink that reads "Aronson &amp; Company". The signature is written in a cursive, flowing style.

Rockville, Maryland  
August 1, 2008

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

**Consolidated Statement of Financial Position**

*December 31, 2007*

*(With Summarized Financial Information  
as of December 31, 2006)*

	Operating	Endowment	2007 Total	2006 Total
<b>Assets</b>				
Cash and cash equivalents	\$ 458,131	\$ -	\$ 458,131	\$ 665,685
Investments	14,929	32,116,340	32,131,269	31,887,878
Pledges receivable, net	8,582,442	-	8,582,442	9,260,645
Property and equipment, net	12,955,550	-	12,955,550	13,606,189
Other assets	1,586,193	65,750	1,651,943	995,028
<b>Total assets</b>	<b>\$ 23,597,245</b>	<b>\$ 32,182,090</b>	<b>\$ 55,779,335</b>	<b>\$ 56,415,425</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 1,757,830	\$ -	\$ 1,757,830	\$ 1,358,717
Bonds payable	6,720,000	-	6,720,000	6,995,000
<b>Total liabilities</b>	<b>8,477,830</b>	<b>-</b>	<b>8,477,830</b>	<b>8,353,717</b>
<b>Net assets</b>				
Unrestricted				
Children's Defense Fund	137,380	21,612,672	21,750,052	23,236,514
Children's Defense Fund Action Council	184,919	-	184,919	82,720
<b>Total unrestricted</b>	<b>322,299</b>	<b>21,612,672</b>	<b>21,934,971</b>	<b>23,319,234</b>
Temporarily restricted	14,797,116	3,462,818	18,259,934	17,635,874
Permanently restricted	-	7,106,600	7,106,600	7,106,600
<b>Total net assets</b>	<b>15,119,415</b>	<b>32,182,090</b>	<b>47,301,505</b>	<b>48,061,708</b>
<b>Total liabilities and net assets</b>	<b>\$ 23,597,245</b>	<b>\$ 32,182,090</b>	<b>\$ 55,779,335</b>	<b>\$ 56,415,425</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 (With Summarized Financial Information for the Year Ended December 31, 2006)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	<b>2007 Total</b>	2006 Total
<b>Revenue, gains and other support</b>					
Contributions and donations					
Foundations and corporations	\$ 1,127,617	\$ 13,799,317	\$ -	\$ <b>14,926,934</b>	\$ 10,680,266
Individuals	3,676,230	-	-	<b>3,676,230</b>	2,889,646
Organizations and groups	429,557	-	-	<b>429,557</b>	286,476
Other					
Sales of publications and merchandise	115,768	-	-	<b>115,768</b>	162,637
Special events	1,291,436	-	-	<b>1,291,436</b>	1,259,368
Training fees	1,419,586	-	-	<b>1,419,586</b>	1,109,658
Haley Farm Fees	97,146	-	-	<b>97,146</b>	128,922
Miscellaneous	437,555	-	-	<b>437,555</b>	278,854
Investment income					
Endowment					
Interest and dividends	505,525	246,407	-	<b>751,932</b>	764,386
Realized and unrealized gains, net of manager fees	1,262,871	615,560	-	<b>1,878,431</b>	3,986,599
Operating	78,585	-	-	<b>78,585</b>	57,940
Net assets released from restrictions	14,037,224	(14,037,224)	-	-	-
<b>Total revenue</b>	<b>24,479,100</b>	<b>624,060</b>	<b>-</b>	<b>25,103,160</b>	<b>21,604,752</b>
<b>Expenses</b>					
Program services					
Leadership development and state and community capacity building	16,121,802	-	-	<b>16,121,802</b>	15,480,641
Policy and program development and implementation	1,825,855	-	-	<b>1,825,855</b>	2,187,954
Public education, media campaigns, Internet outreach and publications	3,524,787	-	-	<b>3,524,787</b>	1,394,130
<b>Total program services</b>	<b>21,472,444</b>	<b>-</b>	<b>-</b>	<b>21,472,444</b>	<b>19,062,725</b>
Supporting services					
General and administrative	2,230,867	-	-	<b>2,230,867</b>	2,301,342
Fundraising	2,160,052	-	-	<b>2,160,052</b>	1,993,015
<b>Total supporting services</b>	<b>4,390,919</b>	<b>-</b>	<b>-</b>	<b>4,390,919</b>	<b>4,294,357</b>
<b>Total expenses</b>	<b>25,863,363</b>	<b>-</b>	<b>-</b>	<b>25,863,363</b>	<b>23,357,082</b>
<b>Change in net assets</b>	<b>(1,384,263)</b>	<b>624,060</b>	<b>-</b>	<b>(760,203)</b>	<b>(1,752,330)</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>49,814,038</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>	<b>\$ 48,061,708</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 Cash Flows**

<i>Year Ended December 31, 2007 (With Summarized Financial Information for the Year Ended December 31, 2006)</i>	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (760,203)	\$ (1,752,330)
<b>Adjustment to reconcile change in net assets to net cash used in operating activities</b>		
Depreciation and amortization	889,235	842,375
Realized and unrealized gain on investments	(1,878,431)	(3,986,599)
<b>Increase (decrease) in assets and liabilities</b>		
Pledges receivable	678,203	2,860,050
Other assets	(656,915)	(172,698)
Accounts payable and accrued expenses	399,113	234,579
<b>Net cash used in operating activities</b>	<b>(1,328,998)</b>	<b>(1,974,623)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments	5,158,584	6,727,895
Purchases of investments	(3,523,544)	(4,519,666)
Purchases of property and equipment	(238,596)	(407,163)
<b>Net cash provided by investing activities</b>	<b>1,396,444</b>	<b>1,801,066</b>
<b>Cash flows used in financing activities</b>		
Repayments of bonds payable	(275,000)	(265,000)
<b>Decrease in cash and cash equivalents</b>	<b>(207,554)</b>	<b>(438,557)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>665,685</b>	<b>1,104,242</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 458,131</b>	<b>\$ 665,685</b>
<b>Supplemental cash flows information</b>		
Actual cash payments of interest	\$ 268,053	\$ 266,604
<b>Noncash investing activities</b>		
Gifts of securities	\$ 136,813	\$ 40,699

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.

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the CDF consolidated financial statements for the year ended December 31, 2006, from which the summarized information was derived.

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

## 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 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.

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

**Bonds payable:** CDF records bonds payable at book value which approximates fair value.



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

## Notes to Consolidated Financial Statements

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

**Net assets:** Unrestricted net assets represent resources that are not restricted, either temporarily or permanently, by donor-imposed stipulations. They are available for support of all organizational operations and services.

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

Permanently restricted net assets represent gifts of cash and other assets that are received with donor stipulations requiring that the original gift amount be held in perpetuity and only the earnings, if any, be used for the purposes designated by the donor.

**Endowment fund:** CDF has established an endowment fund to account for gifts which are required by donors to be held in perpetuity 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.

**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.

**Reclassification:** Certain 2006 amounts were reclassified to conform to the 2007 presentation.

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

## Notes to Consolidated Financial Statements

**2. Investments** Investments as of December 31, 2007 and 2006 consist of the following:

	2007	2006
Endowment		
U.S. equities	\$ 6,512,825	\$ 5,605,889
International equities	7,858,388	8,262,590
Hedge funds	5,439,962	5,054,218
Real estate investment trust funds	2,506,522	3,310,868
Real asset fund	3,088,046	2,761,135
U.S. bond funds	6,257,561	5,977,822
Certificates of deposit/money market funds	453,036	829,203
<b>Total endowment</b>	<b>32,116,340</b>	<b>31,801,725</b>
Operating		
Common stocks	14,929	86,153
<b>Total investments</b>	<b>\$ 32,131,269</b>	<b>\$ 31,887,878</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.

Net endowment investment earnings consist of the following for the years ended December 31, 2007 and 2006:

	2007			2006
	Unrestricted	Temporarily Restricted	Total	Total
Interest and dividends	\$ 505,525	\$ 246,407	\$ 751,932	\$ 764,386
Net realized and unrealized gains	1,417,853	691,103	2,108,956	4,265,341
Management fees	(154,982)	(75,543)	(230,525)	(278,742)
<b>Total endowment investment earnings</b>	<b>\$ 1,768,396</b>	<b>\$ 861,967</b>	<b>\$ 2,630,363</b>	<b>\$ 4,750,985</b>

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

### Notes to Consolidated Financial Statements

<b>3. Pledges receivable and concentration</b>	As of December 31, 2007 and 2006, CDF has received the following multi-year commitments:		
		<u>2007</u>	<u>2006</u>
	Due in less than one year	\$ 6,028,623	\$ 5,089,127
	Due in two to five years	2,898,993	4,603,937
	<b>Total pledges receivable</b>	<b>8,927,616</b>	9,693,064
	Less: Discounts on pledges receivable	(330,174)	(432,419)
	Less: Allowance for doubtful accounts	(15,000)	-
	<b>Total pledges receivable, net</b>	<b>\$ 8,582,442</b>	<b>\$ 9,260,645</b>

In 2007 and 2006, amounts due in more than one year are discounted at rates ranging from 4.60% - 4.80% and 4.71% - 5.09%, respectively.

**Concentration of pledges receivable and foundation revenue:** Two of the receivables as of December 31, 2007 and 2006 in CDF's pledges receivable in the accompanying Consolidated Statement of Financial Position comprise 56% and 54% of the balance, respectively. Total foundation revenue for the years ended December 31, 2007 and 2006 in the accompanying Consolidated Statement of Activities and Changes in Net Assets includes three grantor's support constituting 61% and 58% of this balance, respectively.

<b>4. Property and equipment</b>	Property and equipment as of December 31, 2007 and 2006 consist of the following:				
		<u>2007</u>		<u>2006</u>	
		<b>Headquarters and State and Local Offices</b>	<b>Haley Farm</b>	<b>Total</b>	<b>Total</b>
	Land	\$ 1,984,718	\$ 592,874	\$ 2,577,592	\$ 2,577,592
	Buildings and improvements	12,862,282	5,125,278	17,987,560	17,987,560
	Furniture, equipment and software	3,624,933	686,198	4,311,131	4,073,323
	<b>Total property and equipment</b>	<b>18,471,933</b>	<b>6,404,350</b>	<b>24,876,283</b>	24,638,475
	Less: Accumulated depreciation	(9,983,233)	(1,937,500)	(11,920,733)	(11,032,286)
	<b>Net property and equipment</b>	<b>\$ 8,488,700</b>	<b>\$ 4,466,850</b>	<b>\$ 12,955,550</b>	<b>\$ 13,606,189</b>

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

## Notes to Consolidated Financial Statements

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**4. Property and equipment (continued)** Depreciation expense for the years ended December 31, 2007 and 2006 was \$888,447 and \$841,590, 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.

The interest rates at December 31, 2007 and 2006 for the tax-exempt and taxable bonds were 3.90% and 5.40%, respectively. Bond interest expense for the years ended December 31, 2007 and 2006 were \$268,053 and \$266,604, 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.

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

### Notes to Consolidated Financial Statements

- 5. Bonds payable (continued)** As of December 31, 2007, the aggregate scheduled principal maturities on the Bonds over the next five years and thereafter are as follows:

Year Ending December 31	Amount
2008	\$ 300,000
2009	315,000
2010	335,000
2011	355,000
2012	375,000
Thereafter	5,040,000
<b>Total</b>	<b>\$ 6,720,000</b>

- 6. Temporarily restricted net assets** The consolidated temporarily restricted net assets as of December 31, 2007 and 2006, respectively, are available for the following programs or purposes:

	2007	2006
Operating		
Policy and program development and implementation	\$ 4,710,855	\$ 5,772,693
Leadership development and state and community capacity building	10,036,736	7,116,750
Time restricted for use in future periods	49,525	1,431,502
<b>Total operating</b>	<b>\$ 14,797,116</b>	<b>\$ 14,320,945</b>
Endowment		
Policy and program development and implementation	\$ 723,879	\$ 651,292
Leadership development and state and community capacity building	634,663	629,425
Public education, media campaigns, Internet outreach and publications	2,104,276	2,034,212
<b>Total endowment</b>	<b>3,462,818</b>	<b>3,314,929</b>
<b>Total temporarily restricted net assets</b>	<b>\$ 18,259,934</b>	<b>\$ 17,635,874</b>

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

### Notes to Consolidated Financial Statements

- 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, 2007 and 2006, respectively, is to be used as follows:

	2007	2006
Endowment		
Leadership development and state and community capacity building	\$ 4,606,600	\$ 4,606,600
Public education, media campaigns, Internet outreach and publications	2,500,000	2,500,000
<b>Total permanently restricted net assets</b>	<b>\$ 7,106,600</b>	<b>\$ 7,106,600</b>

- 8. Release from restrictions** Donor restrictions met were as follows for the years ended December 31:

	2007	2006
Policy and program development and implementation	\$ 5,806,748	\$ 4,592,148
Leadership development and state and community capacity building	6,523,014	6,695,997
Public education, media campaigns, Internet outreach and publications	307,878	231,019
Time and other	1,399,584	1,387,452
<b>Total release from restrictions</b>	<b>\$ 14,037,224</b>	<b>\$ 12,906,616</b>

- 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 \$361,148 and \$342,662 for the years ended December 31, 2007 and 2006 respectively.

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

## Notes to Consolidated Financial Statements

**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, 2007 and 2006 was \$574,281 and \$502,935, respectively. As of December 31, 2007, 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
2008	\$ 387,404
2009	336,887
2010	346,991
2011	348,612
2012	318,383
Thereafter	1,440,719
<b>Total minimum lease payments</b>	<b>\$ 3,179,045</b>

**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 2007 and 2006, the total paid to this organization for consulting services was \$372,796 and \$264,500, 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.

**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, 2007 and 2006, 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, 2007, CDF has made all payments in accordance with the terms of the agreement. CDF anticipates having the ability to continue capital contributions as required by the commitment.





## **Independent Auditor's Report on 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 2007 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 16 to 20 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.

Rockville, Maryland  
August 1, 2008

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

**Consolidating Statement of Financial Position - Operating**

<i>December 31, 2007 (With Summarized Financial Information as of December 31, 2006)</i>	Children's Defense Fund Operating	Children's Defense Fund Action Council	<b>2007 Total</b>	2006 Total
<b>Assets</b>				
Cash and cash equivalents	\$ 438,305	\$ 19,826	\$ 458,131	\$ 665,685
Intercompany Loan	(174,111)	174,297	186	-
Investments	14,929	-	14,929	86,153
Pledges receivable	8,582,442	-	8,582,442	9,260,645
Property and equipment, net	12,955,550	-	12,955,550	13,606,189
Other assets	1,577,314	8,693	1,586,007	994,629
<b>Total assets</b>	<b>\$ 23,394,429</b>	<b>\$ 202,816</b>	<b>\$ 23,597,245</b>	<b>\$ 24,613,301</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 1,739,933	\$ 17,897	\$ 1,757,830	\$ 1,358,717
Bonds payable	6,720,000	-	6,720,000	6,995,000
<b>Total liabilities</b>	<b>8,459,933</b>	<b>17,897</b>	<b>8,477,830</b>	<b>8,353,717</b>
<b>Net assets</b>				
Unrestricted				
Children's Defense Fund	137,380	-	137,380	1,855,919
Children's Defense Fund Action Council	-	184,919	184,919	82,720
<b>Total unrestricted</b>	<b>137,380</b>	<b>184,919</b>	<b>322,299</b>	<b>1,938,639</b>
Temporarily restricted	14,797,116	-	14,797,116	14,320,945
Permanently restricted	-	-	-	-
<b>Total net assets</b>	<b>14,934,496</b>	<b>184,919</b>	<b>15,119,415</b>	<b>16,259,584</b>
<b>Total liabilities and net assets</b>	<b>\$ 23,394,429</b>	<b>\$ 202,816</b>	<b>\$ 23,597,245</b>	<b>\$ 24,613,301</b>

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, 2007 (With Summarized Financial Information for the Year Ended December 31, 2006)</i>	Children's Defense Fund Operating	Children's Defense Fund Action Council	<b>2007 Total</b>	2006 Total
<b>Revenue, gains and other support</b>				
Contributions and donations				
Foundations and corporations	\$ 1,127,617	\$ -	\$ <b>1,127,617</b>	\$ 689,174
Individuals	3,363,260	312,970	<b>3,676,230</b>	2,706,146
Organizations and groups	429,557	-	<b>429,557</b>	286,476
Other				
Sales of publications and merchandise	115,768	-	<b>115,768</b>	162,637
Special events	1,291,436	-	<b>1,291,436</b>	1,259,368
Training fees	1,419,586	-	<b>1,419,586</b>	1,109,658
Haley farm fees	97,146	-	<b>97,146</b>	128,922
Miscellaneous	437,555	-	<b>437,555</b>	278,854
Investment income				
Endowment				
Interest and dividends	505,525	-	<b>505,525</b>	515,729
Realized and unrealized gains	1,262,871	-	<b>1,262,871</b>	2,689,743
Operating	76,391	2,194	<b>78,585</b>	57,940
Net assets released from restrictions	14,037,224	-	<b>14,037,224</b>	12,906,616
<b>Total revenue</b>	<b>24,163,936</b>	<b>315,164</b>	<b>24,479,100</b>	<b>22,791,263</b>
<b>Expenses</b>				
Program services				
Leadership development and state and community capacity building	16,101,997	19,805	<b>16,121,802</b>	15,480,641
Policy and program development and implementation	1,815,728	10,127	<b>1,825,855</b>	2,187,954
Public education, media campaigns, Internet outreach and publications	3,497,718	27,069	<b>3,524,787</b>	1,394,130
<b>Total program services</b>	<b>21,415,443</b>	<b>57,001</b>	<b>21,472,444</b>	<b>19,062,725</b>

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, 2007 (With Summarized Financial Information for the Year Ended December 31, 2006)</i>	Children's Defense Fund Operating	Children's Defense Fund Action Council	<b>2007 Total</b>	2006 Total
<b>Supporting services</b>				
General and administrative	2,164,526	66,341	<b>2,230,867</b>	2,301,342
Fundraising	2,070,430	89,622	<b>2,160,052</b>	1,993,015
<b>Total supporting services</b>	4,234,956	155,963	<b>4,390,919</b>	4,294,357
<b>Total expenses</b>	25,650,399	212,964	<b>25,863,363</b>	23,357,082
<b>Change in net assets</b>	(1,486,463)	102,200	<b>(1,384,263)</b>	(565,819)
<b>Beginning net assets</b>	23,236,514	82,720	<b>23,319,234</b>	23,885,053
<b>Ending net assets</b>	\$ 21,750,051	\$ 184,920	<b>\$ 21,934,971</b>	\$ 23,319,234

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

**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	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total
Salaries & benefits	\$ 6,102,713	\$ 1,134,261	\$ 673,081	\$ 7,910,055	\$ 1,485,016	\$ 525,209	\$ 2,010,225	\$ 9,920,280
Contracted services	3,875,308	262,044	218,335	4,355,687	145,418	216,264	361,682	4,717,369
Corporate insurance	127,830	28,028	15,121	170,979	27,502	10,541	38,043	209,022
Travel & training	2,635,739	275,389	30,118	2,941,246	111,407	50,991	162,398	3,103,644
Printing & publications	730,730	37,365	162,937	931,032	15,267	52,485	67,752	998,784
Occupancy	712,491	76,739	26,932	816,162	78,814	29,871	108,685	924,847
Depreciation and amortization	400,065	166,562	49,666	616,293	163,439	62,644	226,083	842,376
Office expenses & postage	211,178	10,943	27,328	249,449	25,771	270,043	295,814	545,263
Interest & fees	80,858	94,949	28,312	204,119	91,799	35,710	127,509	331,628
Rental & equipment maintenance	167,990	21,160	12,289	201,439	20,630	20,366	40,996	242,435
Telephone	144,545	10,073	2,584	157,202	14,149	2,269	16,418	173,620
Computer services	105,761	66,177	90,556	262,494	14,867	25,575	40,442	302,936
Professional services & fees	35,330	2,985	47,772	86,087	88,677	652,805	741,482	827,569
Other expenses	150,103	1,279	9,099	160,481	18,586	38,242	56,828	217,309
<b>Total expenses</b>	<b>\$ 15,480,641</b>	<b>\$ 2,187,954</b>	<b>\$ 1,394,130</b>	<b>\$ 19,062,725</b>	<b>\$ 2,301,342</b>	<b>\$ 1,993,015</b>	<b>\$ 4,294,357</b>	<b>\$ 23,357,082</b>

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