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

AUDITED CONSOLIDATED
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2017 AND 2016

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 financial statements of **Children's Defense Fund and Children's Defense Fund Action Council** (a nonprofit organization), which comprise the Consolidated Statements of Financial Position as of December 31, 2017 and 2016, and the related Consolidated Statements of Activities and Changes in Net Assets and Cash Flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Children's Defense Fund and Children's Defense Fund Action Council** as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Aronson LLC

Rockville, Maryland
June 18, 2018

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Certified Public Accountants & Management Consultants

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

Consolidated Statements of Financial Position

December 31,		**2017**		2016
Assets				
Cash and cash equivalents	**$**	**1,481,957**	$	2,695,262
Investments		**12,416,816**		12,872,467
Pledges receivable, net		**2,710,834**		2,811,055
Government contracts and grants receivable		**565,111**		730,488
Assets held for sale		**4,544,026**		4,544,026
Restricted funds for debt reserve		**312,269**		309,391
Property and equipment, net		**3,153,094**		3,364,545
Other assets		**940,675**		598,835
Total assets	**$**	**26,124,782**	$	27,926,069

Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	**$**	**2,102,054**	$	1,959,772
Line of credit		**7,500,000**		7,500,000
Bonds payable, net of unamortized bond issuance costs of $356,242 and $379,549, respectively		**4,130,001**		4,236,448
Total liabilities		**13,732,055**		13,696,220
Net assets				
Unrestricted		**(506,957)**		2,738,003
Temporarily restricted		**5,724,084**		4,316,246
Permanently restricted		**7,175,600**		7,175,600
Total net assets		**12,392,727**		14,229,849
Total liabilities and net assets	**$**	**26,124,782**	$	27,926,069

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

Year Ended December 31, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	**Total**
Revenue, gains and other support				
Contributions and donations				
Foundations and corporations	$ 562,755	$ 7,201,154	$ -	**$ 7,763,909**
Individuals	2,596,339	25,000	-	**2,621,339**
Organizations and groups	58,240	-	-	**58,240**
Contributed services	874,415	-	-	**874,415**
Special events	1,529,525	-	-	**1,529,525**
Other				
Training and Haley Farm fees	3,660,322	-	-	**3,660,322**
Government contracts and grants	2,556,303	-	-	**2,556,303**
Rental income	337,689	-	-	**337,689**
Miscellaneous	206,714	-	-	**206,714**
Investment income (loss)				
Interest and dividends	92,617	121,518	-	**214,135**
Realized and unrealized gains, net of management fees	(9,734)	(12,771)	-	**(22,505)**
Net assets released from restrictions	5,927,063	(5,927,063)	-	**-**
Total revenue, gains and other support	18,392,248	1,407,838	-	**19,800,086**
Expenses				
Program services				
Leadership development and state and community capacity building	12,754,975	-	-	**12,754,975**
Policy and program development and implementation	3,784,031	-	-	**3,784,031**
Public education, media campaigns, internet outreach and publications	1,093,052	-	-	**1,093,052**
Total program services	17,632,058	-	-	**17,632,058**
Supporting services				
General and administrative	2,677,062	-	-	**2,677,062**
Fundraising	1,328,088	-	-	**1,328,088**
Total supporting services	4,005,150	-	-	**4,005,150**
Total expenses	21,637,208	-	-	**21,637,208**
Change in net assets	(3,244,960)	1,407,838	-	**(1,837,122)**
Beginning net assets	2,738,003	4,316,246	7,175,600	**14,229,849**
Ending net assets	$ (506,957)	$ 5,724,084	$ 7,175,600	**$ 12,392,727**

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

Year Ended December 31, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support				
Contributions and donations				
Foundations and corporations	$ 455,737	$ 7,347,778	$ -	$ 7,803,515
Individuals	4,149,639	-	10,000	4,159,639
Organizations and groups	47,623	-	-	47,623
Contributed services	175,792	-	-	175,792
Special events	2,027,223	-	-	2,027,223
Other				
Training and Haley Farm fees	3,511,807	-	-	3,511,807
Government contracts and grants	1,777,824	-	-	1,777,824
Rental income	292,717	-	-	292,717
Miscellaneous	234,761	-	-	234,761
Investment income				
Interest and dividends	206,715	240,911	-	447,626
Realized and unrealized gains, net of management fees	118,620	137,901	-	256,521
Net assets released from restrictions	7,524,491	(7,524,491)	-	-
Total revenue, gains and other support	20,522,949	202,099	10,000	20,735,048
Expenses				
Program services				
Leadership development and state and community capacity building	11,137,785	-	-	11,137,785
Policy and program development and implementation	5,101,155	-	-	5,101,155
Public education, media campaigns, internet outreach and publications	1,103,349	-	-	1,103,349
Total program services	17,342,289	-	-	17,342,289
Supporting services				
General and administrative	2,355,145	-	-	2,355,145
Fundraising	1,045,792	-	-	1,045,792
Total supporting services	3,400,937	-	-	3,400,937
Total expenses	20,743,226	-	-	20,743,226
Change in net assets	(220,277)	202,099	10,000	(8,178)
Beginning net assets	2,958,280	4,114,147	7,165,600	14,238,027
Ending net assets	$ 2,738,003	$ 4,316,246	$ 7,175,600	$ 14,229,849

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

Year Ended December 31,	**2017**	2016
Cash flows from operating activities		
Change in net assets	**$ (1,837,122)**	$ (8,178)
Adjustment to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	**277,251**	546,972
Realized and unrealized losses (gains) on investments	**(19)**	(291,740)
Amortization of bond issuance costs	**23,307**	23,333
(Recovery of) discount on pledges receivable	**(12,151)**	7,270
Contribution restricted for permanent endowment	**-**	(10,000)
Change in assets and liabilities		
Pledges receivable	**112,372**	(738,644)
Government contracts and grants receivable	**165,377**	(399,991)
Other assets	**(341,840)**	37,276
Accounts payable and accrued expenses	**142,282**	335,271
Net cash used by operating activities	**(1,470,543)**	(498,431)
Cash flows from investing activities		
Proceeds from sales of investments	**2,666,926**	14,148,684
Purchases of investments	**(2,211,256)**	(12,954,905)
Purchases of property and equipment	**(65,800)**	(83,612)
Net cash provided by investing activities	**389,870**	1,110,167
Cash flows from financing activities		
Contribution restricted for permanent endowment	**-**	10,000
Restricted funds for debt reserve	**(2,878)**	(116)
Principal payments and retirement of bonds payable	**(129,754)**	(124,358)
Net cash used by financing activities	**(132,632)**	(114,474)
Change in cash and cash equivalents	**(1,213,305)**	497,262
Cash and cash equivalents, beginning of year	**2,695,262**	2,198,000
Cash and cash equivalents, end of year	**$ 1,481,957**	$ 2,695,262
Supplemental cash flows information		
Actual cash payments of interest	**$ 349,197**	$ 298,700

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

1. Organization and significant accounting policies

Organization: The Children's Defense Fund is a private, nonprofit corporation that began in 1973 in Washington, D.C. The Children's Defense Fund's Leave No Child Behind mission is to ensure every child a *Healthy Start*, a *Head Start*, a *Fair Start*, a *Safe Start* and a *Moral Start* in life and successful passage to adulthood with the help of caring families and communities. The Children's Defense Fund endeavors to provide a strong, effective and independent voice for *all* the children of America who cannot vote, lobby or speak for themselves. It 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 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, individual donations and government grants.

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 for the Children's Defense Fund Action Council.

The Washington Research Project was granted 501(c)(3) status in 2011 and also shares the Children's Defense Fund's mission. It was organized to provide education and technical assistance to governmental units, private nonprofit organizations, and others that receive funding to support programs intended to advance the health, education and welfare of children. In 2012, the Children's Defense Fund assumed responsibility for providing these services. The Washington Research Project had no activity in 2017 and 2016.

CDF Legacy Investor, LLC is a Virginia limited liability company formed on October 25, 2016 with the Children's Defense Fund being the sole member of the company. This entity was created in order to accept certain gifts and enter into investments. There was no financial activity for this entity during 2017 and 2016. The organizations are under common management.

Basis of consolidation: The consolidated financial statements include the accounts of the Children's Defense Fund, the Children's Defense Fund Action Council, the Washington Research Project, and CDF Legacy Investor, LLC (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 to be cash and cash equivalents. Cash held in certain endowment investment accounts is considered to be an investment since amounts are not to be used for general operating purposes. CDF maintains a legal right of offset with certain financial institutions, allowing any potential overdrafts to be offset with funds from other accounts held at the same institution. CDF maintains accounts which may exceed federally insured limits. Management does not consider this to be a significant credit risk.

Investments: Investments in marketable securities and bond funds are presented at fair value based on quoted market prices in principal active markets for identical assets. Fair values of alternative investments were developed using the net asset value (NAV) as reported by the underlying fund managers in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers. Because of the inherent uncertainty of valuation, the estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, these differences could be material. Money market funds are recorded at cost, which approximates fair value.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Investment income includes CDF's gains and losses on investments bought and sold as well as held during the year.

Fair value of financial instruments: As of December 31, 2017 and 2016, the estimated fair values of financial instruments subject to fair value disclosures were determined based on available market information and valuation methodologies believed to be appropriate for these purposes.

Gains and losses on investments, including changes in fair value, are reported in the Consolidated Statements of Activities and Changes in Net Assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulation, applicable laws, or under the accounting rules for endowments pursuant to the D.C. Uniform Prudent Management of Institutional Funds Act (UPMIFA).

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

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

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

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. There have been no changes in the fair value methodologies used at December 31, 2017 and 2016.

Pledges receivable: Pledges receivable represent unconditional promises to give and are recorded in the consolidated financial statements at the time the promises are unconditionally made. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience. All amounts are considered collectible and, therefore, no allowance for doubtful accounts is deemed necessary at December 31, 2017 and 2016. Amounts due in excess of one year are recorded at the present value of their estimated future cash flows, using discount rates equal to the prevailing local borrowing rate which was 2.50% and 2.40% for the years ended December 31, 2017 and 2016, respectively. Amortization of the discount is included in contribution revenue.

Government contracts and grants receivable: Government contracts and grants receivable include all current billed and unbilled costs chargeable to those awards within the respective cost limits. All unbilled receivables will be billed at the next billing date and are expected to be collected within a twelve-month period. The face amount of receivables is reduced by an allowance for doubtful accounts, if needed. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience. As of December 31, 2017 and 2016, management expects to fully collect all balances and therefore no allowance for doubtful accounts is deemed necessary.

Restricted funds for debt reserve: Restricted funds represent investment balances reserved for a specific purpose and therefore not available for immediate and general use. In connection with the bond refinancing (Note 10), a debt service reserve was established with a third-party trustee to be utilized for any bond payment deficiencies.

Property and equipment: Property and equipment over $1,000 are stated at cost if purchased and fair value if contributed 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

Impairment of long-lived assets: CDF evaluates the carrying value of its long-lived assets held for use based upon a comparison of the undiscounted future net cash flows for the asset to the net book value. These evaluations for impairment are significantly impacted by estimates of revenue, costs and expenses, and other factors. If the net book value is greater than the future undiscounted cash flows estimated, CDF records an impairment adjustment to reduce the cost basis of the asset to its fair value.

At December 31, 2017 and 2016, CDF has performed a recoverability analysis of all long-lived assets and does not believe an impairment adjustment is required.

Bond issuance costs: Bond issuance costs arise in connection with issuing debt. These costs are capitalized and amortized over the terms of the related bonds using the effective-interest method and are presented as a direct deduction to the related issuing debt. Accumulated amortization of bond issuance costs totaled $74,781 and $51,474 as of December 31, 2017 and 2016, respectively.

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

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

Endowment fund: CDF has established an endowment fund to account for gifts which are required by donors to be held in perpetuity or designated by donors for a specific purpose. The gifts, grants, contributions, and investment income of the endowment fund are recorded as unrestricted, temporarily restricted, or permanently restricted revenue and support, depending on the restrictions, if any, imposed by the donors. The endowment fund is managed according to the guidelines and policies established by CDF's Finance Committee and approved by the Board of Directors.

Revenue recognition: Contributions, including unconditional promises to give, are recognized when received or unconditionally promised. 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 Statements of Activities and Changes in Net Assets as net assets released from restrictions. Amounts restricted and released in the same year are recorded as unrestricted contributions. Applying this policy may, at times, create year-to-year fluctuations of changes in net assets, with grants immediately recognized as revenue in an earlier period than grant related expenses. Conditional promises to give are not included as support until the conditions are substantially met.

Special events are activities that are not regularly conducted. These include the Beat the Odds program. Revenue derived from these programs are contribution revenue and recorded as defined above.

Other revenue includes training and Haley Farm fees, and miscellaneous revenue. These are recognized when the services are performed or the event is held.

Government contracts and grants are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred. Government contracts and grants provide for the reimbursement of indirect facilities and administrative costs based on rates negotiated with federal agencies at inception of the contract or grant agreement.

Rental income is recognized on a straight-line basis over the rental period and includes rent for office space.

Gifts-in-kind: From time to time, CDF receives gifts-in-kind through private contributions. CDF records gifts-in-kind as revenue when received or unconditionally promised at their estimated fair value.

Contributed services: Contributed services are recognized at fair value when the services are performed. CDF would typically have to pay to acquire these services if they were not contributed. CDF primarily receives contributed legal services from their general counsel and donated consulting services.

Allocation of functional expenses: The costs of providing the various programs and other activities have been summarized in the accompanying Consolidated Statements of Activities and Changes in Net Assets. Costs which cannot be specifically identified with a particular function and which benefit more than one functional category are allocated based on either the portion of time expended by the staff on the various functions, or the average number of people in the division.

Advertising expenses: CDF expenses advertising costs as incurred. Advertising expenses for the years ended December 31, 2017 and 2016 were $261,998 and $76,578, respectively.

Cash flow classification of donated financial assets: Cash receipts from the sale of donated securities with no donor-imposed restrictions are included in the operating section of the Consolidated Statement of Cash Flows, while cash receipts from the sale of donated securities with donor imposed long-term restrictions are classified as financing activities. Otherwise, receipts from the sale of donated financial assets are classified as cash flows from investing activities.

Program services definitions: CDF carries out three lines of business across its national, state, and regional operations.

<u>Leadership, Development and State and Community Capacity Building</u> expenses relate to child advocacy services across many different programs. The major programs are:

> *CDF Freedom Schools®:* Provides summer and after-school reading enrichment, positive reinforcement of cultural identity, and positive instruction for making a difference in a child's community and world. Freedom Schools serves over 12,000 children and youth in Kindergarten through 12th grade each year, and also engages over 1,500 young adult Servant Leader Interns as instructors, mentors and role models.

Beat the Odds®: Provides scholarships, college preparation, and selection guidance and leadership development for youth and young adults while they are in high school and through their college experience. Beat the Odds specifically selects youth who have experienced and overcome extraordinary challenges and obstacles in their lives. Youth participants are currently selected from the following areas: California, Minnesota, New York, Ohio, Texas and the Greater Washington D.C. region.

Community Movement Building: Undergirding all of CDF's work are ongoing efforts to train, equip and mobilize youth, young adults and community leaders to organize and to act around critical issues facing children in the U.S. CDF's community movement building efforts incorporate leadership development and training in organizing, with the goal of empowering people to change the odds for America's children and youth today and for the future.

CDF Haley Farms: This farm, located in Tennessee, is the CDF home for spiritual renewal, interdisciplinary, intergenerational, interfaith, and interracial discourse for building the children's movement. Training programs at the farm have touched nearly 20,000 leaders.

<u>Policy and Program Development and Implementation</u> expenses represent costs associated with the collection and analysis of data and barriers for children such as the following topics: child poverty, access to private and governmental health insurance, family income, teen pregnancy prevention, childcare, child protection, juvenile justice, and violence prevention. Over the years, CDF has become known for careful research on policies that affect children in all racial and income groups, and for independent analyses of how federal and state policies affect children, their families, and their communities.

<u>Public Education, Media Campaigns, Internet Outreach and Publications</u> expenses are related to CDF's activities through a variety of communications channels and efforts to educate the general public, policy-makers and specific communities around issues which impact on the well-being of America's children and youth. Major campaigns include:

Cradle to Prison Pipeline® seeks to eliminate and change the conditions, beginning at birth and early childhood, which result in a disproportionate number of children and youth of color, as well as children living in poverty, from a path that leads to long-term or lifelong incarceration.

Protect Children, Not Guns seeks to educate the general public and policy-makers about positive investments that can be made in our communities and nation that have the effect of reducing crime and child poverty, especially for those children and youth most at risk in our country.

Ending Child Poverty Now seeks to identify actionable policies and practices which have already been demonstrated to be successful which, if implemented, could have the most significant impact in reducing and ending child poverty.

Use of estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Tax status: Children's Defense Fund is a public charity exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation. Children's Defense Fund Action Council is a social welfare organization exempt from federal income tax under section 501(c)(4) of the Internal Revenue Code. Washington Research Project is a public charity exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation. CDF Legacy Investor, LLC is a single member LLC. No provision or benefit for income taxes has been included in these consolidated financial statements since taxable income or loss, deduction and credits pass through to, and are reportable by, the member on its tax return.

Uncertainty in income taxes: CDF evaluates uncertainty in income tax positions taken or expected to be taken on a tax return based on a more-likely-than not recognition standard. If that threshold is met, the tax position is then measured as the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of December 31, 2017 and 2016, there are no accruals for uncertain tax positions. If applicable, CDF records interest and penalties as a component of income tax expense. Tax years from 2014 through the current year remain open for examination by tax authorities.

Reclassification: Certain 2016 balances were reclassified to conform to the 2017 presentation.

Subsequent events: Management has evaluated subsequent events for disclosure in the consolidated financial statements through June 18, 2018, which is the date the consolidated financial statements were available to be issued.

2. Investments

Investments as of December 31 consist of the following:

	2017	2016
Mutual funds:		
Money market funds	**$ 146,833**	$ 77,906
Short-term bonds	**11,610,019**	11,560,841
Intermediate-term bonds	**156,307**	319,467
Inflation-protected bonds	**32,611**	66,067
Bank loans	**32,553**	66,610
High yield bonds	**39,322**	81,073
Emerging markets bonds	**19,629**	40,072
World bonds	**52,365**	106,512
Intermediate governments	**148,554**	344,013
Real estate investment trust fund	**155,686**	188,467
Stocks	**22,937**	21,439
Total investments	**12,416,816**	12,872,467
Reserve fund		
Money market funds	**312,269**	309,391
Total investments	**$ 12,729,085**	$ 13,181,858

Net investment income (loss) consists of the following for the years ended:

December 31, 2017	**Unrestricted**	**Temporarily Restricted**	**Total**
Interest and dividends	**$ 92,617**	**$ 121,518**	**$ 214,135**
Net realized and unrealized gains	**8**	**11**	**19**
Management fees	**(9,742)**	**(12,782)**	**(22,524)**
Total investment income	**$ 82,883**	**$ 108,747**	**$ 191,630**

December 31, 2016	Unrestricted	Temporarily Restricted	Total
Interest and dividends	$ 206,715	$ 240,911	$ 447,626
Net realized and unrealized gains	135,173	156,567	291,740
Management fees	(16,553)	(18,666)	(35,219)
Total investment income	$ 325,335	$ 378,812	$ 704,147

For the year ended December 31, 2017 and 2016, in conjunction with a line of credit with Morgan Stanley, Morgan Stanley has a security interest (see Note 9) in certain investments totaling $11,518,998 and $11,328,616 at December 31, 2017 and 2016, respectively.

3. Fair value of investments

The fair value of investments is presented as follows:

December 31, 2017	Total	Fair Value Measurements Using Level 1	Level 2	Level 3
Mutual funds:				
Money market	$ 459,102	$ 459,102	$ -	$ -
Short-term bond	11,610,019	11,610,019	-	-
Intermediate-term bond	156,307	156,307	-	-
Inflation-protected bond	32,611	32,611	-	-
Bank loans	32,553	32,553	-	-
High yield bond	39,322	39,322	-	-
Emerging markets bonds	19,629	19,629	-	-
World bonds	52,365	52,365	-	-
Intermediate governments	148,554	148,554	-	-
Stocks	22,937	22,937	-	-
Total assets within the fair value hierarchy	12,573,399	12,573,399	-	-
Investments valued at net asset value[(a)]	155,686			
Total	$ 12,729,085			

December 31, 2016	Total	Fair Value Measurements Using Level 1	Level 2	Level 3
Mutual funds:				
Money market	$ 387,297	$ 387,297	$ -	$ -
Short-term bond	11,560,841	11,560,841	-	-
Intermediate-term bond	319,467	319,467	-	-
Inflation-protected bond	66,067	66,067	-	-
Bank loans	66,610	66,610	-	-
High yield bonds	81,073	81,073	-	-
Emerging markets bonds	40,072	40,072	-	-
World bonds	106,512	106,512	-	-
Intermediate governments	344,013	344,013	-	-
Stocks	21,439	21,439	-	-
Total assets within the fair value hierarchy	12,993,391	12,993,391	-	-
Investments valued at net asset value[a]	188,467			
Total	$ 13,181,858			

(a) In accordance with ASU 2015-07, certain investments that were measured at net asset value per share (or its equivalent) as of December 31, 2017 and 2016 have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the Statements of Financial Position.

Level 1 values were developed utilizing quoted prices in active markets.

CDF recognizes transfers of assets into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels during the years ended December 31, 2017 and 2016.

Gains and losses (realized and unrealized), net of management fees, on all investments included in changes in net assets for the years ended December 31 are reported in investment (loss) income as follows:

December 31	**2017**	2016
Total realized gain included in change in net assets	**$ 10,382**	$ 266,133
Change in unrealized (loss) gain relating to assets still held at December 31	**(10,363)**	25,607
Management fees	**(22,524)**	(35,219)
Total investment (loss) income	**$ (22,505)**	$ 256,521

4. Investments measured at net asset value

Values for alternative investments were developed using the net asset value (NAV) as reported by the underlying fund managers and evaluated by CDF. The NAV is determined by the fund managers based on the fair market value of the underlying investments on the most recent practicable date. The NAV per share of each series within a class is determined by first allocating any increase or decrease in the NAV among all shares of the series pro rata. Each share within a series has the same NAV. CDF's determination of fair value is based upon the best available information and may incorporate management assumptions and best estimates after considering a variety of internal and external factors. The values generally represent CDF's proportionate share of the funds' fair value as reported by their general partners. Market value of underlying securities is determined by external managers based on a combination of discounted cash flow analysis, industry comparable, and outside appraisals. There have been no changes to the valuation techniques for the years ended December 31, 2017 and 2016. The risk of any derivative exposure is limited to the amount invested with each manager.

CDF has determined, through monitoring the valuation methodologies and practices of managers, that they are able to rely on the fair values reported by the fund managers, unless information becomes available indicating the reported NAV may require adjustment. CDF assessed factors including, but not limited to, the external advisor's adherence to fair value principles in calculating the capital account balance, CDF's ability to redeem these investments at NAV at the measurement date, and the existence or absence of certain restrictions at the measurement date. CDF believes the reported amounts of its alternative investments are a reasonable estimate of fair value as of December 31, 2017 and 2016. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed. CDF has no immediate plans to sell the investments for values other than the NAV as of December 31, 2017 and 2016.

Investments measured at net asset value as of December 31, 2017 and 2016 are as follows:

December 31, 2017	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Real estate investment trust fund	$ 155,686	$ -	Semi-annually	75 days

December 31, 2016	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Real estate investment trust fund	$ 188,467	$ -	Semi-annually	75 days

CDF has invested in alternative investments for the purpose of diversifying investment risk. The alternative investments are comprised of the following:

Real Estate Investment Trust Fund (TIFF Real Estate Partners I (REP I)) – The primary objective of REP I is to assist members in maintaining endowment purchasing power by generating portfolio returns less volatile than that of index funds attempting to track the broad U.S. stock market. The secondary objective is to generate annual returns that are at least 300 basis points above CPI inflation. To achieve their objectives, REP I invests capital in private real estate managers pursuing traditional commercial property strategies as well as unconventional real estate opportunities.

Valuation of underlying funds is based on the investment manager's determination with assistance of outside managers and with fund portfolios adjusted for manager fees and carried interests. Cash income generated by REP I is distributed semi-annually, net of expenses and reserves. Cash proceeds from the sale of holdings by the investment manager are distributed as soon as practicable after receipt of proceeds.

REP I is illiquid because the units are subject to restrictions on transferability and cannot be sold unless they are subsequently registered under the Securities Act of 1933, as amended, and all other applicable securities laws or an exemption from such laws is available. Originally, the real estate investment trust fund had a 15-year term expiring December 31, 2016, subject to extension at the managing member's discretion for up to five consecutive one-year periods. REP I extended its expected termination year to 2019.

CDF entered into an investment agreement on December 14, 2001 committing up to $3 million over the life of the fund through December 31, 2016. As of December 31, 2017, CDF has contributed $2,574,655. 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, 2017, CDF has made all payments in accordance with the terms of the agreement. There are no anticipated capital calls for this investment fund in 2018.

5. Risks and uncertainties

CDF holds investments in various securities and alternative investments that are exposed to risks, such as interest rate, credit, and overall volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in future consolidated financial statements.

6. Pledges receivable and concentration

CDF has the following pledges receivable as of December 31:

	2017	2016
Due in less than one year	**$ 2,466,834**	$ 2,138,371
Due in one to five years	**250,000**	690,835
Total pledges receivable	**2,716,834**	2,829,206
Less: Discounts on pledges receivable	**(6,000)**	(18,151)
Total pledges receivable, net	**$ 2,710,834**	$ 2,811,055

Concentration of pledges receivable and foundation revenue: As of December 31, 2017 three pledges comprised 51% of total pledges receivable in the accompanying Consolidated Statement of Financial Position. As of December 31, 2016, two pledges comprised 40% of the total pledges receivable in the accompanying Consolidated Statement of Financial Position. Total foundations and corporations revenue in the accompanying Consolidated Statements of Activities and Changes in Net Assets includes two grantors constituting 36% and one grantor constituting 13% of the total revenue for the years ended December 31, 2017 and 2016, respectively.

7. Assets held for sale

In July 2016, management decided to shift strategic directions with their headquarters and took concerted steps by engaging in negotiations to sell CDF's national office building located in Washington, D.C. The national office building did not meet the criteria for reporting as discontinued operations. Based upon management's logistics planning and active negotiation with a potential buyer, the building, which is held for sale, was classified as assets held for sale on the Consolidated Statements of Financial Position in the amount of $4,544,026. The assets are stated at the lesser of cost or fair value less cost to sell. CDF entered into an agreement to sell the national office building on April 27, 2018 (See Note 18).

8. Property and equipment

Property and equipment consist of the following as of:

December 31, 2017	**Headquarters and state and local offices**	**Haley Farm**	**Total**
Land	**$ 31,070**	**$ 592,874**	**$ 623,944**
Buildings and improvements	**296,718**	**4,754,024**	**5,050,742**
Furniture, equipment and software	**945,603**	**98,399**	**1,044,002**
Total property and equipment	**1,273,391**	**5,445,297**	**6,718,688**
Less: Accumulated depreciation and amortization	**(932,739)**	**(2,632,855)**	**(3,565,594)**
Net property and equipment	**$ 340,652**	**$ 2,812,442**	**$ 3,153,094**

December 31, 2016		Headquarters and state and local offices		Haley Farm		Total
Land	$	31,070	$	592,874	$	623,944
Buildings and improvements		296,718		4,754,024		5,050,742
Furniture, equipment and software		921,772		70,880		992,652
Total property and equipment		1,249,560		5,417,778		6,667,338
Less: Accumulated depreciation and amortization		(838,734)		(2,464,059)		(3,302,793)
Net property and equipment	$	410,826	$	2,953,719	$	3,364,545

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 was $277,251 and $546,972, respectively.

9. Line of credit

In March 2014, CDF entered into a line of credit agreement with Morgan Stanley. The Morgan Stanley line of credit carries a limit of $7,737,000 and was primarily obtained for working capital needs. The line of credit is secured by a portion of CDF's investments, totaling $11,518,998 and $11,328,616 as of December 31, 2017 and 2016, respectively, and accrues interest at the variable rate of 1.00% plus the 1-month LIBOR rate, which totaled 2.57% and 1.77% as of December 31, 2017 and 2016, respectively. The line of credit is structured as an "evergreen" loan with no set maturity as long as CDF maintains a sufficient level of funds under investment; however, Morgan Stanley retains the option of demanding repayment of the line of credit at its sole discretion. The outstanding balance on the line of credit at December 31, 2017 and 2016 was $7,500,000.

10. Bonds payable

In 2014, the District of Columbia authorized issuing up to $12,000,000 of revenue bonds for the renovation and refinancing of debt on CDF's Washington, D.C. headquarters building. $4,900,000 of the available bonds were purchased by EagleBank and funds from the issuance of these new bonds repaid the $4,230,000 remaining balance on prior variable rate demand bonds which were originally issued in April 1997. The following classes of bonds were issued:

$3,800,000 of District of Columbia Tax-Exempt Refunding Revenue Bonds Series 2014A (Series 2014A Bonds), requiring fixed payments of $19,125 per month through their maturity on September 1, 2039. Fixed interest at the annual rate of 3.5% is paid on the bonds, which may be called every 5 years at the discretion of EagleBank. As of December 31, 2017 and 2016, $3,465,737 and $3,570,202, respectively, is outstanding on the Series 2014A Bonds.

$1,100,000 of District of Columbia Taxable Refunding Revenue Bonds Series 2014B (Series 2014B Bonds), requiring fixed payments of $6,476 per month through their maturity on September 1, 2039. Fixed interest at the annual rate of 5.0% is paid on the bonds, which may be called every 5 years at the discretion of EagleBank. As of December 31, 2017 and 2016, $1,020,506 and $1,045,795, respectively, is outstanding on the Series 2014B Bonds.

Land, building, furniture, equipment and improvements at the Washington, D.C. headquarters building are pledged as collateral for the Series 2014A and B Bonds. In addition, CDF agreed to a number of covenants as part of the financing agreement. The covenants include quarterly and annual financial reporting requirements and certain affirmative and negative covenants. One of the negative covenants calls for maintaining a debt service coverage ratio of 1.15 to 1.00 for the years ending December 31, 2017 and 2016 and annually thereafter. If CDF fails to comply with the debt covenants, it would be subject to an interest rate of 5.00% in excess of the stated rates on the bonds. As of December 31, 2017, CDF is not compliant with the annual financial reporting and debt service coverage ratio covenants. CDF subsequently received a waiver from Eagle Bank for the covenant noncompliance.

Bond interest expense for the years ended December 31, 2017 and 2016 was $183,463 and $186,886, respectively.

As of December 31, 2017, the aggregate scheduled principal maturities on the bonds over the next five years and thereafter are as follows:

Year ending December 31	Amount
2018	$ 135,026
2019	139,722
2020	144,740
2021	150,884
2022	156,814
Thereafter	3,759,057
Total bonds payable	4,486,243
Less: bond issuance costs, net	(356,242)
Bonds payable, net	**$ 4,130,001**

11. Restricted net assets

The consolidated temporarily restricted net assets are available for the following programs or purposes as of December 31:

		2017		2016
Leadership development and state and community capacity building	**$**	**2,377,782**	$	1,960,077
Policy and program development and implementation		**2,614,587**		1,514,056
Public education, media campaigns, internet outreach and publications		**205,080**		43,102
Time restricted and other		**526,635**		799,011
Total temporarily restricted net assets	**$**	**5,724,084**	$	4,316,246

In accordance with donor stipulations, permanently restricted net assets are held (and invested) in perpetuity, as of December 31:

		2017		2016
Endowment				
Leadership development and state and community capacity building	**$**	**4,675,600**	$	4,675,600
Publication of "The State of America's Children"		**2,500,000**		2,500,000
Total permanently restricted net assets	**$**	**7,175,600**	$	7,175,600

12. Releases from restrictions

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

		2017		2016
Leadership development and state and community capacity building	**$**	**2,386,625**	$	2,788,915
Policy and program development and implementation		**2,947,151**		4,091,183
Time restricted and other		**593,287**		294,393
Endowment policy and program development and implementation		**-**		230,000
Endowment public education, media campaigns, internet outreach and publications		**-**		120,000
Total releases from restrictions	**$**	**5,927,063**	$	7,524,491

13. Endowment funds

Endowment net asset composition is as follows as of December 31:

2017	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 137,559	$ 7,175,600	$ 7,313,159
Total endowment net assets	**$ 137,559**	**$ 7,175,600**	**$ 7,313,159**

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 28,812	$ 7,175,600	$ 7,204,412
Board-designated funds	5,668,055	-	-	5,668,055
Total endowment net assets	**$ 5,668,055**	**$ 28,812**	**$ 7,175,600**	**$ 12,872,467**

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 accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of the Relevant Law: Management of CDF has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, CDF classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund will be classified as temporarily restricted net assets (to the extent the cumulative balance in the endowment fund exceeds the original corpus amount) until those amounts are appropriated for expenditure by CDF in a manner consistent with the standard prudence prescribed by UPMIFA. Losses from the endowment fund will be allocated against unrestricted net assets with subsequent earnings and appreciation restoring the unrestricted net assets.

In accordance with UPMIFA, CDF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

The change in endowment net assets is as follows for the years ended:

December 31, 2017	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	**$ 5,668,055**	**$ 28,812**	**$ 7,175,600**	**$ 12,872,467**
Additions	**-**	**-**	**-**	**-**
Investment income	**82,883**	**108,747**	**-**	**191,630**
Appropriation of endowment assets for expenditure	**(5,750,938)**	**-**	**-**	**(5,750,938)**
Endowment net assets, end of year	**$ -**	**$ 137,559**	**$ 7,175,600**	**$ 7,313,159**

December 31, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 6,608,906	$ -	$ 7,165,600	$ 13,774,506
Additions	-	-	10,000	10,000
Investment income	325,042	378,812	-	703,854
Appropriation of endowment assets for expenditure	(1,265,893)	(350,000)	-	(1,615,893)
Endowment net assets, end of year	$ 5,668,055	$ 28,812	$ 7,175,600	$ 12,872,467

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, 2017 and 2016 is $7,175,600.

As discussed in Notes 2 and 9, a portion of the investments are pledged as security for the line of credit.

In May 2017, the Board voted to change the classification of the board-designated endowment to board-designated funds.

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires CDF to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2017 and 2016.

Spending Policy and How the Investment Objectives Relate to Spending Policy: CDF does not have a formal spending policy at this time.

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 their 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.

Strategies Employed for Achieving Objectives: The Finance Committee evaluates, selects and monitors one or more investment managers to directly manage CDF's investment portfolio of assets within general guidelines provided. To satisfy its long-term rate of return objectives, CDF relies on a return strategy in which investment returns are achieved through current yield (interest and dividends) and capital appreciation.

14. 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. Retirement plan expense totaled $360,429 and $366,503 for the years ended December 31, 2017 and 2016, respectively.

15. Operating leases

CDF is obligated under various non-cancelable operating lease agreements for office facilities expiring at various dates through 2021. CDF rents space in multiple locations across the United States, some of which are subject to month-to-month agreements. The minimum payments required under the leases are recorded on a pro rata basis over the term of the leases. The difference between the amounts expensed and the required lease payments is recorded as deferred rent and included in accounts payable and accrued expenses on the accompanying Consolidated Statements of Financial Position. Rent expense for all office space for the years ended December 31, 2017 and 2016 was $574,683 and $543,545, respectively. Future minimum lease payments are as follows:

Year Ending December 31	Amount
2018	$ 343,200
2019	195,207
2020	145,821
2021	12,181
Total minimum lease payments	**$ 696,409**

16. Related parties

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. There is a pledge receivable totaling $46,635 outstanding that was made by CDF’s founder. CDF rents office space from the sibling of a member of management. The total rent expense related to this office space was $29,400 in 2017. Future minimum lease payments under their new lease with this party, beginning January 1, 2018, totals $58,800.

17. Going concern evaluation

Management has evaluated conditions and events, in the aggregate, regarding CDF’s ability to meet their financial obligations as they become due within one year from the report date of these consolidated financial statements. Management’s evaluation considered only relevant conditions and events that are known and reasonably knowable at the date the financial statements were available to be issued.

CDF incurred a net loss in operations this year, going from a decrease of net assets of $8,178 in 2016 to a decrease of net assets of $1,837,122 in 2017. This change was driven by a $934,962 decrease in revenues and a $893,982 increase in expenses. Additionally, CDF did not have sufficient liquid assets to cover the needed liquid amounts for the line of credit collateral, current liabilities, current maturities of debt, permanently restricted net assets, and temporarily restricted net assets. The line of credit is secured by investments held at the same financial institution that holds the line of credit. The line of credit has a low probability of being called based on the investments held as collateral.

CDF continues to have a significant investment in real property. The building was appraised at $15,200,000 and the fair market value is expected to be significantly higher than this appraisal based on updated square footage calculations and sales offers received. As described in Note 18, CDF entered into an agreement to sell their national office building located in Washington, D.C., effective April 27, 2018. The sale amount per the agreement is approximately $24,000,000. The cash in excess of expenditures of locating a new office will be sufficient to cover its deficiencies in liquidity compared with its financial obligations, contractual restrictions, and donor restrictions.

The management team of CDF is confident that current plans to strengthen CDF's internal systems in 2018 and beyond and to continue to grow and diversify the organization's revenue base will result in continued improvements in their external results for programmatic impact as well as for financial performance.

18. Subsequent event

CDF entered into an agreement to sell their national office building located in Washington, D.C., effective April 27, 2018. The sale amount per the agreement is approximately $24,000,000. As a condition of the agreement, CDF shall remain as a tenant for a term of 12 months beginning on the closing date of the sale, with a tenant option to extend the term for 60 days. Additionally, CDF was subassigned the existing leases of space in the building, including the right and interest to receive and enforce collection of and retain any and all amounts due under the leases, as well as all obligations, duties, and liabilities under the leases for a term of 12 months beginning on the closing date of the sale.

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Independent Auditor's Report on Supplementary Information

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

We have audited the consolidated financial statements of **Children's Defense Fund and Children's Defense Fund Action Council** as of and for the years ended December 31, 2017 and 2016, and our report thereon dated June 18, 2018, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 - 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidated Schedules of Functional Expenses on pages 31 and 32 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Aronson LLC

Rockville, Maryland
June 18, 2018

Year Ended December 31, 2017

	Leadership Development and State and Community Capacity Building	Policy and Program Development and Implementation	Public Education, Media Campaigns, Internet Outreach and Publications	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	**Total**
Grants to organizations in U.S.	$ 975,135	$ 231,083	$ 20,000	$ 1,226,218	$ -	$ -	$ -	**$ 1,226,218**
Grants to individuals in U.S.	232,534	1,596	1,285	235,415	-	-	-	**235,415**
Compensation and wages	4,307,455	1,853,727	509,382	6,670,564	964,002	498,735	1,462,737	**8,133,301**
Retirement plan contributions	183,459	78,952	21,695	284,106	44,586	21,242	65,828	**349,934**
Other employee benefits	438,074	188,527	51,805	678,406	98,040	50,722	148,762	**827,168**
Payroll taxes	353,637	152,189	41,820	547,646	79,143	40,946	120,089	**667,735**
Consulting fees	1,389,107	217,232	18,857	1,625,196	14,157	60,037	74,194	**1,699,390**
Legal fees	163	221,539	-	221,702	-	127	127	**221,829**
Accounting fees	110,930	47,739	13,118	171,787	24,826	12,844	37,670	**209,457**
Advertising and promotion	4,302	7,857	45,100	57,259	916	205,472	206,388	**263,647**
Office expenses	218,792	42,728	4,942	266,462	143,259	20,055	163,314	**429,776**
Information technology	115,814	12,598	183,640	312,052	50,939	20,427	71,366	**383,418**
Occupancy	1,228,621	528,741	145,292	1,902,654	261,898	142,255	404,153	**2,306,807**
Travel	792,968	106,467	18,072	917,507	9,181	11,738	20,919	**938,426**
Conferences and conventions	546,252	31,457	2,212	579,921	1,171	1,110	2,281	**582,202**
Interest	-	-	-	-	372,504	-	372,504	**372,504**
Depreciation and amortization	193,593	11,620	1,488	206,701	69,971	579	70,550	**277,251**
Insurance	4,505	-	-	4,505	282,218	-	282,218	**286,723**
Printing and publication	1,419,107	13,720	11,152	1,443,979	15,239	43,162	58,401	**1,502,380**
Miscellaneous expenses	240,527	36,259	3,192	279,978	245,012	198,637	443,649	**723,627**
Total expenses	**$ 12,754,975**	**$ 3,784,031**	**$ 1,093,052**	**$ 17,632,058**	**$ 2,677,062**	**$ 1,328,088**	**$ 4,005,150**	**$ 21,637,208**

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

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

Consolidated Schedule of Functional Expenses

Year Ended December 31, 2016

	Leadership Development and State and Community Capacity Building	Policy and Program Development and Implementation	Public Education, Media Campaigns, Internet Outreach and Publications	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	**Total**
Grants to organizations in U.S.	$ 868,888	$ 560,549	$ 50,000	$ 1,479,437	$ -	$ -	$ -	$ 1,479,437
Grants to individuals in U.S.	286,446	5,961	1,800	294,207	-	-	-	294,207
Compensation and wages	3,547,094	2,203,996	494,480	6,245,570	902,765	420,262	1,323,027	7,568,597
Retirement plan contributions	165,355	102,744	23,051	291,150	42,084	19,591	61,675	352,825
Other employee benefits	360,370	223,917	50,237	634,524	91,717	42,697	134,414	768,938
Payroll taxes	274,316	170,447	38,241	483,004	69,816	32,501	102,317	585,321
Consulting fees	1,482,867	489,161	48,006	2,020,034	44,554	123,010	167,564	2,187,598
Legal fees	68,906	68,906	-	137,812	-	-	-	137,812
Accounting fees	75,667	47,016	10,548	133,231	19,258	8,965	28,223	161,454
Advertising and promotion	18,793	1,481	43,074	63,348	160	13,070	13,230	76,578
Office expenses	201,506	125,206	28,091	354,803	51,285	23,875	75,160	429,963
Information technology	88,919	17,180	123,186	229,285	41,550	20,318	61,868	291,153
Occupancy	1,004,121	623,913	139,979	1,768,013	255,557	118,969	374,526	2,142,539
Travel	617,231	158,205	10,967	786,403	7,878	23,907	31,785	818,188
Conferences and conventions	858,747	49,102	3,628	911,477	-	53,016	53,016	964,493
Interest	-	-	-	-	322,033	-	322,033	322,033
Depreciation and amortization	256,344	159,280	35,735	451,359	65,242	30,371	95,613	546,972
Insurance	1,336	-	-	1,336	275,916	-	275,916	277,252
Printing and publication	887,505	28,705	344	916,554	15,330	10,201	25,531	942,085
Miscellaneous expenses	73,374	65,386	1,982	140,742	150,000	105,039	255,039	395,781
Total expenses	$ 11,137,785	$ 5,101,155	$ 1,103,349	$ 17,342,289	$ 2,355,145	$ 1,045,792	$ 3,400,937	$ 20,743,226

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