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

Consolidated Financial Statements
For the 15-Month Period from October 1, 2021
through December 31, 2022
With Independent Auditor's Report

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CHILDREN'S DEFENSE FUND ACTION COUNCIL
Consolidated Financial Statements
For the 15-Month Period from October 1, 2021
through December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Children's Defense Fund and
Children's Defense Fund Action Council

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of the Children's Defense Fund and the Children's Defense Fund Action Council (collectively, CDF), which comprise the consolidated statement of financial position as of December 31, 2022, the related consolidated statements of activities, functional expenses and cash flows for the 15-month period from October 1, 2021 to December 31, 2022, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Children's Defense Fund and the Children's Defense Fund Action Council as of December 31, 2022, and the changes in its net assets and its cash flows for the 15-month period from October 1, 2021 to December 31, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (GAS)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of CDF, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Changes in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, CDF has elected to change its financial year end from September 30 to December 31, beginning December 31, 2022. Due to this change, the consolidated financial statements reflect CDF's financial activity for the 15-month period from October 1, 2021 to December 31, 2022. Our opinion is not modified with respect to this matter.

80 Pine Street
New York, NY 10005
T +1 212 709 4500
F +1 212 709 4680
mitchelltitus.com

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Also as discussed in Note 1 to the consolidated financial statements, in 2022 on a modified retrospective basis, CDF adopted new accounting guidance in Accounting Standards Update, No. 2016-02, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the CDF's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued or are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CDF's internal control. Accordingly, no such opinion is expressed.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the CDF's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by GAS

In accordance with GAS, we have also issued our report dated July 31, 2024 on our consideration of CDF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CDF's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with GAS in considering the CDF's internal control over financial reporting and compliance.

Mitchell & Titus, LLP

July 31, 2024

CHILDREN'S DEFENSE FUND AND
CHILDREN'S DEFENSE FUND ACTION COUNCIL
Consolidated Statement of Financial Position
As of December 31, 2022

ASSETS	
Cash and cash equivalents	$ 2,278,145
Investments	35,529,944
Accounts receivable, net	18,283
Pledges receivable, net	4,719,246
Government grants receivable	455,201
Property and equipment, net	4,219,208
Right-of-use asset - operating	6,449,425
Right-of-use asset - finance	70,880
Other assets	860,094
Total assets	$ 54,600,426
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable and accrued expenses	$ 1,728,402
Deferred revenue	471,303
Short-term lease liability	1,306,708
Total current liabilities	3,506,413
Long-term liabilities	
Long-term lease liability	8,012,854
Total liabilities	11,519,267
Net assets	
Net assets without donor restrictions	23,195,134
Net assets with donor restrictions	19,886,026
Total net assets	43,081,159
Total liabilities and net assets	$ 54,600,426

The accompanying notes are an integral part of these consolidated financial statements.

CHILDREN'S DEFENSE FUND AND
CHILDREN'S DEFENSE FUND ACTION COUNCIL
Consolidated Statement of Activities and Changes in Net Assets
For the 15-Month Period from October 1, 2021 through December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS AND OTHER SUPPORT			
Contributions and grants			
Foundations and corporations	$ 3,169,519	$ 17,004,400	$ 20,173,919
Individuals	4,539,179	-	4,539,179
Government grants	2,561,005	-	2,561,005
Special events	212,177	-	212,177
Revenue from contracts with customers			
Training and Haley Farm fees	3,443,563	-	3,443,563
Miscellaneous	21,506	-	21,506
Rental income	35,809	-	35,809
Interest and dividends	1,378,539	301,495	1,680,034
Net realized and unrealized losses	(5,725,726)	(1,252,255)	(6,977,981)
Net assets released from restrictions	12,806,110	(12,806,110)	-
Total revenue, gains and other support	22,441,682	3,247,530	25,689,212
EXPENSES			
Program services			
Programs that invest in children and communities who will lead the movement	4,258,127	-	4,258,127
Policy advocacy to improve the odds for children	7,451,723	-	7,451,723
Public education, media campaigns, internet outreach and publications	9,580,786	-	9,580,786
Total program services	21,290,636	-	21,290,636
Supporting services			
General and administrative	3,835,276	-	3,835,276
Fundraising	7,965,678	-	7,965,678
Total supporting services	11,800,954	-	11,800,954
Total expenses	33,091,590	-	33,091,590
Change in net assets	(10,649,908)	3,247,530	(7,402,379)
Beginning, net assets	33,845,042	16,638,496	50,483,538
Ending, net assets	$ 23,195,134	$ 19,886,026	$ 43,081,159

The accompanying notes are an integral part of these consolidated financial statements.

CHILDREN'S DEFENSE FUND AND
CHILDREN'S DEFENSE FUND ACTION COUNCIL
Consolidated Statement of Functional Expenses
For the 15-Month Period from October 1, 2021 through December 31, 2022

	Program Services				Total Supporting Services			
	Programs that Invest in Children and Communities Who Will Lead the Movement	Policy Advocacy to Improve the Odds for Children	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.	$ 604,126	$ 1,057,220	$ 1,359,283	$ 3,020,630	$ -	$ -	$ -	$ 3,020,630
Grants to individuals in U.S.	113,744	199,052	255,924	568,719	-	-	-	568,719
Compensation and wages	1,482,313	2,594,048	3,335,205	7,411,566	1,605,839	3,335,205	4,941,044	12,352,610
Retirement plan contributions	27,291	47,759	61,404	136,454	29,565	61,404	90,969	227,423
Other employee benefits	199,785	349,625	449,517	998,927	216,434	449,517	665,951	1,664,878
Payroll taxes	134,922	236,113	303,574	674,610	146,165	303,574	449,739	1,124,349
Consulting fees	576,648	1,009,134	1,297,458	2,883,240	624,702	1,297,458	1,922,160	4,805,400
Legal fees	25,789	45,131	58,026	128,946	27,938	58,026	85,964	214,910
Accounting fees	31,204	54,607	70,208	156,019	33,804	70,208	104,012	260,031
Advertising and promotion	20,827	36,448	46,862	104,137	22,563	46,862	69,425	173,562
Office expenses	108,054	189,095	243,122	540,272	117,059	243,122	360,181	900,453
Information technology	150,730	263,778	339,143	753,651	163,291	339,143	502,434	1,256,085
Occupancy	244,994	428,739	551,236	1,224,968	265,410	551,236	816,646	2,041,614
Travel	134,777	235,860	303,248	673,885	146,008	303,248	449,256	1,123,141
Conferences and conventions	85,596	149,793	192,592	427,981	92,729	192,692	285,421	713,402
Interest	326	571	734	1,631	353	734	1,087	2,718
Depreciation and amortization	59,817	104,680	134,589	299,086	64,802	134,589	199,391	498,477
Insurance	43,261	75,707	97,337	216,305	46,866	97,337	144,203	360,508
Printing and publication	131,034	229,309	294,825	655,168	141,953	294,825	436,778	1,091,946
Miscellaneous expenses	82,888	145,054	186,498	414,441	89,795	186,498.00	276,293	690,734
Total expenses	$ 4,258,127	$ 7,451,723	$ 9,580,786	$ 21,290,636	$ 3,835,276	$ 7,965,678	$ 11,800,954	$ 33,091,590

The accompanying notes are an integral part of these consolidated financial statements.

CHILDREN'S DEFENSE FUND AND
CHILDREN'S DEFENSE FUND ACTION COUNCIL
Consolidated Statement of Cash Flows
For the 15-Month Period from October 1, 2021 through December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (7,402,379)
Adjustment to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	498,477
Net realized and unrealized losses	6,977,981
Change in assets and liabilities	
Accounts receivable	42,089
Pledges receivable	(1,679,228)
Government grants receivable	256,988
Other assets	(156,638)
Accounts payable and accrued expenses	203,439
Deferred revenue	340,154
Net change in right-of-use asset and liability	(337,304)
Net cash used in operating activities	(1,256,421)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales of investments	12,636,869
Purchases of investments	(10,426,495)
Purchases of property and equipment	(783,017)
Disposal of property and equipment	78,259
Net cash provided by investing activities	1,505,616
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on lease obligations	(91,964)
Net cash used in financing activities	(91,964)
Change in cash and cash equivalents	157,231
Cash and cash equivalents, beginning of period	2,120,914
Cash and cash equivalents, end of period	$ 2,278,145
SUPPLEMENTAL CASH FLOWS INFORMATION	
Actual cash payments of interest	$ 2,719

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The Children's Defense Fund is a private, nonprofit corporation that began in 1973 in Washington, DC. The Children's Defense Fund's mission is to build community so young people grow up with dignity, hope and joy. To realize this vision, the Children's Defense Fund pursues a movement building and institutional growth strategy to build power for child-centered public policy informed by racial equity and the lived experience of children and youth. The Children's Defense Fund serves and advocates for the largest, most diverse generation in America: 74 million children and youth under the age of 18 and 30 million young adults under the age of 25, with particular attention to those living in poverty and communities of color. The Children's Defense Fund is the only national, multi-issue advocacy organization working at the intersection of child well-being and racial justice by wielding the moral authority of programmatic proximity and community organizing to inform public policy. 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 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 Section 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 during the 15-month period from October 1, 2021 through December 31, 2022.

Basis of Consolidation

The consolidated financial statements include the accounts of the Children's Defense Fund, the Children's Defense Fund Action Council, and the Washington Research Project (collectively referred to as CDF). Since 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 (U.S. GAAP). All intercompany accounts and transactions have been eliminated in consolidation.

NOTE 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 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 that may exceed federally insured limits. Management does not consider this to be a significant credit risk.

Investments

Investments in marketable securities and mutual funds, which are primarily 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, and 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, sold, or held during the period.

Fair Value of Financial Instruments

For the 15-month period from October 1, 2021 through December 31, 2022, 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 statement of activities and changes in net assets as increases or decreases in net assets without donor restrictions unless their use is 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).

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair Value of Financial Instruments *(continued)*

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 for the 15-month period from October 1, 2021 through December 31, 2022.

Accounts Receivable

Accounts receivable consist primarily of noninterest-bearing amounts due for CDF Freedom Schools® training and Haley Farm fees, and other miscellaneous revenue. CDF determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. At December 31, 2022, the allowance was $175,000. Receivables from contracts with customers are reported as accounts receivable, net in the accompanying consolidated statement of financial position.

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 for the 15-month period from October 1, 2021 through December 31, 2022. 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 4.73% for the 15-month period from October 1, 2021 through December 31, 2022. Amortization of the discount is included in contribution revenue.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government Grants Receivable

Government grants receivable include all current receivables related to federal awards for which applicable conditions have been satisfied. 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. For the 15-month period from October 1, 2021 through December 31, 2022, management expects to fully collect all balances and, therefore, no allowance for doubtful accounts is deemed necessary.

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
Leasehold improvements	Life of lease

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.

For the 15-month period from October 1, 2021 through December 31, 2022, CDF has performed a recoverability analysis of all long-lived assets and does not believe an impairment adjustment is required.

Net Assets

Net assets without donor restrictions are the part of net assets that is not subject to donor-imposed restrictions. They are available for support of all organizational operations and services.

Net assets with donor restrictions are the part of net assets that is subject to donor-imposed restrictions. These restrictions may expire by the passage of time, by fulfillment of certain actions of CDF pursuant to those stipulations, or require that the original gift be held in perpetuity and only the earnings, if any, be used for the purposes designated by the donor.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Endowment Fund

CDF has established an endowment fund to account for gifts that 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 revenue and support with donor restrictions or without donor restrictions, depending on the restrictions imposed by the donors, if any. 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

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 contributions with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Amounts restricted and released in the same year are recorded as contributions without donor restrictions. 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.

Government Grants

Government grants are reported as increases in net assets without donor restrictions as allowable expenditures under such agreements are incurred. Government grants are conditional contributions and provide for the reimbursement of indirect facilities and administrative costs based on rates negotiated with federal agencies at inception of the grant agreement.

Non-financial Contributions

From time to time, CDF receives non-financial contributions through private organizations. CDF records non-financial contributions as revenue when received or unconditionally promised at their estimated fair value. CDF would typically have to pay to acquire these goods or services if they were not contributed.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue Recognition *(continued)*

Non-financial Contributions (continued)

During the 15-month period from October 1, 2021 through December 31, 2022, CDF received a non-financial contribution in rent. This was recorded at its estimated fair value based on square footage. CDF also primarily receives contributed legal services from their general counsel and as well as consulting services. There were no non-financial contribution for the 15-month period from October 1, 2021 through December 31, 2022.

Special Events

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

Exchange Transactions

CDF adopted Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC 606), on October 1, 2020. The standard outlines a five-step model, whereby revenue is recognized as performance obligations within a contract are satisfied. The five-step model is outlined below:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Accordingly, the following revenue streams are within the scope of ASC 606:

Training and Haley Farm Fees

CDF provides virtual orientation course access, training, materials, and technical assistance during training to customers providing summer and after-school enrichment to children as part of CDF Freedom Schools®. Revenue is recognized at the point in time the related services are provided at the predetermined rate paid by the customer. Payments received in advance are recorded as deferred revenue until the services are provided. Amounts not paid at the time services are provided are recorded as accounts receivable.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue Recognition *(continued)*

Miscellaneous Revenue

Miscellaneous revenue consists of product sales and payments received for speaking engagements and similar activities. Revenue is recognized at the point in time the related goods and services are provided. Payments received in advance are recorded as deferred revenue until goods or services are provided. Amounts not paid at the time goods and services are provided are recorded as accounts receivable.

There are no incremental costs of obtaining a contract and no significant financing components. Also, there are no significant changes in the judgments affecting the determination of the amount and timing of revenue from contracts with customers.

Contract assets and liabilities from CDF Freedom Schools®-related revenue and miscellaneous revenue are included in accounts receivable and deferred revenue in the accompanying consolidated statement of financial position. The balances are the result of timing differences between when revenue is recognized and when the related payments are received. Balances relating to contracts with customers were as follows:

Accounts receivable, net	$	18,283
Deferred revenue		471,303

Contract Costs

Contract costs generally include compensation, wages, and related employee costs, consulting fees, and occupancy costs related to training and other program events. Costs are expensed as incurred.

Rental Income

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

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 that cannot be specifically identified with a particular function, 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.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Allocation of Functional Expenses *(continued)*

Allocated expenses include the following:

Expenses	Method of Allocation
Compensation and wages	Time studies by employee
Employee benefits	Time studies by employee
Accounting fees	Time studies by employee
Office expenses	Time studies by employee
Occupancy	Time studies by employee
Depreciation	Time studies by employee

Advertising Expenses

CDF expenses advertising costs as incurred. Advertising expenses for the 15-month period from October 1, 2021 through December 31, 2022 was $606,571, which is included within advertising and promotion on the accompanying consolidated statement of functional expenses.

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.

Programs that Invest in Children and Communities Who Will Lead the Movement expenses relate to many different programs and activities, including:

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 children and youth in kindergarten through 12th grade, and also engages young adult Servant Leader Interns as instructors, mentors and role models.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Program Services Definitions *(continued)*

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 into their college career. 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: Los Angeles, Minneapolis, New York City, Houston, the Greater Washington, DC region, and the state of Ohio.

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 take action 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 improve the odds for America's children and youth today and for the future.

CDF Haley Farm: This farm, located in Tennessee, is the CDF home for spiritual renewal, interdisciplinary, intergenerational, interfaith, and interracial discourse for building the children's movement.

Policy Advocacy to Improve the Odds for Children expenses represent costs associated with the collection and analysis of data and policy proposals that impact children, particularly children of color, poor children, and other children from historically marginalized populations on topics, including child poverty, child health education, hunger, homelessness, childcare, early childhood development, child welfare, immigration, juvenile justice, and gun 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.

Public Education, Media Campaigns, Internet Outreach and Publications

Ending Child Poverty Now seeks to educate the general public and policymakers on how simply improving and investing in existing policies and programs to increase employment, make work pay and meet children's basic needs can help millions of today's children escape poverty now.

State of America's Children® educates the public with stories, statistics, data and trends that show in the clearest terms how we are failing our children. This resource urges advocates, policymakers, parents and families, community and faith leaders, educators and all those who stand up for our children to use the information in this report to push for America to make a different choice.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Program Services Definitions *(continued)*

Protect Children, Not Guns seeks to educate the general public and policymakers about the epidemic of gun violence in America, its effects on children and teens, and the common sense, effective gun violence prevention measures that must be enacted in order to protect them.

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, particularly children of color and children living in poverty, following a trajectory that too often leads to imprisonment and premature death.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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 (the 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 Code. Washington Research Project is a public charity exempt from federal income tax under Section 501(c)(3) of the Code and is classified as an organization that is not a private foundation. CDF Legacy Investor, LLC is a single member limited liability company.

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. For the 15-month period from October 1, 2021 through December 31, 2022, 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 2019 through the current year remain open for examination by tax authorities.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Change in Accounting Estimates

During 2022, CDF changed the time-study approach used for estimating functional allocations of expenses. The previous method of directly attributing compensation and wages based on grant codes charged was replaced by a study of individual employee activity that includes programmatic functions that are not charged directly to grants. Management believes the updated time-study approach better represents the pattern of activity carried out by CDF. There was no effect on net assets for the 15-month period from October 1, 2021 through December 31, 2022 as a result of this change in estimate.

Changes in Accounting Principle

CDF elected to change its financial year end to December 31. CDF previously used September 30, for its financial year end. The last consolidated financial statement issued using a September year end was for the year ended September 31, 2021. In keeping with this change, the current consolidated financial statements reflect the 15-month period from October 1, 2021 to December 31, 2022.

Accounting Pronouncement Adopted in the Current Year

During 2022, CDF adopted the Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which replaced existing lease accounting guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use (ROU) assets and corresponding lease liabilities on the balance sheet. ROU assets represent CDF's right to use an underlying asset for the lease term and lease liabilities represent the CDF's obligation to make lease payments arising from the lease. The new guidance requires CDF to continue to classify leases as either an operating or finance lease, with classification affecting the pattern of expense recognition in the income statement. In addition, the new standard requires enhanced disclosure surrounding the amount, timing and uncertainty of cash flows arising from leasing agreements.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Accounting Pronouncement Adopted in the Current Year *(continued)*

CDF adopted the ASU using the modified retrospective approach. At October 1, 2021, CDF recorded ROU assets and lease liabilities of $7,845,532 and $10,982,083, respectively. Additionally, certain amounts previously deferred rent of $3,136,561 were reclassified to conform to the requirement of the ASU. The guidance did not materially impact CDF's results of operations. CDF adopted the following practical expedients and elected the following accounting policies related to the standard:

- Elected not to reassess prior conclusions related to the identification, classification, and accounting for indirect costs for leases that commenced prior to October 1, 2021
- Elected to utilize CDF's borrowing rate to discount the lease payments
- Elected the short-term lease accounting policy allowing lessees not to recognize ROU assets and lease liabilities with a term of 12 months or less

For more information on CDF's lease arrangements refer to Note 9. The adoption did not have a material impact on CDF's consolidated financial statements.

Subsequent Events

Management has evaluated subsequent events for disclosure in the consolidated financial statements through July 31, 2024, which is the date the consolidated financial statements were available to be issued.

NOTE 2 INFORMATION REGARDING LIQUIDITY AND AVAILABILITY

CDF strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds, bonds and other short-term investments.

The following table reflects CDF's financial assets as of the 15-month period from October 1, 2021 through December 31, 2022, reduced by amounts that are not available to meet general expenditures within one year of the consolidated statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include endowed funds that are restricted and not considered in the annual operating budget. In the event the need arises to utilize the endowed funds for liquidity purposes, the reserves could be drawn upon if the restriction(s) are released by the donors.

NOTE 2 INFORMATION REGARDING LIQUIDITY AND AVAILABILITY *(continued)*

Cash and cash equivalents	$ 2,278,145
Investments	35,529,944
Accounts receivable, net	18,283
Government grants receivable	455,201
Pledges receivable due in less than one period	1,747,697
Total financial assets	40,029,270
Endowment funds with permanent restrictions	(7,200,600)
Financial assets available to meet cash needs for general expenditures within one period	$ 32,828,670

As described in Note 9, CDF also has a committed line of credit with a limit of $7,737,000, which it could draw upon in the event of an unanticipated liquidity need.

NOTE 3 INVESTMENTS

Investments consisted of the following:

Money market funds	$ 4,340,558
Stocks and exchange-traded funds	5,047,210
Mutual funds	26,077,415
Real estate investment trust fund	64,761
Total investments	$ 35,529,944

NOTE 4 FAIR VALUE OF INVESTMENTS

The fair value of investments is presented as follows:

		Fair Value Measurements Using		
	Total	**Level 1**	**Level 2**	**Level 3**
Money market funds	$ 4,340,558	$ 4,340,558	$ -	$ -
Stocks and exchange-traded funds	5,047,210	3,047,210	2,000,000	-
Mutual funds	26,077,415	26,077,415	-	-
Total assets within the fair value hierarchy	35,465,183	$ 33,465,183	$ 2,000,000	$ -
Investments valued at net asset value[(a)]	64,761			
Total	$ 35,529,944			

NOTE 4 FAIR VALUE OF INVESTMENTS *(continued)*

(a) In accordance with ASU 2015-07, certain investments that were measured at net asset value (NAV) per share (or its equivalent) for the 15-month period from October 1, 2021 through December 31, 2022 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 consolidated statement 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 15-month period from October 1, 2021 through December 31, 2022.

Gains and losses (realized and unrealized), net of management fees, on all investments are reported in investment income on the consolidated statement of activities and changes in net assets.

NOTE 5 INVESTMENTS MEASURED AT NET ASSET VALUE

Values for alternative investments were developed using the 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 comparisons, and outside appraisals. There have been no changes to the valuation techniques for the 15-month period from October 1, 2021 through December 31, 2022.

The risk of any derivative exposure is limited to the amount invested with each manager.

NOTE 5 INVESTMENTS MEASURED AT NET ASSET VALUE *(continued)*

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 for the 15-month period from October 1, 2021 through December 31, 2022. 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 for the 15-month period from October 1, 2021 through December 31, 2022.

Investments measured at NAV are as follows:

December 31, 2022	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Real estate investment trust fund	$ 64,761	$ -	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.

The 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 semiannually, 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.

NOTE 5 INVESTMENTS MEASURED AT NET ASSET VALUE *(continued)*

Real Estate Investment Trust Fund (TIFF Real Estate Partners I [REP I]) (continued)

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 term to December 31, 2021. The fund is beginning the liquidation process and expects to complete its liquidation during 2023.

CDF entered into an investment agreement on December 15, 2001 committing up to $3 million over the life of the fund through December 31, 2016. CDF's total contributions to date for the 15-month period from October 1, 2021 through December 31, 2022, were $2,604,655. 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. For the 15-month period from October 1, 2021 through December 31, 2022, CDF has made all payments in accordance with the terms of the agreement.

There are no anticipated capital calls for this investment fund in 2023.

NOTE 6 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. The changes could materially affect the amounts reported in future consolidated financial statements.

NOTE 7 PLEDGES RECEIVABLE AND CONCENTRATION

CDF has the following pledges receivable for the 15-month period from October 1, 2021 through December 31, 2022:

Due in less than one year	$ 1,747,697
Due in one to five years	2,977,378
Less: Discount on long-term pledges receivable	(5,829)
Total pledges receivable	$ 4,719,246

NOTE 7 PLEDGES RECEIVABLE AND CONCENTRATION *(continued)*

Concentration of Pledges Receivable and Revenue

As of December 31, 2022, four pledges comprised 74% of total pledges receivable. As of December 31, 2022, 12 contributions comprised 66% of total revenue in the accompanying consolidated statement of activities and changes in net assets.

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

Land	$ 623,944
Buildings and improvements	6,742,933
Furniture, equipment, and software	2,054,233
Total property and equipment	9,421,110
Less: Accumulated depreciation and amortization	(5,201,902)
Property and equipment, net	$ 4,219,208

Depreciation and amortization expense for the 15-month period from October 1, 2021 through December 31, 2022, was $498,477.

NOTE 9 LINE OF CREDIT

In March 2015, 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 $23,755,473 for the 15-month period from October 1, 2021 through December 31, 2022, and accrues interest at the variable rate of 1.00% plus the 1-month LIBOR rate, which totaled 5.141% for the 15-month period from October 1, 2021 through December 31, 2022. 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. For the 15-month period from October 1, 2021 through December 31, 2022, there was no outstanding balance on the line of credit.

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

The consolidated net assets with donor restrictions for purpose are as follows as of December 31, 2022:

Programs that invest in children and communities who will lead the movement	$ 838,785
Policy advocacy to improve the odds for children	2,647,942
Public education, media campaigns, internet outreach and publications	4,143,264
Total donor restricted net assets for purpose	$ 7,629,991

The consolidated net assets with donor restrictions for time are as follows as of December 31, 2022:

Time restricted	$ 5,055,435
Perpetually restricted	
Programs that invest in children and communities who will lead the movement	4,700,600
Public education, media campaigns, internet outreach and publications	2,500,000
Total donor restricted net assets with perpetual restrictions	7,200,600
Total donor restricted net assets	$ 19,886,026

NOTE 11 RELEASES FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors. Releases from restrictions were as follows for the 15-month period from October 1, 2021 through December 31, 2022:

Programs that invest in children and communities who will lead the movement	$ 4,041,706
Policy advocacy to improve the odds for children	3,816,048
Public education, media campaigns, internet outreach, and publications	3,173,175
Time restricted and other	1,865,181
Total releases from restrictions	$ 12,896,110

NOTE 12 ENDOWMENT FUNDS

Endowment net assets were comprised of funds with donor restrictions totaling $7,521,061 for the 15-month period from October 1, 2021 through December 31, 2022.

CDF's endowment consists of permanently restricted contributions established for a variety of purposes and investment income that has not yet been used for the restricted purpose. As required by U.S. 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 net assets with donor restrictions (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 net assets with donor restrictions (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 net assets without donor restrictions subsequent earnings and appreciation restoring the net assets without donor restrictions.

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

NOTE 12 ENDOWMENT FUNDS *(continued)*

Interpretation of the Relevant Law *(continued)*

The change in endowment net assets is as follows for the 15-month period from October 1, 2021 through December 31, 2022:

	2022		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of period	$ -	$ 8,471,821	$ 8,471,821
Additions	-	-	-
Investment income	-	(950,760)	(950,760)
Endowment net assets, end of period	$ -	$ 7,521,061	$ 7,521,061

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA was $7,200,600 for the 15-month period from October 1, 2021 through December 31, 2022.

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 the 15-month period from October 1, 2021 through December 31, 2022.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Currently, CDF does not have a formal spending policy.

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.

NOTE 12 ENDOWMENT FUNDS *(continued)*

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 their 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.

NOTE 13 RETIREMENT PLAN

Employees of CDF participate in a defined contribution plan under Section 403(b) of the 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 for the 15-month period from October 1, 2021 through December 31, 2022 was $227,424.

NOTE 14 LEASES

CDF is obligated under various non-cancelable operating lease agreements for office facilities and office equipment expiring at various dates through 2030. CDF rents space in multiple locations across the United States, some of which are subject to month-to-month agreements.

CDF determines if an arrangement is a lease at inception of the contract. The ROU assets represent CDF's right to use the underlying assets for the lease term and the lease liabilities represent the Fund's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at their commencement date based on the present value of lease payments over the lease term. CDF uses its estimated incremental borrowing rate, which is derived from information available at the lease commencement date.

No significant assumptions and judgement were made in applying the requirement of ASU 2016-02.

Total lease expense was $2,041,614 for the 15-month period from October 1, 2021 to December 31, 2022, and is included in the accompanying consolidated statement of functional expenses. Included in this expense is fixed rental payments. The lease does not include any variable rental payments.

NOTE 14 LEASES *(continued)*

The components of lease expense were as follows:

Future minimum lease payments as of December 31, 2022, are as follows:

Year	Amount
2023	$ 1,408,052
2024	1,185,237
2025	1,201,789
2026	1,231,744
2027	1,262,448
Thereafter	3,695,788
	9,985,058
Less: Present value discount	(665,496)
	$ 9,319,562

Other information related to leases after the adoption date was as follows:

Cash paid for rent was $2,041,614 for the 15-month period from October 1, 2021, to December 31, 2022.

The weighted-average remaining lease term for operating lease is 90 months.

The weighted-average discount rate for operating lease is 5.141%.

No sublease income/expense is recorded as of December 31, 2022.

The lease agreements do not provide CDF with extension terms.

NOTE 15 RELATED PARTIES

The CDF Marlboro County Office in South Carolina leases office space in a home that is owned by CDF's founder, who is a former board member. CDF also rents office space from the sibling of a member of management. The total rent expense related to this office space was $36,750 for the 15-month period from October 1, 2021 through December 31, 2022. There are no future minimum lease payments under this lease as of December 31, 2022.

During the 15-month period from October 1, 2021 through December 31, 2022, contributions totaling $397,705 were made by board members or organizations where CDF board members were also part of leadership or governance.