ZERO TO THREE

Early connections last a lifetime

Financial Statements

For the Year Ended September 30, 2019
(With Summarized Financial Information for the Year Ended September 30, 2018)

and
Report Thereon

ZERO TO THREE: NATIONAL CENTER FOR INFANTS, TODDLERS AND FAMILIES

TABLE OF CONTENTS
For the Year Ended September 30, 2019

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
ZERO TO THREE: National Center
for Infants, Toddlers and Families

We have audited the accompanying financial statements of ZERO TO THREE: National Center for Infants, Toddlers and Families (ZERO TO THREE), which comprise the statement of financial position as of September 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Continued

Opinion

In our opinion, the 2019 financial statements referred to above present fairly, in all material respects, the financial position of ZERO TO THREE: National Center for Infants, Toddlers and Families as of September 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited ZERO TO THREE's 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated January 31, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Washington, DC
January 23, 2020

ZERO TO THREE: NATIONAL CENTER FOR INFANTS, TODDLERS AND FAMILIES

STATEMENT OF FINANCIAL POSITION
September 30, 2019
(With Summarized Financial Information as of September 30, 2018)

	2019	2018
ASSETS		
Cash and cash equivalents	$ 10,868,753	$ 13,414,024
Federal and state government grants and contracts receivable	4,417,692	3,615,729
Other grants, contributions and contracts receivable, net	16,233,747	20,160,710
Accounts receivable, net	677,537	1,278,763
Prepaid expenses and other assets	1,259,349	1,265,147
Inventory	288,602	319,611
Investments	22,833,174	22,185,893
Property and equipment, net	1,002,660	1,251,320
TOTAL ASSETS	$ 57,581,514	$ 63,491,197
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 3,665,161	$ 3,771,178
Accrued compensation and benefits	2,319,474	2,534,930
Deferred conference registrations, membership and subscriptions	1,769,158	2,154,044
Deferred contract revenue	180,301	138,079
Deferred rent and construction allowance	1,035,962	1,429,858
Other liabilities	38,494	48,846
TOTAL LIABILITIES	9,008,550	10,076,935
Net Assets		
Without donor restrictions		
Undesignated	8,302,145	10,101,982
Board-designated endowment	5,646,933	5,468,796
Total Without Donor Restrictions	13,949,078	15,570,778
With donor restrictions		
Purpose restrictions	34,046,388	37,274,813
Time-restricted endowment	129,054	120,227
Perpetual in nature	448,444	448,444
Total With Donor Restrictions	34,623,886	37,843,484
TOTAL NET ASSETS	48,572,964	53,414,262
TOTAL LIABILITIES AND NET ASSETS	$ 57,581,514	$ 63,491,197

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

ZERO TO THREE: NATIONAL CENTER FOR INFANTS, TODDLERS AND FAMILIES

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019
(With Summarized Financial Information for the Year Ended September 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
OPERATING REVENUE AND SUPPORT				
Federal and state government grants and contracts	$ 20,380,352	$ -	$ 20,380,352	$ 23,995,348
Private grants, contributions and contracts	816,189	5,958,733	6,774,922	7,790,009
Conference income	1,977,454	-	1,977,454	2,078,986
Training and consulting fees	1,291,609	-	1,291,609	1,180,339
Resource sales, licensing and royalties	829,610	-	829,610	594,335
Memberships and subscriptions	445,672	-	445,672	410,253
HealthySteps grants, contributions and contracts	311,476	9,500,478	9,811,954	15,284,815
Investment earnings transferred to operations	486,217	-	486,217	500,470
Other revenue	26,358	-	26,358	13,679
Interest and dividend income on cash equivalents	187,215	-	187,215	116,563
Net assets released from restrictions:				
Satisfaction of program restrictions	18,687,636	(18,687,636)	-	-
TOTAL OPERATING REVENUE AND SUPPORT	45,439,788	(3,228,425)	42,211,363	51,964,797
EXPENSES				
Program Services:				
National Center on Early Childhood Development, Teaching, and Learning	12,221,166	-	12,221,166	12,825,880
HealthySteps	7,279,907	-	7,279,907	5,012,259
Policy Center	7,122,039	-	7,122,039	6,004,677
Training, consulting, professional and member services	5,107,839	-	5,107,839	4,949,656
Safe Babies Court Teams	3,727,855	-	3,727,855	3,149,585
Federal systems technical assistance	1,471,230	-	1,471,230	1,329,367
Communications	842,209	-	842,209	660,919
Parenting resources	433,173	-	433,173	704,076
Other national centers for Head Start and child care projects	432,966	-	432,966	269,415
Military family projects	411,546	-	411,546	437,490
Leadership development	321,861	-	321,861	237,137
Western office policy analysis and program consultation	267,094	-	267,094	566,457
Other	11,853	-	11,853	32,303
National Center on Early Head Start Child Care Partnerships	-	-	-	2,844,574
Professional development projects	-	-	-	11,466
Total Program Services	39,650,738	-	39,650,738	39,035,261

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

Continued

ZERO TO THREE: NATIONAL CENTER FOR INFANTS, TODDLERS AND FAMILIES

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019
(With Summarized Financial Information for the Year Ended September 30, 2018)

(continued)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
EXPENSES (continued)				
Supporting Services:				
General and administrative	$ 7,565,399	$ -	$ 7,565,399	$ 6,574,921
Fundraising and development	365,483	-	365,483	330,998
HealthySteps fundraising and development	129,913	-	129,913	161,029
Total Supporting Services	8,060,795	-	8,060,795	7,066,948
TOTAL EXPENSES	47,711,533	-	47,711,533	46,102,209
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(2,271,745)	(3,228,425)	(5,500,170)	5,862,588
NONOPERATING ACTIVITIES				
Investment income, net of earnings transferred to operations	650,045	8,827	658,872	232,743
CHANGE IN NET ASSETS	(1,621,700)	(3,219,598)	(4,841,298)	6,095,331
NET ASSETS, BEGINNING OF YEAR	15,570,778	37,843,484	53,414,262	47,318,931
NET ASSETS, END OF YEAR	$ 13,949,078	$ 34,623,886	$ 48,572,964	$ 53,414,262

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

ZERO TO THREE: NATIONAL CENTER FOR INFANTS, TODDLERS AND FAMILIES

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2019
(With Summarized Financial Information For the Year Ended September 30, 2018)

	Program Services									
	National Center on Early Childhood Development, Teaching, and Learning	HealthySteps	Policy Center	Training, Consulting, Professional and Member Services	Safe Babies Court Teams	Federal Systems Technical Assistance	Communications	Parenting Resources	Other National Centers for Head Start and Child Care Projects	Military Family Projects
Salaries	$ 3,982,865	$ 2,473,114	$ 2,146,219	$ 2,140,731	$ 1,086,527	$ 860,817	$ 281,093	$ 251,226	$ 317,453	$ 236,591
Subcontracts	4,989,616	2,043,666	2,542,272	-	1,093,492	41,288	-	-	-	-
Contracted services	1,121,901	1,621,500	1,218,940	760,610	761,530	147,037	343,086	87,917	24,450	51,176
Fringe benefits	976,794	606,529	526,358	525,012	266,470	211,115	68,938	61,613	77,855	58,024
Travel	488,416	203,654	306,579	225,678	354,048	97,458	26,893	11,742	846	39,011
Occupancy	278,321	133,566	218,706	206,844	20,065	10,431	47,672	10,641	4,867	1,790
Meeting expenses	18,045	9,359	29,363	565,092	45,921	73,542	5,662	27	-	698
Equipment and software expense	19,328	89,295	16,034	165,436	6,849	320	28,128	3,885	-	3,457
Depreciation and amortization	42,974	21,219	34,766	30,870	3,197	1,668	7,571	1,698	776	287
Project and publication supplies	53,901	29,796	19,021	162,199	57,157	11,965	9,032	2,153	3,930	605
Communication costs	27,090	9,872	13,992	11,268	24,629	11,800	11,989	1,068	1,920	3,046
Printing and copying	128,888	27,873	22,707	78,817	4,783	430	5,512	498	88	6,874
Postage and delivery costs	66,867	7,947	4,310	70,811	2,674	2,477	654	673	781	1,326
Subscriptions and reference materials	26,160	1,856	22,772	2,494	71	882	5,979	32	-	-
Miscellaneous	-	661	-	161,977	442	-	-	-	-	8,661
TOTAL EXPENSES	$ 12,221,166	$ 7,279,907	$ 7,122,039	$ 5,107,839	$ 3,727,855	$ 1,471,230	$ 842,209	$ 433,173	$ 432,966	$ 411,546

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

Continued

ZERO TO THREE: NATIONAL CENTER FOR INFANTS, TODDLERS AND FAMILIES

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2019
(With Summarized Financial Information For the Year Ended September 30, 2018)

(continued)

	Program Services (continued)				Supporting Services					
	Leadership Development	Western Office Policy Analysis and Program Consultation	Other	Total Program Services	General and Administrative	Fundraising and Development	HealthySteps Fundraising and Development	Total Supporting Services	2019 Total	2018 Total
Salaries	$ 115,034	$ 187,589	$ -	$ 14,079,259	$ 3,123,952	$ 190,018	$ 86,750	$ 3,400,720	$ 17,479,979	$ 16,821,522
Subcontracts	-	-	-	10,710,334	-	-	-	-	10,710,334	10,279,307
Contracted services	26,133	8,969	-	6,173,249	1,002,745	12,100	-	1,014,845	7,188,094	7,779,143
Fringe benefits	28,212	46,006	-	3,452,926	1,629,033	46,602	21,275	1,696,910	5,149,836	4,269,436
Travel	119,591	8,131	10,770	1,892,817	96,712	18,617	3,116	118,445	2,011,262	2,075,161
Occupancy	16,145	13,736	-	962,784	424,645	23,503	16,012	464,160	1,426,944	1,281,716
Meeting expenses	12,773	(405)	710	760,787	54,079	3,494	-	57,573	818,360	1,037,162
Equipment and software expense	-	-	-	332,732	360,973	17,334	-	378,307	711,039	562,356
Depreciation and amortization	2,567	43	-	147,636	323,424	3,756	2,547	329,727	477,363	444,049
Project and publication supplies	226	714	177	350,876	102,657	7,133	120	109,910	460,786	441,549
Communication costs	30	1,500	-	118,204	125,883	900	42	126,825	245,029	270,464
Printing and copying	81	297	-	276,848	(58,156)	6,637	51	(51,468)	225,380	195,624
Postage and delivery costs	4	514	-	159,038	5,744	2,876	-	8,620	167,658	171,585
Subscriptions and reference materials	1,065	-	196	61,507	36,395	28,908	-	65,303	126,810	198,878
Miscellaneous	-	-	-	171,741	337,313	3,605	-	340,918	512,659	274,257
TOTAL EXPENSES	$ 321,861	$ 267,094	$ 11,853	$ 39,650,738	$ 7,565,399	$ 365,483	$ 129,913	$ 8,060,795	$ 47,711,533	$ 46,102,209

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

ZERO TO THREE: NATIONAL CENTER FOR INFANTS, TODDLERS AND FAMILIES

STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2019
(With Summarized Financial Information for the Year Ended September 30, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (4,841,298)	$ 6,095,331
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	477,363	444,049
Provision for doubtful accounts	15,519	7,114
Amortization of deferred rent and construction allowance	(390,269)	(366,425)
Unrealized gain on investments	(502,694)	(228,132)
Realized gain on sales of investments	(21,717)	(52,941)
Changes in assets and liabilities:		
Federal and state government grants and contracts receivable	(801,963)	1,390,328
Other grants, contributions and contracts receivable	3,926,963	210,541
Accounts receivable	585,707	(934,648)
Prepaid expenses and other assets	5,798	(1,084,338)
Inventory	31,009	(65,063)
Accounts payable and accrued expenses	(106,017)	(192,375)
Accrued compensation and benefits	(215,456)	(163,280)
Deferred conference registrations, membership and subscriptions	(384,886)	897,267
Deferred contract revenue	42,222	(13,761)
Deferred rent and construction allowance	(3,627)	11,755
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(2,183,346)	5,955,422
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,020,492)	(1,261,433)
Proceeds from sales of investments	1,897,622	810,753
Purchases of property and equipment	(228,703)	(381,520)
NET CASH USED IN INVESTING ACTIVITIES	(351,573)	(832,200)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(10,352)	(8,618)
NET CASH USED IN FINANCING ACTIVITIES	(10,352)	(8,618)
NET INCREASE (DECREASE) IN CASH	(2,545,271)	5,114,604
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,414,024	8,299,420
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 10,868,753	$ 13,414,024
NONCASH OPERATING, FINANCING AND INVESTING ACTIVITIES		
Equipment acquired under a capital lease	$ -	$ 49,636
Capital lease obligation	-	(49,636)
	$ -	$ -

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

1. Organization and Summary of Significant Accounting Policies

Organization

ZERO TO THREE: National Center for Infants, Toddlers and Families (ZERO TO THREE) is a nonprofit organization whose mission is to ensure that all babies and toddlers have a strong start in life. ZERO TO THREE works to help babies and toddlers benefit from family and community connections critical to their well-being and development. Since 1977, the organization has advanced the proven power of nurturing relationships by transforming the science of early childhood into helpful resources, practical tools and responsive policies for millions of parents, professionals and policy makers.

Cash and Cash Equivalents

Cash and cash equivalents include money market funds held for operating purposes.

Receivables

Receivables are recorded at their net realizable value. Receivables that are past due are individually analyzed for collectibility. When all collection efforts have been exhausted, the account is written off against an allowance account. Management annually adjusts the allowance account based upon its estimate of those receivables it believes to be uncollectible.

Inventory

Inventory consists of published books, tools and work in process on certain publications. Inventory is stated at the lower of cost or net realizable value and is calculated using the first-in, first-out method of accounting.

Investments

Investment transactions are recorded on a trade-date basis and are reported in the accompanying financial statements at their fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Interest and dividend income is recorded as earned. Realized gains and losses are determined by a comparison of specific costs at the investment's acquisition to the proceeds at the time of its sale. Unrealized gains and losses are determined by a comparison of the investment's acquisition cost to its fair value at year-end.

Fair Value Measurement

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America (GAAP) and requires disclosures about fair value measurements for assets and liabilities measured at fair value on a recurring basis. The ASC emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and therefore a fair value

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value Measurement (continued)

measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby market participant assumptions are developed based on market data obtained from independent sources, or unobservable, whereby assumptions are developed by the reporting entity based on the best information available in the circumstances.

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

As of September 30, 2019, only ZERO TO THREE's investments, as described in Note 4, were measured at fair value on a recurring basis and subject to FASB ASC Topic 820, *Fair Value Measurement*.

Property and Equipment and Related Depreciation and Amortization

Property and equipment acquisitions totaling over $5,000 and an economic life in excess of one year are capitalized and are depreciated using the straight-line method over three to 10 years, with no salvage value. Capital leased assets are stated at the net present value of future minimum lease payments and are amortized using the straight-line method over the life of the lease. Leasehold improvements are stated at cost and are amortized using the straight-line method over the shorter of the remaining lease period or the useful life of the improvements. Expenditures for major repairs and improvements that extend the life of the asset are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation and amortization are eliminated from the respective accounts, and the resulting gain or loss is included in revenue or expenses.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Classification of Net Assets

ZERO TO THREE's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of ZERO TO THREE at the discretion of ZERO TO THREE's management and the Board of Directors (the Board). From time to time, the Board designates a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion.
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they will be met by actions of ZERO TO THREE or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity.

Revenue Recognition

Contributions and grants are reported as revenue in the year in which payments are received and/or unconditional promises to give are made. ZERO TO THREE reports gifts of cash and other assets as donor restricted if they are received with donor stipulations that limit the use of the donated asset. When a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions receivable are discounted to net present value if due beyond one year, unless such discount is insignificant.

ZERO TO THREE has grants and contracts with the U.S. federal government and state government agencies in exchange for services. Revenue from cost-reimbursable grants and contracts is recognized as costs are incurred on the basis of direct costs plus allowable indirect costs. Revenue recognized on grants and contracts for which payments have not been received is reflected as federal and state government grants and contracts receivable in the accompanying statement of financial position.

ZERO TO THREE has firm fixed-price contracts with the U.S. federal government, state government agencies and private companies in exchange for services. Revenue from firm fixed-price contracts is recognized on the percentage of completion method. Under this method, individual contract revenue is earned based on applying management's estimate of the percentage of the total contract work completed during the year to the total contract price. Revenue recognized on firm fixed-price contracts for which payments have not been received is reflected as federal and state government grants and contracts receivable or other grants, contributions and contracts receivable in the accompanying statement of financial position. Contract payments received but not yet expended for the purpose of the contract are reflected as deferred contract revenue in the accompanying statement of financial position.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

ZERO TO THREE has an annual conference each year for professionals working with families with children prenatal through age three. Revenue for this meeting consists of conference registrations, exhibitor fees and sponsorship fees and is recognized as revenue in the year in which the meeting is held.

Measure of Operations

ZERO TO THREE includes in its definition of operations all revenue and support that are an integral part of its programs and supporting activities. Also included in operations is interest and dividend income earned on short-term investments that are not part of the endowment fund and the aggregate authorized payout of endowment earnings. Interest and dividend income earned on long-term investments and realized and unrealized gains and losses on investments in excess of ZERO TO THREE's aggregate authorized payout to operations are considered to be nonoperating in nature.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Expenses directly attributed to a specific functional area are reported as expenses of those functional areas. ZERO TO THREE allocates indirect costs such as utilities, equipment and building expenses based on the percentage of salary expense related to each program and supporting service.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

New Accounting Pronouncement

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return for nonprofit organizations. ZERO TO THREE has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

2. Receivables

As of September 30, 2019, ZERO TO THREE had receivables from federal and state government grants and contracts totaling $4,417,692 that included unbilled receivables of $3,893,054. All billed and unbilled receivable amounts were deemed to be fully collectible.

Continued

2. Receivables (continued)

As of September 30, 2019, foundations, individuals, and corporate contributors to ZERO TO THREE had unconditionally promised to give another $16,316,413 to be used for particular programs and general support in the coming years. Other grants, contributions and contracts receivable were to be collected as follows:

Less than one year	$ 6,328,886
One to five years	9,987,527
Total Other Grants, Contributions and Contracts Receivable	16,316,413
Less: Discount on Multiyear Grants	(82,666)
Other Grants, Contributions and Contracts Receivable, Net	$ 16,233,747

All amounts were deemed to be fully collectible. The discount rate used to calculate the discount component was 0.5% for the year ended September 30, 2019.

3. Investments

Investments, at fair value, consisted of the following as of September 30, 2019:

Bond mutual funds	$ 11,299,044
Equity mutual funds and exchange-traded funds	9,558,241
Multistrategy alternative mutual funds	1,414,569
Money market funds	561,320
Total Investments	$ 22,833,174

Investment income is summarized as follows for the year ended September 30, 2019:

Interest and dividends	$ 702,309
Unrealized gains	502,694
Realized gains	21,717
Investment fees	(81,631)
Investment Income, Net	$ 1,145,089

3. Investments (continued)

Investment income is reported in the accompanying statement of activities as follows:

Transfer to operations from endowment earnings	$ 129,126
Transfer to operations from investment income – without donor restrictions and undesignated	357,091
Investment Earnings Transferred to Operations	486,217
Nonoperating activities:	
Investment gain, excluding endowment	829,000
Endowment investment gain	316,089
Endowment returns appropriated for operations	(129,126)
Investment returns appropriated for operations – without donor restrictions and undesignated	(357,091)
Total Nonoperating Activities	658,872
Investment Income, Net	$ 1,145,089

4. Fair Value Measurement

The following table summarizes ZERO TO THREE's assets measured at fair value on a recurring basis as of September 30, 2019:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bond mutual funds	$ 11,299,044	$ 11,299,044	$ -	$ -
Equity mutual funds and exchange-traded funds:				
Domestic equity funds	4,640,174	4,640,174	-	-
International equity funds	3,626,121	3,626,121	-	-
Real estate	1,291,946	1,291,946	-	-
Total Equity Mutual Funds and Exchange-Traded Funds	9,558,241	9,558,241	-	-
Multistrategy alternative mutual funds	1,414,569	1,414,569	-	-
Money market funds	561,320	561,320	-	-
Total Assets at Fair Value	$ 22,833,174	$ 22,833,174	$ -	$ -

Continued

4. Fair Value Measurement (continued)

ZERO TO THREE estimated the fair value for all of these funds using quoted market prices in active markets.

5. Property and Equipment and Related Depreciation and Amortization

ZERO TO THREE held the following property and equipment as of September 30, 2019:

Leasehold improvements	$ 2,029,628
Software	1,033,902
Computer equipment	211,633
Furniture and fixtures	159,060
Total Property and Equipment	3,434,223
Less: Accumulated Depreciation and Amortization	(2,431,563)
Property and Equipment, Net	$ 1,002,660

Depreciation and amortization expense was $477,363 for the year ended September 30, 2019.

6. Net Assets

Net Assets Without Donor Restrictions

ZERO TO THREE's net assets without donor restrictions are composed of undesignated amounts and board-designated endowment funds. As of September 30, 2019, ZERO TO THREE's net assets without donor restrictions were as follows:

Undesignated	$ 8,302,145
Board-designated endowment	5,646,933
Total Net Assets Without Donor Restrictions	$ 13,949,078

The board-designated net assets were instituted to provide funding for various strategic initiatives of ZERO TO THREE.

6. Net Assets (continued)

Net Assets With Donor Restrictions

As of September 30, 2019, net assets with donor restrictions were restricted for the following purposes or period:

Subject to expenditure for specified purpose:	
Programs:	
Policy Center	$ 20,442,490
HealthySteps	9,534,383
Safe Babies Court Teams	1,375,637
Parenting resources	1,293,773
Leadership development	1,151,807
Western office policy analysis and program consultation	174,275
Military family projects	37,985
Professional development	18,941
Other	17,097
Total Subject to Expenditure for Specified Purpose	34,046,388
Subject to occurrence of passage of time:	
Time-restricted endowment	129,054
Total Subject to Passage of Time	129,054
Subject to donor restriction in perpetuity:	
Endowment	448,444
Total Subject to Restriction in Perpetuity	448,444
Total Net Assets With Donor Restrictions	$ 34,623,886

The interest earned on the endowment fund is available for use in supporting the general activities of ZERO TO THREE.

7. Availability and Liquidity

ZERO TO THREE regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. ZERO TO THREE's financial assets available within one year of the statement of financial position date for general expenditures at September 30, 2019, were as follows:

Cash and cash equivalents	$ 10,868,753
Federal and state government grants and contracts receivable	4,417,692
Other grants, contributions and contracts receivable	16,233,747
Accounts receivable	677,537
Investments	22,833,174
Total Financial Assets	55,030,903
Less:	
Amounts receivable from cost reimbursable grants	(4,513,538)
Amounts unavailable for general expenditures within one year due to donor's purpose or time restriction	(34,623,886)
Amounts unavailable to management without Board approval	(5,646,933)
Financial Assets Available to Meet General Expenditures Within One Year	$ 10,246,546

ZERO TO THREE has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of ZERO TO THREE throughout the year. This is done through monitoring and reviewing ZERO TO THREE's cash flow needs on a weekly basis. As a result, management is aware of the cyclical nature of ZERO TO THREE's cash flow related to ZERO TO THREE's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. To help manage unanticipated liquidity needs, ZERO TO THREE has a committed line of credit of $1,000,000, which was unused and available to draw upon as of September 30, 2019. If ZERO TO THREE uses the line of credit, it is secured by deposits and investments at SunTrust Bank. Additionally, ZERO TO THREE has board-designated net assets that could be available for current operations with Board approval, if necessary.

8. Commitments, Risks and Contingencies

Operating Leases

On September 27, 2010, ZERO TO THREE entered into a noncancelable operating lease for office space for its headquarters in Washington, D.C. The lease term is for the period April 1, 2011, through December 31, 2021. ZERO TO THREE took possession of the leased space on January 15, 2011, pursuant to a provision in the lease agreement whereby the lessor allowed ZERO TO THREE to occupy the premises without payment of fixed rent. The lease

Continued

8. Commitments, Risks and Contingencies (continued)

Operating Leases (continued)

provided for eight months of rent abatement for the entire premises and an additional six months of rent abatement for a portion of the premises. The lease also contained a fixed escalation clause for increases in the annual minimum rent. Additionally, the agreement included a tenant improvement allowance of $75 per square foot, or a total of $2,406,300, as an incentive to enter into the lease agreement. ZERO TO THREE is also responsible for its proportionate share of real estate taxes and operating and maintenance costs of the landlord. ZERO TO THREE has secured a standby letter of credit agreement of $113,631 for this lease agreement. The letter of credit was issued by a financial institution naming the landlord as the beneficiary thereof. The letter of credit is held as security for the payment of any rent payable and for the faithful performance of all covenants by ZERO TO THREE.

On March 10, 2017, ZERO TO THREE entered into a lease amendment for its headquarters lease in Washington, D.C. This amendment, which was effective April 23, 2018, represented a partial termination of the lease for square feet located on the second floor and added replacement square feet located on the fourth floor.

Under GAAP, all lease incentives and all fixed rent increases, less any rental abatements and other concessions, are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent and construction allowance in the accompanying statement of financial position.

On June 15, 2005, ZERO TO THREE leased office space under a noncancelable operating lease in Los Angeles, California. On April 12, 2017, ZERO TO THREE entered into a fourth amendment to the lease which extended the lease term for the office space until June 30, 2018. Starting July 1, 2018, ZERO TO THREE leased space in Long Beach, California, on a month-to-month basis.

The future minimum rental payments required under these leases were as follows as of September 30, 2019:

For the Year Ending September 30,	
2020	$ 1,681,683
2021	1,723,713
2022	436,262
Total	$ 3,841,658

Rent expense was $1,383,299 for the year ended September 30, 2019, which included a pass-through of the prior year's operating expenses and taxes billed to ZERO TO THREE in 2019.

8. Commitments, Risks and Contingencies (continued)

Line of Credit

ZERO TO THREE has a $1,000,000 revolving line of credit with a bank dated August 4, 2014. The line of credit is renewed annually and, as of September 30, 2019, has a maturity date of June 20, 2020. Funds drawn against this line of credit accrue interest at the London Interbank Offered Rate plus 1.5% and are secured by the investments of ZERO TO THREE at SunTrust Bank. As of September 30, 2019, and throughout the year then ended, ZERO TO THREE had no outstanding balance on this line of credit.

Compliance Audit

ZERO TO THREE has received federal grants that are subject to review, audit and adjustment by various federal agencies for qualified expenses charged to the grants. Such audits could lead to requests for reimbursement to the federal agencies for any expenditures or claims disallowed under the terms of the agreements. The amount of expenditures which may be disallowed by the federal agencies cannot be determined at this time although ZERO TO THREE expects such amounts, if any, to be insignificant.

Concentration of Credit Risk

ZERO TO THREE's cash is held in an account at a creditworthy financial institution. While the amounts, at times, exceed the amount guaranteed by various agencies and insurers, and therefore bear some risk, ZERO TO THREE has never experienced, nor does management anticipate, any losses on its funds. As of September 30, 2019, the cash balance exceeding the $250,000 per depositor per institution Federal Deposit Insurance Corporation insured limit was $3,464,349.

Concentration of Risk

During the year ended September 30, 2019, ZERO TO THREE earned revenue of $20,380,352 from a diversified set of U.S. federal government and state government agencies through both cost-reimbursable and fixed-price contracts. Revenue was earned from the U.S. Department of Health and Human Services and the U.S. Department of Defense, in addition to several state government agencies. Revenue earned from the U.S. federal government and state government agencies represented approximately 48% of the total operating revenue and support recognized by ZERO TO THREE for the year ended September 30, 2019. If a significant reduction in funding from these federal and state government agencies occurs, it may adversely impact ZERO TO THREE's financial position and ability to carry out its program activities.

Employment Agreement

ZERO TO THREE signed an employment agreement with its Executive Director on January 1, 2010. Under the terms of the agreement, if ZERO TO THREE terminates the agreement for reasons other than cause, the Executive Director is entitled to receive severance pay in the amount of one month's salary, up to 12 months, for each year of employment.

Continued

9. Endowment Funds

ZERO TO THREE's endowment consists of individual donor-restricted funds established for the purpose of generating earnings to support general activities. In addition, there are funds internally designated by the Board of Directors to function as endowment funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

ZERO TO THREE's policy is to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. ZERO TO THREE's Board of Directors has interpreted the District of Columbia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing ZERO TO THREE to appropriate for expenditure or accumulate so much of an endowment fund as ZERO TO THREE determines is prudent. As a result of this interpretation, ZERO TO THREE classifies as net assets with donor restrictions a) the original value of gifts donated to the donor restricted endowment; (b) the original value of subsequent gifts to the donor restricted endowment; and (c) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Investment income from the donor restricted endowment is classified as net assets with donor restrictions (a purpose restriction) until those amounts are appropriated for expenditure by ZERO TO THREE in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, ZERO TO THREE considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

9. Endowment Funds (continued)

Endowment Composition and Activity

ZERO TO THREE's endowment net asset composition by fund type was as follows as of September 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment	$ 5,646,933	$ -	$ 5,646,933
Donor-restricted endowment:			
Historical gift value	-	448,444	448,444
Appreciation	-	129,054	129,054
Total Funds	$ 5,646,933	$ 577,498	$ 6,224,431

For the year ended September 30, 2019, the endowment funds had the following activity:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 5,468,796	$ 568,671	$ 6,037,467
Investment earnings, net	286,317	29,773	316,090
Contributions	-	-	-
Amounts appropriated for expenditure	(108,180)	(20,946)	(129,126)
Endowment Net Assets, End of Year	$ 5,646,933	$ 577,498	$ 6,224,431

Investment Objectives and Risk Parameters

ZERO TO THREE has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Investment Committee of the Board of Directors, the endowment assets are invested in a manner that is intended to create a diversified investment program in order to provide return opportunities that are consistent with ZERO TO THREE's risk tolerance.

Strategies Employed for Achieving Objectives

ZERO TO THREE's investment policy governs the management of investments for operating reserves as well as intermediate-term and long-term investments that comprise the endowment assets. It defines general investment principles; identifies duties and responsibilities; and specifies investment objectives, goals, allowable assets, and asset allocations.

Spending Policy

The investment policy provides for reasonable and prudent spending from the long-term fund on an annual basis to support ZERO TO THREE's general operations. The spending rule for the long-term fund is to spend no more than 3.5% of the average market value of the long-term fund over the prior four years.

Continued

9. Endowment Funds (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires ZERO TO THREE to retain as a fund of perpetual duration. There were no fund deficiencies as of September 30, 2019. ZERO TO THREE's policy is to continue to appropriate from such individually-deficient funds in accordance with the fund's spending policy.

10. Pension Plans

Pursuant to Section 403(b) of the Internal Revenue Code (the IRC), ZERO TO THREE sponsors a defined contribution retirement plan that is available to all eligible employees. Under the 403(b) plan, eligible employees may elect to contribute up to the federal tax limitation. The plan provides for an employer contribution equal to 6% of the salary of all eligible employees. Employer contributions are made on behalf of employees with at least 12 months of service. Employees who have completed 10 years of service receive an additional 2% of their earnings, for a total contribution of 8%. Both employer and employee contributions are fully vested. Pension expense was $897,500 for the year ended September 30, 2019, and is included in fringe benefits in the accompanying statement of functional expenses.

In addition, effective January 1, 2010, ZERO TO THREE adopted deferred compensation plans for its eligible executives under the IRC Sections 457(f) and 457(b). The plan under Section 457(f) is an unfunded, nonqualified deferred compensation plan. ZERO TO THREE makes nonelective contributions under this plan. Contributions to the plan are vested upon fulfillment by the executive of certain requirements as set forth in the plan agreement. Under the Section 457(b) plan, contributions to the plan are fully vested and nonforfeitable at all times. For the fiscal year ended September 30, 2019, $863,646 and $19,000 was deferred under the Section 457(f) and 457(b) plans, respectively, with additional deemed investment loss of $6,620 allocated to these plans, which amounts are included in fringe benefits in the accompanying statement of functional expenses. A payout of $1,722,489 was made from the Section 457(f) plan. The liability for the vested deferred compensation at September 30, 2019, of $202,108 is included in accrued compensation and benefits in the accompanying statement of financial position.

11. Related Party Transactions

During the year ended September 30, 2019, ZERO TO THREE received training and technical assistance services totaling $1,042,933 from an organization considered to be a related party since an executive officer of the organization is related to an executive officer of ZERO TO THREE. As of September 30, 2019, $226,785 was payable to the related organization. Management believes the transactions have been conducted on an arms-length basis, and no preferential treatment has been afforded to either organization.

12. Income Taxes

Under Section 501(c)(3) of the IRC, ZERO TO THREE is exempt from the payment of taxes on income other than net unrelated business income. For the year ended September 30, 2019, no provision for income taxes was made, as ZERO TO THREE had no significant unrelated business income.

ZERO TO THREE follows the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. ZERO TO THREE evaluated its uncertainty in income taxes for the year ended September 30, 2019, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of September 30, 2019, there are no tax examinations pending or in process. It is ZERO TO THREE's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense. As of September 30, 2019, ZERO TO THREE had no accruals for interest and/or penalties.

13. Prior Year Summarized Financial Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class or functional area. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with ZERO TO THREE's financial statements for the year ended September 30, 2018, from which the summarized financial information was derived.

14. Reclassifications

Certain amounts in 2018 were reclassified to conform to the 2019 presentation.

15. Subsequent Events

In preparing these financial statements, ZERO TO THREE has evaluated events and transactions for potential recognition or disclosure through January 23, 2020, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.