ZERO TO THREE
Early connections last a lifetime

Financial Statements

For the Year Ended September 30, 2018
(With Summarized Financial Information for the Year Ended September 30, 2017)

and
Report Thereon

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

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For the Year Ended September 30, 2018

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, 2018, 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

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Opinion

In our opinion, the 2018 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, 2018, 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

The 2017 financial statements of ZERO TO THREE as of and for the year ended September 30, 2017, were audited by Raffa, P.C., whose practice was combined with Marcum LLP as of October 1, 2018, and whose report dated January 10, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Washington, DC
January 31, 2019

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

STATEMENT OF FINANCIAL POSITION
September 30, 2018
(With Summarized Financial Information as of September 30, 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	$ 13,414,024	$ 8,299,420
Federal and state government grants and contracts receivable	3,615,729	5,006,057
Other grants, contributions and contracts receivable, net	20,160,710	20,371,251
Accounts receivable, net	1,278,763	351,229
Prepaid expenses and other assets	1,265,147	180,809
Inventory	319,611	254,548
Investments	22,185,893	21,454,140
Property and equipment, net	1,251,320	1,264,213
TOTAL ASSETS	$ 63,491,197	$ 57,181,667
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 3,771,178	$ 3,963,553
Accrued compensation and benefits	2,534,930	2,698,210
Deferred conference registrations, membership and subscriptions	2,154,044	1,256,777
Deferred contract revenue	138,079	151,840
Deferred rent and construction allowance	1,429,858	1,784,528
Other liabilities	48,846	7,828
TOTAL LIABILITIES	10,076,935	9,862,736
Net Assets		
Unrestricted		
Undesignated	10,101,982	9,923,043
Board-designated endowment	5,468,796	5,360,441
Total Unrestricted	15,570,778	15,283,484
Temporarily restricted – grants and contributions	37,274,813	31,469,965
Temporarily restricted – endowment	120,227	117,038
Permanently restricted – endowment	448,444	448,444
TOTAL NET ASSETS	53,414,262	47,318,931
TOTAL LIABILITIES AND NET ASSETS	$ 63,491,197	$ 57,181,667

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, 2018
(With Summarized Financial Information for the Year Ended September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
OPERATING REVENUE AND SUPPORT					
Federal and state government grants and contracts	$ 23,995,348	$ -	$ -	$ 23,995,348	$ 29,070,143
Private grants, contributions and contracts	2,054,501	5,735,508	-	7,790,009	27,547,061
Conference income	2,078,986	-	-	2,078,986	1,921,037
Training and consulting fees	1,180,339	-	-	1,180,339	1,582,199
Resource sales, licensing and royalties	594,335	-	-	594,335	728,490
Memberships and subscriptions	410,253	-	-	410,253	291,297
HealthySteps grants, contributions and contracts	136,827	15,147,988	-	15,284,815	150,682
Investment earnings transferred to operations	500,470	-	-	500,470	134,346
Rental income	-	-	-	-	97,681
Other revenue	13,679	-	-	13,679	62,747
Interest and dividend income on cash equivalents	116,563	-	-	116,563	41,943
Net assets released from restrictions:					
Satisfaction of program restrictions	15,078,648	(15,078,648)	-	-	-
TOTAL OPERATING REVENUE AND SUPPORT	46,159,949	5,804,848	-	51,964,797	61,627,626
EXPENSES					
Program Services:					
National Center on Early Childhood Development, Teaching, and Learning	12,825,880	-	-	12,825,880	17,558,924
Policy Center	5,711,094	-	-	5,711,094	2,857,632
HealthySteps	5,012,259	-	-	5,012,259	3,001,313
Training, consulting, professional and member services	4,949,656	-	-	4,949,656	3,168,201
Safe Babies Court Teams	3,149,585	-	-	3,149,585	2,654,692
National Center on Early Head Start Child Care Partnerships	2,844,574	-	-	2,844,574	3,191,085
Federal systems technical assistance	1,329,367	-	-	1,329,367	1,876,185
Parenting resources	704,076	-	-	704,076	754,176
Communications	660,919	-	-	660,919	-
Western office policy analysis and program consultation	566,457	-	-	566,457	519,750
Military family projects	437,490	-	-	437,490	422,958
Advocacy	293,583	-	-	293,583	264,499
Other national centers for Head Start and child care projects	269,415	-	-	269,415	267,978
Leadership development	237,137	-	-	237,137	280,761
Other	32,303	-	-	32,303	7,663
Professional development projects	11,466	-	-	11,466	183,593
Strategic investments in programs	-	-	-	-	1,584,289
HealthySteps enhanced evaluation	-	-	-	-	453,062
Total Program Services	39,035,261	-	-	39,035,261	39,046,761

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, 2018
(With Summarized Financial Information for the Year Ended September 30, 2017)

(continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
EXPENSES (continued)					
Supporting Services:					
General and administrative	$ 6,574,921	$ -	$ -	$ 6,574,921	$ 5,708,270
Fundraising and development	330,998	-	-	330,998	445,653
HealthySteps fundraising and development	161,029	-	-	161,029	-
Total Supporting Services	7,066,948	-	-	7,066,948	6,153,923
TOTAL EXPENSES	46,102,209	-	-	46,102,209	45,200,684
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	57,740	5,804,848	-	5,862,588	16,426,942
NONOPERATING ACTIVITIES					
Investment income, net of earnings transferred to operations	229,554	3,189	-	232,743	1,358,171
CHANGE IN NET ASSETS	287,294	5,808,037	-	6,095,331	17,785,113
NET ASSETS, BEGINNING OF YEAR	15,283,484	31,587,003	448,444	47,318,931	29,533,818
NET ASSETS, END OF YEAR	$ 15,570,778	$ 37,395,040	$ 448,444	$ 53,414,262	$ 47,318,931

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, 2018
(With Summarized Financial Information For the Year Ended September 30, 2017)

	Program Services											
	National Center on Early Childhood Development, Teaching, and Learning	Policy Center	HealthySteps	Training, Consulting, Professional, and Member Services	Safe Babies Court Teams	National Center on Early Head Start Child Care Partnerships	Federal Systems Technical Assistance	Parenting Resources	Communications	Western Office Policy Analysis and Program Consultation	Military Family Projects	Advocacy
Salaries	$ 3,334,650	$ 1,866,064	$ 2,133,005	$ 1,982,159	$ 1,120,716	$ 944,163	$ 785,097	$ 229,486	$ 227,865	$ 354,185	$ 240,342	$ 43,443
Subcontracts	6,759,895	1,037,500	989,267	-	530,413	881,206	81,026	-	-	-	-	-
Contracted services	1,063,455	1,639,350	885,641	689,129	636,928	567,676	107,495	401,046	241,477	49,024	104,566	230,400
Fringe benefits	819,267	458,460	524,043	486,983	275,341	231,965	192,885	56,381	55,982	87,017	59,048	10,673
Travel	313,968	310,674	192,917	267,454	480,670	134,394	107,129	4,056	18,696	17,392	17,304	1,393
Occupancy	198,948	199,482	97,013	156,331	16,983	37,232	6,188	8,445	19,211	33,094	3,708	6,486
Meeting expenses	15,875	68,723	19,367	765,034	(8,807)	419	31,053	-	27,230	9,860	775	-
Equipment and software expense	22,861	16,005	35,172	76,028	5,646	1,794	1,421	407	28,286	100	310	-
Depreciation and amortization	34,378	35,441	17,236	25,323	3,017	6,615	1,099	1,500	3,413	993	659	1,152
Supplies and costs of goods sold	27,388	23,850	35,934	147,847	43,538	2,698	5,545	702	29,228	7,856	6,402	6
Communication costs	43,727	13,324	8,308	11,973	21,027	6,864	8,178	983	3,577	3,374	3,115	-
Subscriptions and reference materials	70,151	28,298	28,426	7,973	998	1,810	270	668	1,157	-	-	-
Printing and copying	79,262	11,592	31,570	89,677	11,571	23,470	398	100	4,472	2,389	476	-
Postage and delivery costs	42,055	2,091	6,723	91,916	7,690	4,268	1,583	302	325	636	785	30
Miscellaneous	-	240	7,637	151,829	3,854	-	-	-	-	537	-	-
Subtotal	12,825,880	5,711,094	5,012,259	4,949,656	3,149,585	2,844,574	1,329,367	704,076	660,919	566,457	437,490	293,583
Allocation of general and administrative expenses	1,430,936	882,239	899,433	993,167	543,119	423,812	311,857	125,763	151,428	138,938	96,426	28,334
TOTAL EXPENSES	$ 14,256,816	$ 6,593,333	$ 5,911,692	$ 5,942,823	$ 3,692,704	$ 3,268,386	$ 1,641,224	$ 829,839	$ 812,347	$ 705,395	$ 533,916	$ 321,917

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

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2018
(With Summarized Financial Information For the Year Ended September 30, 2017)

(Continued)

	Program Services (continued)					Supporting Services					
	Other National Centers for Head Start and Child Care Projects	Leadership Development	Other	Professional Development Projects	Total Program Services	General and Administrative	Fundraising and Development	HealthySteps Fundraising and Development	Total Supporting Services	2018 Total	2017 Total
Salaries	$ 194,533	$ 111,248	$ -	$ 8,066	$ 13,575,022	$ 2,997,331	$ 169,287	$ 79,882	$ 3,246,500	$ 16,821,522	$ 14,538,462
Subcontracts	-	-	-	-	10,279,307	-	-	-	-	10,279,307	11,306,335
Contracted services	23,119	14,303	32,300	-	6,685,909	1,048,105	1,629	43,500	1,093,234	7,779,143	9,115,902
Fringe benefits	47,794	27,332	-	1,982	3,335,153	873,066	41,591	19,626	934,283	4,269,436	3,709,729
Travel	51	51,820	-	-	1,917,918	124,423	31,847	973	157,243	2,075,161	1,923,751
Occupancy	2,731	16,608	-	1,204	803,664	440,855	25,272	11,925	478,052	1,281,716	1,277,513
Meeting expenses	-	9,568	-	-	939,097	93,599	4,466	-	98,065	1,037,162	1,151,905
Equipment and software expense	-	-	-	-	188,030	367,718	6,608	-	374,326	562,356	357,579
Depreciation and amortization	485	2,951	-	214	134,476	302,964	4,490	2,119	309,573	444,049	378,615
Supplies and costs of goods sold	99	3,060	-	-	334,153	99,327	5,611	2,458	107,396	441,549	430,691
Communication costs	600	69	-	-	125,119	143,905	1,440	-	145,345	270,464	219,292
Subscriptions and reference materials	-	-	-	-	139,751	33,256	25,871	-	59,127	198,878	111,091
Printing and copying	3	124	3	-	255,107	(66,808)	6,779	546	(59,483)	195,624	253,906
Postage and delivery costs	-	54	-	-	158,458	10,833	2,294	-	13,127	171,585	137,289
Miscellaneous	-	-	-	-	164,097	106,347	3,813	-	110,160	274,257	288,624
Subtotal	269,415	237,137	32,303	11,466	39,035,261	6,574,921	330,998	161,029	7,066,948	46,102,209	45,200,684
Allocation of general and administrative expenses	67,445	46,974	1	2,870	6,142,742	(6,261,284)	82,862	35,680	(6,142,742)	-	-
TOTAL EXPENSES	$ 336,860	$ 284,111	$ 32,304	$ 14,336	$ 45,178,003	$ 313,637	$ 413,860	$ 196,709	$ 924,206	$ 46,102,209	$ 45,200,684

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, 2018
(With Summarized Financial Information for the Year Ended September 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 6,095,331	$ 17,785,113
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	444,049	378,615
Provision for doubtful accounts	7,114	14,979
Amortization of deferred construction allowance	(366,425)	(327,867)
Loss on disposal of leasehold improvements	-	5,213
Unrealized (gain) loss on investments	(228,132)	602,603
Realized gain on sales of investments	(52,941)	(1,728,018)
Changes in assets and liabilities:		
Federal and state government grants and contracts receivable	1,390,328	(1,470,483)
Other grants, contributions and contracts receivable	210,541	(18,694,581)
Accounts receivable	(934,648)	(174,526)
Prepaid expenses and other assets	(1,084,338)	133,452
Inventory	(65,063)	904
Accounts payable and accrued expenses	(192,375)	1,787,364
Accrued compensation and benefits	(163,280)	376,104
Deferred conference registrations, membership and subscriptions	897,267	291,205
Deferred contract revenue	(13,761)	(170,592)
Deferred rent and construction allowance	11,755	(34,593)
Subtenant deposit	-	(14,367)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	5,955,422	(1,239,475)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,261,433)	(9,036,696)
Proceeds from sales of investments	810,753	8,669,546
Purchases of property and equipment	(381,520)	-
NET CASH USED IN INVESTING ACTIVITIES	(832,200)	(367,150)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(8,618)	(9,223)
NET CASH USED IN FINANCING ACTIVITIES	(8,618)	(9,223)
NET INCREASE (DECREASE) IN CASH	5,114,604	(1,615,848)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,299,420	9,915,268
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 13,414,024	$ 8,299,420
NONCASH OPERATING, FINANCING AND INVESTING ACTIVITIES		
Equipment acquired under a capital lease	$ 49,636	$ -
Capital lease obligation	(49,636)	-
Decrease in deferred lease incentive obligation	-	147,607
Disposal of leasehold improvements	-	(142,394)
	$ -	$ 5,213

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. Cash intended for investment purposes is included in investments.

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, tapes 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, 2018, 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. For purposes of calculating the indirect cost rate, any gains resulting from the disposal of assets are recorded as a reduction to total indirect expenses.

Classification of Net Assets

The net assets of ZERO TO THREE are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of ZERO TO THREE's operations, as well as its internally designated endowment funds.

Continued

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

Classification of Net Assets (continued)

- Temporarily restricted net assets represent amounts specifically restricted by donors or grantors for various programs or future periods, as well as temporarily restricted earnings from endowment funds.
- Permanently restricted net assets represent endowment funds that are received with donor stipulations requiring the gift to be held 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 temporarily 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, temporarily restricted net assets are reclassified to unrestricted net assets 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.

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.

Continued

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

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. ZERO TO THREE allocates utilities, equipment and building expenses based on the percentage of salary expense related to each program and supporting service. Other indirect costs are allocated to various programs and supporting services based on modified total direct costs.

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.

2. Receivables

As of September 30, 2018, ZERO TO THREE had receivables from federal and state government grants and contracts totaling $3,615,729 that included unbilled receivables of $3,150,885. All billed and unbilled receivable amounts were deemed to be fully collectible.

As of September 30, 2018, foundations, individuals, and corporate contributors to ZERO TO THREE had unconditionally promised to give another $20,160,710 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	$ 10,550,863
One to five years	9,692,513
Total Other Grants, Contributions and Contracts Receivable	20,243,376
Less: Discount on Multiyear Grants	(82,666)
Other Grants, Contributions and Contracts Receivable, Net	$ 20,160,710

Continued

2. Receivables (continued)

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, 2018.

3. Investments

Investments, at fair value, consisted of the following as of September 30, 2018:

Bond mutual funds	$ 10,798,058
Equity mutual funds and exchange-traded funds	9,498,578
Multistrategy alternative mutual funds	1,356,906
Money market funds	532,351
Total Investments	$ 22,185,893

Investment income is summarized as follows for the year ended September 30, 2018:

Interest and dividends	$ 532,559
Unrealized gains	228,132
Realized gains	52,941
Investment fees	(80,419)
Investment Income, Net	$ 733,213

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

Transfer to operations from endowment earnings	$ 138,016
Transfer to operations from unrestricted undesignated investment income	362,454
Nonoperating activities:	
Investment gain, excluding endowment	483,653
Endowment investment gain	249,560
Endowment returns appropriated for operations	(138,016)
Unrestricted undesignated investment returns appropriated for operations	(362,454)
Total Nonoperating Activities	232,743
Investment Income, Net	$ 733,213

Continued

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, 2018:

	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	$ 10,798,058	$ 10,798,058	$ -	$ -
Equity mutual funds and exchange-traded funds:				
Domestic equity funds	4,766,097	4,766,097	-	-
International equity funds	3,422,706	3,422,706	-	-
Real estate	1,309,775	1,309,775	-	-
Total Equity Mutual Funds and Exchange-Traded Funds	9,498,578	9,498,578	-	-
Multistrategy alternative mutual funds	1,356,906	1,356,906	-	-
Money market funds	532,351	532,351	-	-
Total Assets at Fair Value	$ 22,185,893	$ 22,185,893	$ -	$ -

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, 2018:

Leasehold improvements	$ 2,028,792
Software	1,072,573
Computer equipment	367,656
Furniture and fixtures	159,060
Total Property and Equipment	3,628,081
Less: Accumulated Depreciation and Amortization	(2,376,761)
Property and Equipment, Net	$ 1,251,320

Depreciation and amortization expense was $444,049 for the year ended September 30, 2018.

6. 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 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 is leasing 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, 2018:

For the Year Ending September 30,	
2019	$ 1,640,776
2020	1,681,683
2021	1,723,713
2022	436,262
Total	$ 5,482,434

6. Commitments, Risks and Contingencies (continued)

Operating Leases (continued)

Rent expense was $1,388,663 for the year ended September 30, 2018, which included a pass-through of the prior year's operating expenses and taxes billed to ZERO TO THREE in 2018.

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, 2018, has a maturity date of June 21, 2019. Funds drawn against this line of credit accrue interest at the London Interbank Offered Rate (LIBOR) plus 1.5% and are secured by the investments of ZERO TO THREE. As of September 30, 2018, 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.

Provisional Indirect Cost Rates

Billings under cost-reimbursable government contracts and grants are calculated using provisional rates that permit recovery of indirect costs. These rates are subject to audit by the U.S. Department of Health and Human Services (HHS), ZERO TO THREE's cognizant agency. The audit results in the negotiation and determination of the final indirect cost rates, which may create a liability for indirect cost recovery for amounts billed in excess of the actual rates, or may allow for additional billings for unbilled indirect costs.

HHS audits costs related to U.S. government contracts and grants in accordance with the Uniform Guidance, issued by the Office of Management and Budget (OMB). HHS has yet to audit the costs and indirect cost rates for the year ended September 30, 2018. Management believes that cost disallowances, if any, arising from HHS's audit for 2018 will not have a material effect on ZERO TO THREE's financial position as of September 30, 2018, or its results of operations for the year then ended.

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, 2018, the cash balance exceeding the $250,000 per depositor per institution Federal Deposit Insurance Corporation insured limit was $4,813,905.

Continued

6. Commitments, Risks and Contingencies (continued)

Concentration of Risk

During the year ended September 30, 2018, ZERO TO THREE earned revenue of $23,995,348 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 HHS 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 47% of the total operating revenue and support recognized by ZERO TO THREE for the year ended September 30, 2018. 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.

7. Restricted Net Assets

Temporarily restricted net assets were available for the following programs and time periods as of September 30, 2018:

Programs:	
Policy Center	$ 25,516,080
HealthySteps	8,483,767
Parenting resources	1,521,202
Leadership development	1,336,576
Western office policy analysis and program consultation	294,608
Military family projects	78,343
Professional development	38,847
Other	5,390
Total Programs	37,274,813
Operations:	
Time-restricted endowment	120,227
Total Operations	120,227
Total Temporarily Restricted Net Assets	$ 37,395,040

Permanently restricted net assets consisted of $448,444 in ZERO TO THREE's endowment fund as of September 30, 2018. The interest earned on the endowment fund is available for use in supporting the general activities of ZERO TO THREE.

8. 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 permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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.

Continued

8. 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, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment	$ 5,468,796	$ -	$ -	$ 5,468,796
Donor-restricted endowment	-	120,227	448,444	568,671
Total Funds	$ 5,468,796	$ 120,227	$ 448,444	$ 6,037,467

For the year ended September 30, 2018, the endowment funds had the following activity:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 5,360,441	$ 117,038	$ 448,444	$ 5,925,923
Investment return:				
Investment income	114,560	12,085	-	126,645
Net appreciation (realized and unrealized)	111,186	11,729	-	122,915
Total Investment Return	225,746	23,814	-	249,560
Transfers of endowment earnings	(117,391)	(20,625)	-	(138,016)
Endowment Net Assets, End of Year	$ 5,468,796	$ 120,227	$ 448,444	$ 6,037,467

The permanently restricted and temporarily restricted endowment net assets consisted of the following:

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$ 448,444
Total Endowment Funds Classified as Permanently Restricted Net Assets	$ 448,444

8. Endowment Funds (continued)

Endowment Composition and Activity (continued)

The portion of perpetual endowment funds subject to a time restriction under UPMIFA:	
Without purpose restrictions	$ 120,227
Total Endowment Funds Classified as Temporarily Restricted Net Assets	$ 120,227

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.

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, 2018.

9. 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

9. Pension Plans (continued)

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 $792,234 for the year ended September 30, 2018, 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 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, 2018, $90,100 and $18,500 was deferred under the Section 457(f) and 457(b) plans, respectively, with additional deemed investment gains of $41,968 allocated to these plans, which amounts are included in fringe benefits in the accompanying statement of functional expenses. A payout of $247,831 was made from the Section 457(f) plan. The liability for the vested deferred compensation at September 30, 2018, of $1,048,572 is included in accrued compensation and benefits in the accompanying statement of financial position.

10. 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, 2018, 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, 2018, 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, 2018, the statute of limitations for tax years 2014 through 2016 remained open with the U.S. federal jurisdiction or the various states and local jurisdictions in which ZERO TO THREE files tax returns. It is ZERO TO THREE's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense. As of September 30, 2018, ZERO TO THREE had no accruals for interest and/or penalties.

Continued

11. 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, 2017, from which the summarized financial information was derived.

12. Reclassifications

Certain 2017 balances have been reclassified to conform to the 2018 presentation.

13. Subsequent Events

In preparing these financial statements, ZERO TO THREE has evaluated events and transactions for potential recognition or disclosure through January 31, 2019, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.