Financial Statements

For the Year Ended September 30, 2016
(With Summarized Financial Information for the Year Ended September 30, 2015)

and
Report Thereon

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

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Raffa

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2016, 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.

Auditor's 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 auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ZERO TO THREE as of September 30, 2016, 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.

Continued

Report on Summarized Comparative Information

We have previously audited ZERO TO THREE's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Raffa, P.C.

Raffa, P.C.

Washington, DC
January 25, 2017

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

STATEMENT OF FINANCIAL POSITION
September 30, 2016
(With Summarized Financial Information as of September 30, 2015)

	2016	2015
ASSETS		
Cash and cash equivalents	$ 9,915,268	$ 6,390,532
Federal and state government grants and contracts receivable	3,535,574	4,722,067
Other grants, contributions and contracts receivable	1,676,670	2,205,430
Accounts receivable, net	191,682	63,618
Prepaid expenses and other assets	314,261	308,374
Inventory	255,452	298,475
Investments	19,961,575	18,646,889
Property and equipment, net	1,790,435	1,738,717
TOTAL ASSETS	$ 37,640,917	$ 34,374,102
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 2,176,189	$ 1,533,292
Accrued compensation and benefits	2,322,106	2,337,519
Deferred conference registrations, membership and subscriptions	965,572	821,124
Deferred contract revenue	322,432	69,566
Deferred rent and construction allowance	2,289,382	2,608,184
Other liabilities	31,418	40,459
TOTAL LIABILITIES	8,107,099	7,410,144
Net Assets		
Unrestricted		
Undesignated	10,449,860	11,737,869
Board-designated endowment	5,003,466	4,680,603
Total Unrestricted	15,453,326	16,418,472
Temporarily restricted – grants and contributions	13,544,898	10,033,792
Temporarily restricted – endowment	87,150	63,250
Permanently restricted – endowment	448,444	448,444
TOTAL NET ASSETS	29,533,818	26,963,958
TOTAL LIABILITIES AND NET ASSETS	$ 37,640,917	$ 34,374,102

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, 2016
(With Summarized Financial Information for the Year Ended September 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
OPERATING REVENUE AND SUPPORT					
Federal and state government grants and contracts	$ 18,698,559	$ -	$ -	$ 18,698,559	$ 18,049,563
Other grants, contributions and contracts	1,877,377	9,821,388	-	11,698,765	10,784,298
Conference income	1,696,896	-	-	1,696,896	1,148,462
Publications and materials	540,981	-	-	540,981	602,486
Training and consulting fees	640,811	-	-	640,811	294,229
Subscriptions	154,039	-	-	154,039	202,814
Rental income	167,452	-	-	167,452	166,831
Transfer to operations from endowment earnings	92,875	-	-	92,875	109,284
Other revenue	42,335	-	-	42,335	3,565
Interest and dividend income	1,336	-	-	1,336	13,277
Net assets released from restrictions:					
Satisfaction of program restrictions	6,300,282	(6,300,282)	-	-	-
Satisfaction of time restrictions	10,000	(10,000)	-	-	-
TOTAL OPERATING REVENUE AND SUPPORT	30,222,943	3,511,106	-	33,734,049	31,374,809
EXPENSES					
Program Services:					
National Center on Early Childhood Development					
Teaching and Learning	8,236,475	-	-	8,236,475	8,143
National Center on Early Head Start Child Care Partnerships	2,855,882	-	-	2,855,882	1,775,836
Healthy Steps	2,389,858	-	-	2,389,858	445,299
Child welfare	2,374,771	-	-	2,374,771	1,868,325
Training, consulting, professional and member services	2,238,455	-	-	2,238,455	2,239,492
Federal systems technical assistance	1,882,993	-	-	1,882,993	3,586,290
Parenting resources	1,491,553	-	-	1,491,553	1,079,684
Policy center analysis	1,367,138	-	-	1,367,138	1,176,554
Western office policy analysis and program consultation	665,451	-	-	665,451	861,094
Military family projects	348,362	-	-	348,362	417,261
Professional development	328,804	-	-	328,804	263,578
Other national centers for Head Start and child care projects	301,273	-	-	301,273	-
Advocacy	251,794	-	-	251,794	263,786
Healthy Steps enhanced evaluation	248,213	-	-	248,213	22,925
Leadership development	223,095	-	-	223,095	256,610
Other	9,363	-	-	9,363	45,470
Early Head Start National Resource Center	-	-	-	-	6,474,733
Communication	-	-	-	-	141,058
Strategic Investments in Programs:					
Business development	946,349	-	-	946,349	469,174
Communication	436,908	-	-	436,908	331,524
Infant mental health	280,207	-	-	280,207	168,440
Transcultural initiative	109,535	-	-	109,535	63,429
Total Program Services	26,986,479	-	-	26,986,479	21,958,705
Supporting Services:					
General and administrative	5,073,317	-	-	5,073,317	4,305,806
Fundraising and development	326,196	-	-	326,196	393,386
Total Supporting Services	5,399,513	-	-	5,399,513	4,699,192
TOTAL EXPENSES	32,385,992	-	-	32,385,992	26,657,897
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(2,163,049)	3,511,106	-	1,348,057	4,716,912
NONOPERATING ACTIVITIES					
Investment income (loss), net of endowment earnings transferred to operations	1,197,903	23,900	-	1,221,803	(510,814)
CHANGE IN NET ASSETS	(965,146)	3,535,006	-	2,569,860	4,206,098
NET ASSETS, BEGINNING OF YEAR	16,418,472	10,097,042	448,444	26,963,958	22,757,860
NET ASSETS, END OF YEAR	$ 15,453,326	$ 13,632,048	$ 448,444	$ 29,533,818	$ 26,963,958

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, 2016
(With Summarized Financial Information For the Year Ended September 30, 2015)

	Program Services												
	National Center on Early Childhood Development Teaching and Learning	National Center on Early Head Start Child Care Partnerships	Healthy Steps	Child Welfare	Training, Consulting, Professional, and Member Services	Federal Systems Technical Assistance	Parenting Resources	Policy Center Analysis	Western Office Policy Analysis and Program Consultation	Military Family Projects	Professional Development	Other National Centers for Head Start and Child Care Projects	Advocacy
Salaries	$ 2,462,735	$ 905,060	$ 1,112,806	$ 1,128,072	$ 623,101	$ 1,103,479	$ 671,579	$ 772,557	$ 461,491	$ 238,871	$ 163,687	$ 177,421	$ 13,892
Subcontracts	4,205,564	1,048,900	526,991	438,997	14,965	71,387	192,217	(438)	-	-	-	41,643	-
Contracted services	187,843	364,856	304,197	166,506	335,449	240,911	290,187	207,234	29,779	11,385	78,147	16,305	231,568
Fringe benefits	569,570	209,318	257,365	260,895	144,108	255,207	155,320	178,673	89,516	55,245	37,857	41,033	3,213
Travel	244,638	223,777	105,617	279,597	115,115	136,979	55,685	58,040	17,041	6,990	13,466	3,560	414
Occupancy	215,070	48,772	49,820	16,304	67,144	25,048	69,745	84,049	44,044	21,664	14,176	8,823	2,284
Meeting expenses	13,930	4,753	868	30,047	564,814	13,369	7,254	8,032	288	3,175	3,801	471	-
Supplies and costs of goods sold	197,003	7,471	7,965	15,790	122,575	11,884	3,162	13,907	2,984	396	11,301	10,307	-
Depreciation and amortization	39,439	9,026	9,220	3,017	12,425	4,635	12,907	15,554	6,519	4,009	2,623	1,633	423
Communication costs	29,939	21,281	4,652	21,110	7,833	15,653	8,223	15,482	8,129	156	1,475	-	-
Equipment and software expense	12,954	1,680	781	2,323	6,080	-	14,458	5,249	1,370	-	-	-	-
Postage and delivery costs	11,711	2,980	736	3,327	64,514	2,000	1,256	406	796	21	773	25	-
Printing and copying	22,966	7,724	734	6,149	53,733	537	1,603	4,192	2,398	6,450	201	52	-
Subscriptions and reference materials	23,113	284	8,106	2,637	1,868	1,904	7,957	4,201	560	-	1,297	-	-
Bank service charges	-	-	-	-	68,553	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	10,372	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	25,806	-	-	-	536	-	-	-	-
Subtotal	8,236,475	2,855,882	2,389,858	2,374,771	2,238,455	1,882,993	1,491,553	1,367,138	665,451	348,362	328,804	301,273	251,794
Allocation of general and administrative expenses	971,816	387,072	413,898	415,030	379,182	419,858	277,292	288,438	137,651	81,136	76,580	60,469	16,356
TOTAL EXPENSES	$ 9,208,291	$ 3,242,954	$ 2,803,756	$ 2,789,801	$ 2,617,637	$ 2,302,851	$ 1,768,845	$ 1,655,576	$ 803,102	$ 429,498	$ 405,384	$ 361,742	$ 268,150

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, 2015
(With Summarized Financial Information for the Year Ended September 30, 2014)

	Program Services								Supporting Services				
				Strategic Investments in Programs									
	Healthy Steps Enhanced Evaluation	Leadership Development	Other	Business Development	Communication	Infant Mental Health	Transcultural Initiative	Total Program Services	General and Administrative	Fundraising and Development	Total Supporting Services	2016 Total	2015 Total
Salaries	$ 81,259	$ 112,204	$ 120	$ 484,847	$ 220,370	$ 137,079	$ 80,315	$ 10,950,945	$ 2,331,430	$ 169,581	$ 2,501,011	$ 13,451,956	$ 10,589,247
Subcontracts	82,319	-	-	53,434	-	-	-	6,675,979	-	15,565	15,565	6,691,544	6,541,049
Contracted services	45,000	6,801	2,500	209,624	88,737	57,940	392	2,875,361	606,134	16,547	622,681	3,498,042	1,979,917
Fringe benefits	18,793	25,950	28	112,133	50,966	31,703	18,575	2,515,468	764,435	39,220	803,655	3,319,123	2,636,101
Travel	-	40,235	3,583	19,988	20,113	38,605	2,215	1,385,658	88,267	31,363	119,630	1,505,288	1,330,615
Occupancy	13,357	18,444	20	42,099	28,358	1,178	6,712	777,111	565,991	27,876	593,867	1,370,978	1,331,997
Meeting expenses	13	14,453	-	508	1,947	704	-	668,427	68,972	669	69,641	738,068	546,636
Supplies and costs of goods sold	-	833	3,016	4,456	4,806	6,404	-	424,260	48,113	1,794	49,907	474,167	329,127
Depreciation and amortization	2,472	3,413	4	7,791	5,248	218	1,242	141,818	230,073	5,159	235,232	377,050	364,654
Communication costs	-	368	-	2,292	3,306	1,100	55	141,054	122,492	873	123,365	264,419	282,512
Equipment and software expense	5,000	-	-	3,026	7,419	-	-	60,340	134,985	5,235	140,220	200,560	176,246
Postage and delivery costs	-	38	-	379	84	3,764	29	92,839	13,233	626	13,859	106,698	152,343
Printing and copying	-	277	3	3,652	237	1,177	-	112,085	-	3,135	3,135	115,220	102,947
Subscriptions and reference materials	-	79	89	1,120	5,229	335	-	58,779	26,418	8,420	34,838	93,617	107,764
Bank service charges	-	-	-	-	-	-	-	68,553	17,863	108	17,971	86,524	64,479
Insurance	-	-	-	-	-	-	-	10,372	72,580	-	72,580	82,952	65,228
Miscellaneous	-	-	-	1,000	88	-	-	27,430	(17,669)	25	(17,644)	9,786	57,035
Subtotal	248,213	223,095	9,363	946,349	436,908	280,207	109,535	26,986,479	5,073,317	326,196	5,399,513	32,385,992	26,657,897
Allocation of general and administrative expenses	44,461	50,031	2,179	187,740	101,177	64,744	25,512	4,400,622	(4,476,696)	76,074	(4,400,622)	-	-
TOTAL EXPENSES	$ 292,674	$ 273,126	$ 11,542	$ 1,134,089	$ 538,085	$ 344,951	$ 135,047	$ 31,387,101	$ 596,621	$ 402,270	$ 998,891	$ 32,385,992	$ 26,657,897

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, 2016
(With Summarized Financial Information for the Year Ended September 30, 2015)
Increase (Decrease) in Cash and Cash Equivalents

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 2,569,860	$ 4,206,098
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	377,050	364,654
Provision for doubtful accounts	2,009	(10,983)
Amortization of deferred construction allowance	(318,977)	(282,391)
Unrealized (gain) loss on investments	(940,152)	1,018,988
Realized loss on sales of investments	207,368	11,092
Changes in assets and liabilities:		
Federal and state government grants and contracts receivable	1,186,493	(2,156,442)
Other grants, contributions and contracts receivable	528,760	(594,814)
Accounts receivable	(130,073)	28,468
Prepaid expenses and other assets	(5,887)	32,254
Inventory	43,023	50,426
Accounts payable and accrued expenses	642,897	879,305
Accrued compensation and benefits	(15,413)	371,257
Deferred conference registrations, membership and subscriptions	144,448	236,295
Deferred contract revenue	252,866	(812,956)
Deferred rent and construction allowance	175	1,244
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,544,447	3,342,495
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(5,769,056)	(7,625,198)
Proceeds from sales of investments	5,187,154	6,983,857
Purchases of property and equipment	(428,768)	(228,627)
NET CASH USED IN INVESTING ACTIVITIES	(1,010,670)	(869,968)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(9,041)	(8,862)
NET CASH USED IN FINANCING ACTIVITIES	(9,041)	(8,862)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,524,736	2,463,665
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,390,532	3,926,867
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 9,915,268	$ 6,390,532

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 Equivalents

ZERO TO THREE considers all money market funds to be cash equivalents.

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 market 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

Continued

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

Fair Value Measurement (continued)

fair value 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, 2016, 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 $2,500 are stated at cost and are depreciated using the straight-line method over three to ten 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 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.

Continued

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

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.
- 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 immaterial.

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 a National Training Institute program each year for professionals working with families with children prenatal through age three. Revenue for this meeting consists of conference registrations, exhibitor 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. 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. Other Grants, Contributions and Contracts Receivable

As of September 30, 2016, foundations, individuals, and corporate contributors to ZERO TO THREE have unconditionally promised to give $1,676,670 to be used for particular programs and general support in the coming years. Other grants, contributions and contracts receivable are to be collected as follows:

Less than one year	$ 1,426,670
One to five years	250,000
Total Other Grants, Contributions and Contracts Receivable	$ 1,676,670

All amounts are deemed to be fully collectible.

Continued

3. Investments

Investments, at fair value, consisted of the following as of September 30, 2016:

Bond mutual funds	$ 9,570,944
Equity mutual funds and exchange-traded funds	7,200,555
Multistrategy alternative mutual funds	2,347,155
Money market funds	842,921
Total Investments	$ 19,961,575

Investment income is summarized as follows for the year ended September 30, 2016:

Interest and dividends	$ 653,180
Unrealized gain	940,152
Realized loss	(207,368)
Investment fees	(69,950)
Total Investment Income	$ 1,316,014

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

Interest and dividend income from operations	$ 1,336
Transfer to operations from endowment earnings	92,875
Nonoperating activities:	
Investment gain, excluding endowment	875,041
Endowment investment gain	439,637
Endowment returns appropriated for operations	(92,875)
Total Nonoperating Activities	1,221,803
Total Investment Income	$ 1,316,014

4. Fair Value Measurements

The following table summarizes the assets measured at fair value on a recurring basis as of September 30, 2016:

	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	$ 9,570,944	$ 9,570,944	$ -	$ -
Equity mutual funds and exchange-traded funds:				
Domestic equity funds	3,970,681	3,970,681	-	-
International equity funds	3,229,874	3,229,874	-	-
Total Equity Mutual Funds and Exchange-Traded Funds	7,200,555	7,200,555	-	-
Multistrategy alternative mutual funds	2,347,155	2,347,155	-	-
Money market funds	842,921	842,921	-	-
Total Assets at Fair Value	$ 19,961,575	$ 19,961,575	$ -	$ -

ZERO TO THREE estimated the fair value for all 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, 2016:

Leasehold improvements	$ 2,370,682
Software	758,389
Computer equipment	329,374
Furniture and fixtures	187,437
Total Property and Equipment	3,645,882
Less: Accumulated Depreciation and Amortization	(1,855,447)
Property and Equipment, Net	$ 1,790,435

Continued

5. Property and Equipment and Related Depreciation and Amortization (continued)

Depreciation and amortization expense was $377,050 for the year ended September 30, 2016.

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, DC. The lease term is for the period April 1, 2011, through November 30, 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 $454,523 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.

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.

ZERO TO THREE also leases office space under a noncancelable operating lease in Los Angeles, California. ZERO TO THREE entered into amendments to the lease which extended the lease term for the office space until August 31, 2017. The lease contains a fixed escalation clause for increases in the annual minimum rent of 2% per year. ZERO TO THREE is also responsible for its proportionate share of real estate taxes and operating and maintenance costs of the landlord.

On February 9, 2012, ZERO TO THREE entered into a noncancelable operating sublease with a third party to sublease part of its office facilities. The sublease commenced on May 1, 2012, and will expire on April 30, 2017. The lease provided for three months of rent abatement and contains a fixed escalation clause for increases in the annual minimum rent. The initial base monthly rent was $14,367.

Continued

6. Commitments, Risks and Contingencies (continued)

Operating Leases (continued)

The future minimum rental payments required under these leases, net of sublease income, are as follows as of September 30, 2016:

For the Year Ending September 30,	Total	Sublease	Net
2017	$ 1,597,596	$ (117,653)	$ 1,479,943
2018	1,600,831	-	1,600,831
2019	1,640,776	-	1,640,776
2020	1,681,683	-	1,681,683
2021	1,723,713	-	1,723,713
Thereafter	290,841	-	290,841
Total	$ 8,535,440	$ (117,653)	$ 8,417,787

Rent expense was $1,370,978 for the year ended September 30, 2016, which included a pass-through of the prior year's operating expenses and taxes billed to ZERO TO THREE in 2016.

Line of Credit

ZERO TO THREE has a $1,000,000 revolving line of credit with a bank dated August 4, 2014, which matures on June 23, 2017. 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, 2016, and throughout the year then ended, ZERO TO THREE had no outstanding balance on this line of credit.

Office of Management and Budget Uniform Guidance

ZERO TO THREE has instructed its independent auditors to audit its applicable federal programs for the year ended September 30, 2016, in compliance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), issued by the U.S. Office of Management and Budget (OMB). Until such audit is reviewed and accepted by the contracting or granting agencies, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the reviews by the federal or state agencies of the independent auditor's reports for the year ended September 30, 2016, will not have a material effect on ZERO TO THREE's financial position as of September 30, 2016, or its results of operations for the year then ended.

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

Continued

6. Commitments, Risks and Contingencies (continued)

Provisional Indirect Cost Rates (continued)

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 OMB. HHS has yet to audit the costs and indirect cost rates for the year ended September 30, 2016. Management believes that cost disallowances, if any, arising from HHS's audit for 2016 will not have a material effect on ZERO TO THREE's financial position as of September 30, 2016, or its results of operations for the year then ended.

Concentration of Credit Risk

ZERO TO THREE's cash is held in accounts at various creditworthy financial institutions. 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, 2016, the cash balance exceeding the $250,000 per depositor per institution Federal Deposit Insurance Corporation (FDIC) insured limit was $10,914,538.

Concentration of Risk

During the year ended September 30, 2016, ZERO TO THREE earned revenue of $18,698,559 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 55% of the total operating revenue and support recognized by ZERO TO THREE for the year ended September 30, 2016. 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 for each year of employment up to 12 months.

Continued

7. Restricted Net Assets

Temporarily restricted net assets were available for the following programs and time periods as of September 30, 2016:

Programs:	
Policy center analysis	$ 8,064,969
Healthy Steps	3,704,469
Leadership development	1,001,450
Parent resources	381,023
Western office policy analysis and program consultation	218,569
Professional development	97,364
Military family projects	73,951
Other	3,103
Total Programs	13,544,898
Operations:	
Time-restricted endowment	87,150
Total Operations	87,150
Total Temporarily Restricted Net Assets	$ 13,632,048

Permanently restricted net assets consisted of $448,444 in ZERO TO THREE's endowment fund as of September 30, 2016. 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

Continued

8. Endowment Funds (continued)

Interpretation of Relevant Law (continued)

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.

Endowment Composition and Activity

ZERO TO THREE's endowment net asset composition by fund type was as follows as of September 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment	$ 5,003,466	$ -	$ -	$ 5,003,466
Donor-restricted endowment	-	87,150	448,444	535,594
Total Funds	$ 5,003,466	$ 87,150	$ 448,444	$ 5,539,060

Continued

8. Endowment Funds (continued)

Endowment Composition and Activity (continued)

For the year ended September 30, 2016, the endowment funds had the following activity:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 4,680,604	$ 63,250	$ 448,444	$ 5,192,298
Investment return:				
Investment income	171,089	18,704	-	189,793
Net appreciation (realized and unrealized)	225,222	24,622	-	249,844
Total Investment Return	396,311	43,326	-	439,637
Transfers of endowment earnings	(73,449)	(19,426)	-	(92,875)
Endowment Net Assets, End of Year	$ 5,003,466	$ 87,150	$ 448,444	$ 5,539,060

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
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:	
Without purpose restrictions	$ 87,150
Total Endowment Funds Classified as Temporarily Restricted Net Assets	$ 87,150

Continued

8. Endowment Funds (continued)

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 not 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, 2016.

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 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 ten 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 $594,466 for the year ended September 30, 2016, and is included in fringe benefits in the accompanying statement of functional expenses.

Continued

9. Pension Plans (continued)

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, 2016, $153,400 and $18,000 was deferred under the Section 457(f) and 457(b) plans, respectively, with additional deemed investment gains of $72,240 allocated to these plans, which amounts are included in fringe benefits in the accompanying statement of functional expenses. The liability for the vested deferred compensation at September 30, 2016 of $1,119,479 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, 2016, no provision for income taxes was made as ZERO TO THREE had no net taxable 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 performed an evaluation of uncertain tax positions for the year ended September 30, 2016, 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, 2016, the statute of limitations for tax years ended September 30, 2013, through September 30, 2015, remains 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 uncertain tax positions, if any, in income tax expense. As of September 30, 2016, ZERO TO THREE had no accruals for interest and/or penalties.

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, 2015, from which the summarized financial information was derived.

Continued

12. Reclassifications

Certain 2015 balances have been reclassified to conform to the 2016 presentation.

13. Subsequent Events

In preparing these financial statements, ZERO TO THREE has evaluated events and transactions for potential recognition or disclosure through January 25, 2017, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.