Financial Statements

For the Year Ended September 30, 2022
(With Summarized Financial Information for the Year Ended September 30, 2021)

and
Report Thereon

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

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For the Year Ended September 30, 2022

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the 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, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ZERO TO THREE as of September 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ZERO TO THREE and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

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Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ZERO TO THREE's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ZERO TO THREE's ability to continue as a going concern for a reasonable period of time.

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

Other Matter

Report on Summarized Comparative Information

We have previously audited ZERO TO THREE's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 31, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Washington, DC
February 20, 2023

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

STATEMENT OF FINANCIAL POSITION
September 30, 2022
(With Summarized Financial Information as of September 30, 2021)

	2022	2021
ASSETS		
Cash and cash equivalents	$ 32,421,611	$ 12,404,612
Federal and state government grants and contracts receivable	5,020,332	3,802,751
Other grants, contributions and contracts receivable, net	4,937,075	15,253,140
Accounts receivable, net	405,135	1,320,904
Prepaid expenses and other assets	158,197	523,447
Inventory	190,011	237,059
Investments	19,530,575	23,427,711
Right of use asset	4,447,136	-
Property and equipment, net	1,635,568	570,580
TOTAL ASSETS	$ 68,745,640	$ 57,540,204
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 4,740,785	$ 4,447,901
Accrued compensation and benefits	2,672,854	2,642,327
Deferred conference registrations, membership and subscriptions	330,243	1,090,391
Deferred contract revenue	83,217	33,179
Lease liability	6,326,291	-
Deferred rent and construction allowance	-	1,593,384
Other liabilities	5,747	18,778
TOTAL LIABILITIES	14,159,137	9,825,960
Net Assets		
Without donor restrictions		
Undesignated	9,721,372	11,429,325
Board-designated endowment	5,539,593	6,649,216
Total Without Donor Restrictions	15,260,965	18,078,541
With donor restrictions		
Purpose restrictions	38,794,722	28,983,911
Time-restricted endowment	82,372	203,348
Perpetual in nature	448,444	448,444
Total With Donor Restrictions	39,325,538	29,635,703
TOTAL NET ASSETS	54,586,503	47,714,244
TOTAL LIABILITIES AND NET ASSETS	$ 68,745,640	$ 57,540,204

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, 2022
(With Summarized Financial Information for the Year Ended September 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
OPERATING REVENUE AND SUPPORT				
HealthySteps grants, contributions and contracts	$ 482,332	$ 26,820,805	$ 27,303,137	$ 14,856,444
Federal and state government grants and contracts	1,408,806	21,515,229	22,924,035	22,540,751
Private grants, contributions and contracts	1,942,459	4,739,145	6,681,604	7,133,789
Conference income	1,670,691	-	1,670,691	1,627,806
Training and consulting fees	1,022,092	-	1,022,092	1,166,114
Resource sales	605,659	-	605,659	614,372
Investment earnings transferred to operations	590,750	-	590,750	590,750
Memberships and subscriptions	328,845	-	328,845	348,993
Other revenue	161,997	-	161,997	76,216
Interest and dividend income on cash equivalents	34,128	-	34,128	1,564
Net assets released from restrictions:				
Satisfaction of program restrictions	43,264,368	(43,264,368)	-	-
TOTAL OPERATING REVENUE AND SUPPORT	51,512,127	9,810,811	61,322,938	48,956,799
EXPENSES				
Program Services:				
Safe Babies Court Teams	10,852,039	-	10,852,039	8,609,486
National Center on Early Childhood Development, Teaching, and Learning	8,829,964	-	8,829,964	9,289,185
HealthySteps	8,466,369	-	8,466,369	9,481,183
Policy Center	7,610,370	-	7,610,370	8,287,021
Training, consulting, professional and member services	3,278,202	-	3,278,202	3,286,814
Federal systems technical assistance	1,573,362	-	1,573,362	1,338,225
Communications	631,977	-	631,977	453,696
Military family projects	360,830	-	360,830	327,332
Parenting resources	319,795	-	319,795	235,590
Leadership development	210,080	-	210,080	181,018
Other national centers for Head Start and child care projects	145,857	-	145,857	242,642
Western office policy analysis and program consultation	89,826	-	89,826	170,689
Total Program Services	42,368,671	-	42,368,671	41,902,881
Supporting Services:				
General and administrative	7,047,021	-	7,047,021	7,045,528
Fundraising and development	936,725	-	936,725	526,508
Total Supporting Services	7,983,746	-	7,983,746	7,572,036
TOTAL EXPENSES	50,352,417	-	50,352,417	49,474,917

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, 2022
(With Summarized Financial Information for the Year Ended September 30, 2021)

(continued)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Change in Net Assets From Operating Activities	$ 1,159,710	$ 9,810,811	$ 10,970,521	$ (518,118)
NONOPERATING ACTIVITIES				
Investment income (loss), net of earnings transferred to operations	(3,977,286)	(120,976)	(4,098,262)	2,298,394
CHANGE IN NET ASSETS	(2,817,576)	9,689,835	6,872,259	1,780,276
NET ASSETS, BEGINNING OF YEAR	18,078,541	29,635,703	47,714,244	45,933,968
NET ASSETS, END OF YEAR	$ 15,260,965	$ 39,325,538	$ 54,586,503	$ 47,714,244

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, 2022
(With Summarized Financial Information for the Year Ended September 30, 2021)

	Program Services									
	Safe Babies Court Teams	National Center on Early Childhood Development, Teaching, and Learning	HealthySteps	Policy Center	Training, Consulting, Professional and Member Services	Federal Systems Technical Assistance	Communications	Military Family Projects	Parenting Resources	Leadership Development
Salaries	$ 2,980,016	$ 2,775,959	$ 4,152,937	$ 2,938,210	$ 1,291,059	$ 1,070,852	$ 108,213	$ 273,410	$ 185,814	$ 128,777
Subcontracts	5,925,368	3,865,498	1,236,861	1,787,406	-	-	-	-	-	-
Contracted services	723,862	1,024,062	1,689,790	1,842,277	878,137	120,099	419,102	6,308	76,587	30,462
Fringe benefits	780,879	727,409	1,088,230	769,925	338,307	280,605	21,642	71,644	48,690	33,744
Equipment and software expense	33,691	12,615	96,914	49,125	221,658	2,949	853	145	61	1,250
Occupancy	13,932	63,400	47,779	62,771	21,492	9,646	2,045	288	978	-
Travel	232,172	151,182	64,749	36,671	11,774	36,772	8,854	2,100	3,542	9,744
Project and publication supplies	74,976	36,957	46,679	44,492	130,851	8,849	17,596	4,430	757	3,584
Miscellaneous	-	-	-	22,574	226,970	4,816	24,602	-	-	-
Meeting expenses	57,626	34,098	497	38,484	29,898	27,879	1,449	-	-	450
Subscriptions and reference materials	3,827	50,542	19,655	2,394	818	2,019	23,609	-	2,604	1,812
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-
Postage and delivery costs	4,356	15,789	3,843	1,358	76,933	2,777	1,004	165	32	17
Communication costs	19,221	9,204	17,047	14,679	6,828	5,265	3,007	2,340	730	240
Printing and copying	2,113	63,249	1,388	4	43,477	834	1	-	-	-
TOTAL EXPENSES	$ 10,852,039	$ 8,829,964	$ 8,466,369	$ 7,610,370	$ 3,278,202	$ 1,573,362	$ 631,977	$ 360,830	$ 319,795	$ 210,080

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, 2022
(With Summarized Financial Information for the Year Ended September 30, 2021)

(continued)

	Program Services (continued)			Supporting Services				
	Other National Centers for Head Start and Child Care Projects	Western Office Policy Analysis and Program Consultation	Total Program Services	General and Administrative	Fundraising and Development	Total Supporting Services	2022 Total	2021 Total
Salaries	$ 114,248	$ 68,990	$ 16,088,485	$ 3,781,675	$ 447,365	$ 4,229,040	$ 20,317,525	$ 19,645,995
Subcontracts	-	-	12,815,133	-	-	-	12,815,133	12,294,891
Contracted services	-	-	6,810,686	845,423	282,991	1,128,414	7,939,100	7,718,619
Fringe benefits	29,937	18,078	4,209,090	998,902	109,366	1,108,268	5,317,358	4,824,888
Equipment and software expense	174	-	419,435	575,957	11,538	587,495	1,006,930	714,684
Occupancy	194	-	222,525	355,125	13,029	368,154	590,679	1,511,137
Travel	-	245	557,805	21,441	5,615	27,056	584,861	93,479
Project and publication supplies	344	1,849	371,364	130,976	29,364	160,340	531,704	575,461
Miscellaneous	-	-	278,962	90,765	10,033	100,798	379,760	350,791
Meeting expenses	-	425	190,806	22,136	237	22,373	213,179	335,536
Subscriptions and reference materials	-	-	107,280	53,901	20,714	74,615	181,895	158,277
Depreciation and amortization	-	-	-	121,065	-	121,065	121,065	383,107
Postage and delivery costs	-	-	106,274	11,762	2,853	14,615	120,889	248,016
Communication costs	960	239	79,760	37,893	1,736	39,629	119,389	171,762
Printing and copying	-	-	111,066	-	1,884	1,884	112,950	448,274
TOTAL EXPENSES	$ 145,857	$ 89,826	$ 42,368,671	$ 7,047,021	$ 936,725	$ 7,983,746	$ 50,352,417	$ 49,474,917

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, 2022
(With Summarized Financial Information for the Year Ended September 30, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 6,872,259	$ 1,780,276
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	121,065	383,107
Right of use asset amortization	267,418	-
Amortization of deferred rent and construction allowance	(357,614)	(357,614)
Gain on disposal of property and equipment	(2,481)	-
Unrealized loss (gain) on investments	4,565,676	(1,797,306)
Realized gain on sales of investments	(418,879)	(534,023)
Changes in assets and liabilities:		
Federal and state government grants and contracts receivable	(1,217,581)	(859,115)
Other grants, contributions and contracts receivable	10,316,065	(294,268)
Accounts receivable	1,522,635	(1,203,315)
Prepaid expenses and other assets	365,250	(69,523)
Inventory	47,048	88,517
Accounts payable and accrued expenses	292,884	1,328,846
Accrued compensation and benefits	30,527	223,073
Deferred conference registrations, membership and subscriptions	(760,148)	(245,223)
Deferred contract revenue	50,038	(12,838)
Lease liability	71,290	-
Deferred rent and construction allowance	(1,235,770)	1,349,743
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	20,529,682	(219,663)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,320,278)	(5,865,318)
Proceeds from sales of investments	2,070,617	5,749,849
Purchases of property and equipment	(249,991)	-
NET CASH USED IN INVESTING ACTIVITIES	(499,652)	(115,469)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(13,031)	(9,956)
NET CASH USED IN FINANCING ACTIVITIES	(13,031)	(9,956)
NET INCREASE (DECREASE) IN CASH	20,016,999	(345,088)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,404,612	12,749,700
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 32,421,611	$ 12,404,612
NONCASH INVESTING ACTIVITIES		
Right of use asset	$ 4,714,554	$ -
Lease liability	(6,255,001)	-
Leasehold improvements acquired through lease incentive	1,540,447	-
	$ -	$ -
Leasehold improvements paid directly by the landlord	$ -	$ (416,439)

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 highly liquid money market funds held for operating purposes.

Receivables

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

Inventory

Inventory consists of published books, tools and work in process on certain publications. Inventory is stated at 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 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 average 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 average 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

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, 2022, only ZERO TO THREE's investments and the assets and liability related to the deferred compensation plan, were measured at fair value on a recurring basis and subject to FASB ASC Topic 820, *Fair Value Measurement*, as described in Note 5.

Property and Equipment and Related Depreciation and Amortization

Property and equipment acquisitions totaling $5,000 and over and with 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.

Right of Use Asset and Lease Liability

ZERO TO THREE determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statement of financial position. The ROU asset and lease liability are recognized at the commencement date of the lease agreement based on the present value of lease payments over the lease term using ZERO TO THREE's estimated incremental borrowing rate or implicit rate, when readily determinable, and is adjusted for lease incentives. The ROU asset is amortized on a straight-

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

Right of Use Asset and Lease Liability (continued)

line basis over the lease term and is reflected as occupancy expense in the accompanying financial statements. The lease liability is reduced as cash payments are made under the terms of the lease. Interest is charged to lease expense for the difference. Short-term operating leases, which have an initial term of 12 months or less, are not recorded on the statement of financial position. Instead, the lease payments of those leases are reported as occupancy expense on a straight-line basis over the lease term.

Classification of Net Assets

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

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

Revenue Recognition

ZERO TO THREE recognizes unconditional contributed support in the reporting period in which the commitment is made. Grants and support are considered to be available for general operations unless specifically restricted by the donor. ZERO TO THREE reports unconditional grants of cash and other assets as donor-restricted revenue and support if they are received with donor stipulations that limit the use of the donated assets to a particular purpose or to future periods. When the stipulated time restriction ends or the purpose of the restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying 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.

Conditional promises to give – that is, those with a measurable performance or other barriers and a right of return – are not recognized until the conditions on which they depend have been met. ZERO TO THREE has grants with the U.S. federal government, state government agencies and other organizations conditioned upon certain requirements. Revenue recognized on grants 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. Grant awards received in advance, but not yet expended, are reflected as refundable advances in the accompanying statement of financial position, if any.

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

Revenue Recognition (continued)

ZERO TO THREE also has fixed-price contracts with the U.S. federal government, state government agencies and private companies in exchange for services. These contracts contain performance obligations, and revenue under these contracts is recognized at the point in time that the performance obligations are provided under the contract. Revenue recognized on fixed-price contracts for which payments have not been received is included in federal and state government grants 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. Deferred contract revenues are short-term in nature and are recognized as contract revenue in the following fiscal year.

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

Training and consulting fees relate to customized trainings developed by ZERO TO THREE in accordance with agreements. The delivery of the training is the primary performance obligation and therefore the revenue is recognized at the point in time the training program is held.

Revenue from resource sales of published books is recognized when the product is delivered.

Memberships and subscriptions revenue is recognized ratably over the membership or subscription agreement period. Member and subscription benefits are considered a bundled group of performance obligations that are delivered throughout the agreement period.

Other revenue consists mainly of honoraria recognized at the point in time the related event took place, a refund recognized at the point in time ZERO TO THREE was notified of the refund and licensing fees which are recognized ratably over the licensing period.

Receipts collected that relate to the conference, memberships and subscriptions and are applicable to a future period are reported as deferred conference registrations, memberships and subscriptions in the accompanying statement of financial position.

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.

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

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Expenses directly attributed to a specific functional area are reported as expenses of those functional areas. ZERO TO THREE allocates rent related to the Washington, D.C. office based on the full-time equivalent of D.C.-based personnel for each program and supporting service.

Estimates

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

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The standard applies a right-of-use model that requires all leases with a lease term of more than 12 months, to recognize an asset representing its right to use the underlying asset for the lease term and a liability based on the value of the discounted future lease payments. ZTT early adopted this standard during the year ended September 30, 2022. ZTT elected not to restate the comparative period. ZTT also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, (iii) initial direct costs for existing leases. The adoption of ASU 2016-02 resulted in the recognition of right-of-use assets of $4,714,554, which is net of lease incentives of $1,540,447 and operating lease liabilities of $6,255,001 as of January 1, 2022. Results for periods beginning prior to October 1, 2021 continue to be reported in accordance with ZTT's historical accounting treatment. The adoption of ASU 2016-02 did not have a material impact on ZTT's results of operations and cash flows.

2. Receivables

As of September 30, 2022, ZERO TO THREE had receivables from federal and state government grants and contracts totaling $5,020,332 that included unbilled receivables of $4,703,301. All billed and unbilled receivable amounts were deemed to be fully collectible.

2. Receivables (continued)

As of September 30, 2022, foundations, individuals, and corporate contributors to ZERO TO THREE had unconditionally promised to give another $4,944,075 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	$ 3,058,605
One to five years	1,885,470
Total Other Grants, Contributions and Contracts Receivable	4,944,075
Less: Discount on Multiyear Grants	(7,000)
Other Grants, Contributions and Contracts Receivable, Net	$ 4,937,075

All amounts were deemed to be fully collectible. The discount rate used to calculate the discount component was 0.08% for the year ended September 30, 2022.

3. Conditional Revenue

As of September 30, 2022, ZERO TO THREE had the following conditional grants receivable which are not reflected in the accompanying statement of financial position:

HealthySteps	$ 28,000,000
National Center on Early Childhood Development Teaching and Learning	12,030,151
Safe Babies Court Teams	9,677,769
Policy Center	1,558,038
Other National Centers for Head Start and Child Care Projects	176,952
Total Conditional Revenue	$ 51,442,910

ZERO TO THREE records revenue and support on these conditional grants as the conditions are met, therefore, ZERO TO THREE has not recognized any revenue and support from the conditional portions of these grants.

4. Investments

Investments, at fair value, consisted of the following as of September 30, 2022:

Bond mutual funds	$ 9,141,586
Equity mutual funds and exchange-traded funds	9,525,014
Money market funds	516,410
Multi asset mutual funds	347,565
Total Investments	$ 19,530,575

4. Investments (continued)

Investment income is summarized as follows for the year ended September 30, 2022:

Interest and dividends	$ 719,336
Unrealized loss	(4,565,676)
Realized gain	418,879
Investment fees	(80,051)
Investment Income, Net	$ (3,507,512)

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

Transfer to operations from endowment earnings	$ 91,139
Transfer to operations from investment income – without donor restrictions and undesignated	499,611
Investment Earnings Transferred to Operations	590,750
Nonoperating activities:	
Investment loss, excluding endowment	(2,368,052)
Endowment investment loss	(1,139,460)
Endowment returns appropriated for operations	(91,139)
Investment returns appropriated for operations – without donor restrictions and undesignated	(499,611)
Total Nonoperating Activities	(4,098,262)
Investment Income, Net	$ (3,507,512)

5. Fair Value Measurement

The following table summarizes ZERO TO THREE's assets measured at fair value on a recurring basis as of September 30, 2022:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value:				
Investments:				
Bond mutual funds	$ 9,141,586	$ 9,141,586	$ -	$ -

5. Fair Value Measurement (continued)

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(continued)				
Assets measured at fair value:				
Investments:				
Equity mutual funds and exchange-traded funds:				
Domestic equity funds	$ 5,627,720	$ 5,627,720	$ -	$ -
International equity funds	3,445,443	3,445,443	-	-
Real estate	451,851	451,851	-	-
Total Equity Mutual Funds and Exchange-Traded Funds	9,525,014	9,525,014	-	-
Money market funds	516,410	516,410	-	-
Multi asset mutual funds	347,565	347,565	-	-
Total Investments	19,530,575	19,530,575	-	-
Total Assets at Fair Value	$ 19,530,575	$ 19,530,575	$ -	$ -
Liabilities measured at fair value:				
Deferred compensation plan	$ 347,565	$ -	$ 347,565	$ -

ZERO TO THREE estimated the fair value of these assets using quoted market prices in active markets. The deferred compensation plan liability, which is included in accrued compensation and benefits in the accompanying statement of financial position, was valued based on the fair value of investments corresponding to the employee's investment selections plus the value of cash accruals for amounts not yet transferred to the plan assets, if any.

6. Property and Equipment and Related Depreciation and Amortization

ZERO TO THREE held the following property and equipment as of September 30, 2022:

Leasehold improvements	$ 1,172,637
Software	384,378
Computer equipment	202,939
Furniture and fixtures	200,680
Total Property and Equipment	1,960,634
Less: Accumulated Depreciation and Amortization	(325,066)
Property and Equipment, Net	$ 1,635,568

Depreciation and amortization expense was $121,065 for the year ended September 30, 2022.

7. Right-of-Use Asset and Lease Liability

ZERO TO THREE evaluated current contracts to determine which met the criteria of a lease. The right-of-use (ROU) assets represent ZERO TO THREE's right to use underlying assets for the lease term, and the lease liabilities represent ZERO TO THREE's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. ZERO TO THREE has made an accounting policy election to use a risk-free rate of 1.51% in lieu of its incremental borrowing rate to discount future lease payments.

On June 9, 2021, 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 January 1, 2022 through December 31, 2033. The lease includes an incentive to abate the rent until September 30, 2023. The lease has an option for renewal, at ZERO TO THREE's option, for which management is not reasonably certain to exercise. Therefore, the payments associated with the extension are not included in the ROU asset nor the lease liability recognized as of September 30, 2022.

As part of the lease agreement, ZERO TO THREE paid a security deposit of $48,215 which is included in prepaid expenses and other assets on the statement of financial position in the accompanying financial statements.

For the year ended September 30, 2022, total operating lease expense was $549,303, which included the expense related to the new lease as well as the final three months of the old lease which ended on December 31, 2021. Cash paid for operating leases for the year ended September 30, 2022 total $436,262. There were no noncash investing and financing transactions relating to leasing other than the transition entry described in Note 1.

7. Right-of-Use Asset and Lease Liability (continued)

The maturities of operating lease liabilities as of September 30, 2022 were as follows:

For the Year Ending September 30,	
2023	$ -
2024	604,182
2025	619,322
2026	634,847
2027	650,758
Thereafter	4,450,678
Total	6,959,787
Less: Present Value Discount	(633,496)
Lease Liability as of September 30, 2022	$ 6,326,291

8. Net Assets

Net Assets Without Donor Restrictions

ZERO TO THREE's net assets without donor restrictions are composed of undesignated amounts and board-designated endowment funds. As of September 30, 2022, ZERO TO THREE's net assets without donor restrictions were as follows:

Undesignated	$ 9,721,372
Board-designated endowment	5,539,593
Total Net Assets Without Donor Restrictions	$ 15,260,965

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

Net Assets With Donor Restrictions

As of September 30, 2022, net assets with donor restrictions were restricted for the following purposes or period:

Subject to expenditure for specified purpose:	
Programs:	
Policy Center	$ 5,451,689
HealthySteps	27,606,704
Safe Babies Court Teams	3,228,208
Parenting resources	1,183,317
Leadership development	884,430

8. Net Assets (continued)

Net Assets With Donor Restrictions (continued)

Subject to expenditure for specified purpose (continued):	
Programs (continued):	
Western office policy analysis and program consultation	$ 199,784
Military family projects	64,751
Professional development	18,941
Other	156,898
Total Subject to Expenditure for Specified Purpose	38,794,722
Subject to occurrence of passage of time:	
Time-restricted endowment	82,372
Total Subject to Passage of Time	82,372
Subject to donor restriction in perpetuity:	
Endowment	448,444
Total Subject to Restriction in Perpetuity	448,444
Total Net Assets With Donor Restrictions	$ 39,325,538

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

9. Availability and Liquidity

ZERO TO THREE regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. ZERO TO THREE's financial assets available within one year of the statement of financial position date for general expenditures at September 30, 2022, were as follows:

Cash and cash equivalents	$ 32,421,611
Federal and state government grants and contracts receivable	5,020,332
Other grants, contributions and contracts receivable	4,937,075
Accounts receivable	405,135
Investments	19,183,010
Total Financial Assets	61,967,163
Less:	
Amounts unavailable for general expenditures within one year due to donor's purpose or time restriction	(39,325,538)
Amounts unavailable to management without Board approval	(5,539,593)
Financial Assets Available to Meet General Expenditures Within One Year	$ 17,102,032

9. Availability and Liquidity (continued)

ZERO TO THREE has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of ZERO TO THREE throughout the year. This is done through monitoring and reviewing ZERO TO THREE's cash flow needs on a weekly basis. As a result, management is aware of the cyclical nature of ZERO TO THREE's cash flow related to ZERO TO THREE's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. To help manage unanticipated liquidity needs, ZERO TO THREE has a committed line of credit of $1,000,000, which was unused and available to draw upon as of September 30, 2022. If ZERO TO THREE uses the line of credit, it is secured by deposits and investments at Truist Bank (formerly SunTrust Bank). Additionally, ZERO TO THREE has board-designated net assets that could be available for current operations with Board approval, if necessary.

10. Commitments, Risks and Contingencies

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, 2022, has a maturity date of July 14, 2023. Funds drawn against this line of credit accrue interest at the London Interbank Offered Rate plus 1.5% and are secured by the deposits and investments of ZERO TO THREE at Truist Bank. As of September 30, 2022, and throughout the year then ended, ZERO TO THREE had no outstanding balance on this line of credit.

Letter of Credit

ZERO TO THREE secured a standby letter of credit agreement of $113,631 as security for payment of rent payable under the office lease agreement that ended on December 31, 2021. Subsequent to year-end, the letter of credit expired on January 31, 2023.

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.

10. Commitments, Risks and Contingencies (continued)

Concentration of Credit Risk

ZERO TO THREE's cash is held in accounts at 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, 2022, the cash balance exceeding the $250,000 per depositor per institution Federal Deposit Insurance Corporation insured limit was $25,844,076.

Concentration of Risk

During the year ended September 30, 2022, ZERO TO THREE earned revenue of $23,004,170 from a diversified set of U.S. federal government and state government agencies through both conditional grants and fixed-price contracts. Revenue was earned from the U.S. Department of Health and Human Services and the U.S. Department of Defense, in addition to several state government agencies. Revenue earned from the U.S. federal government and state government agencies represented approximately 37% of the total operating revenue and support recognized by ZERO TO THREE for the year ended September 30, 2022. 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. The agreement was amended effective January 1, 2020, to continue through December 31, 2024. 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.

Contractual Commitments

ZERO TO THREE has entered into various letters of agreement for commitments for hotel accommodations and meeting rooms for its future planned conferences. In the event ZERO TO THREE were to cancel these conferences or fail to use a specified percentage of the total space reserved, ZERO TO THREE would be required to pay liquidated damages based upon the date the facility was notified of the cancellation or reduction in requested rooms as well as the facility's ability to fill the resulting vacancies.

11. Endowment Funds

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

Interpretation of Relevant Law

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

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

11. 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, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment	$ 5,539,593	$ -	$ 5,539,593
Donor-restricted endowment:			
Historical gift value	-	448,444	448,444
Appreciation	-	82,372	82,372
Total Funds	$ 5,539,593	$ 530,816	$ 6,070,409

For the year ended September 30, 2022, the endowment funds had the following activity:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 6,649,216	$ 651,792	$ 7,301,008
Investment earnings (loss), net	(1,037,736)	(101,724)	(1,139,460)
Contributions	-	-	-
Amounts appropriated for expenditure	(71,887)	(19,252)	(91,139)
Endowment Net Assets, End of Year	$ 5,539,593	$ 530,816	$ 6,070,409

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.

11. Endowment Funds (continued)

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, 2022. ZERO TO THREE's policy is to continue to appropriate from such individually-deficient funds in accordance with the fund's spending policy.

12. Pension Plans

Pursuant to Section 403(b) of the Internal Revenue Code (the IRC), ZERO TO THREE sponsors a defined contribution retirement plan that is available to all eligible employees. Under the 403(b) plan, eligible employees may elect to contribute up to the federal tax limitation. The plan provides for an employer contribution equal to 6% of the salary of all eligible employees. Employer contributions are made on behalf of employees with at least 12 months of service. Employees who have completed 10 years of service receive an additional 2% of their earnings, for a total contribution of 8%. Both employer and employee contributions are fully vested. Pension expense was $1,113,837 for the year ended September 30, 2022, and is included in fringe benefits in the accompanying statement of functional expenses.

Effective January 1, 2020, ZERO TO THREE adopted a new Section 457(b) deferred compensation plan for its eligible executives under the IRC Section 457(b). ZERO TO THREE makes non-elective contributions under this plan, and contributions are fully vested and non-forfeitable under the plan. Under the plan, contributions of $58,500 were made in the year ended September 30, 2022. Amounts are included in fringe benefits in the accompanying statement of functional expenses. The asset and liability for the vested deferred compensation at September 30, 2022, of $347,565 is included in investments and accrued compensation and benefits in the accompanying statement of financial position.

13. 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, 2022, no provision for income taxes was made, as ZERO TO THREE had no significant unrelated business income.

13. Income Taxes (continued)

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, 2022, 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, 2022, there are no tax examinations pending or in process. It is ZERO TO THREE's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense. As of September 30, 2022, ZERO TO THREE had no accruals for interest and/or penalties.

14. 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, 2021, from which the summarized financial information was derived.

15. Subsequent Events

In preparing these financial statements, ZERO TO THREE has evaluated events and transactions for potential recognition or disclosure through February 20, 2023, the date the financial statements were available to be issued. Other than the expiration of the letter of credit in Note 10, there were no other subsequent events that require recognition or disclosure in these financial statements.