CFED expands economic opportunity
by helping Americans start and grow businesses, go to college, own a home, and save for their children’s and own economic futures. We identify promising ideas, test and refine them in communities to find out what works, craft policies and products to help good ideas reach scale, and develop partnerships to promote lasting change. We bring together community practice, public policy and private markets in new and effective ways to achieve greater economic impact. Established in 1979 as the Corporation for Enterprise Development, CFED is a nonprofit organization that works nationally and internationally through its offices in Washington, D.C.; Durham, North Carolina; and San Francisco, California.

www.cfed.org

2006 Annual Report

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Setting the Stage for Future Success
CFED’s Strategic Plan sets the stage for sustained growth in all of its areas of expertise. Over the next decade, CFED will increase its impact in asset building while strengthening its role in fostering innovation. CFED will focus on bringing three of its major asset-building efforts – matched savings and investment accounts, entrepreneurship, and manufactured housing – to a scale where they can benefit millions of low- and middle-income families and hundreds of communities.

CFED will also develop a pipeline of innovative ideas with the potential to significantly expand economic opportunity for individuals and communities left out of the economic mainstream. CFED will refine its business and financial model to generate the types and amounts of funds required to sustain an entrepreneurial culture and achieve its ambitious goals.

These strategic and galvanizing goals are motivated by the increasingly urgent need to address growing economic inequality in the United States. They take their roots in the work and partnerships CFED has been steadfastly engaged in for years. Progress made in 2006 provides fuel for what comes next.

CFED’s Strategic Plan (2007-2011): A New Birth of Economic Freedom was developed in 2006 and is available online at www.cfed.org/go/strategicplan.
Dear Colleagues,

During 2006, the CFED staff and Board of Directors created a strategic plan to guide our organizational vision from 2007 to 2011. Titled A New Birth of Economic Freedom, the plan sets out to expand CFED to a new level of performance and impact, more importantly, economic impact. I believe this is our strategic plan— with bold vision, ambitious and substantive outcomes, not measurable outcomes— may be among the most significant documents that we have ever produced for the organization. Our purpose is to make this document a collaborative work, the most revealing evidence of our commitment to make real contributions to reversing the rising economic inequality in our country.

Our experience during 2006 offers and challenge us to act upon our vision of expanding economic opportunity The 2006 Assets Learning Conference was a watershed event for CFED in terms of the breadth and depth of content, number and diversity of participants, quality of the presenters and an unprecedented number of learning partners, and sponsors. An effort that began a little more than 10 years ago to advocate for individual development accounts has evolved into a broad-based movement. This new field looks at the role of assets over and above income as a source of earned and donated income that can offer the flexibility necessary to both the entrepreneurial and poor populations. Our vision for these specific asset-building initiatives is paired with an equally powerful commitment to expand CFED’s role as a source of innovative ideas, products and services for building economic opportunity. We aim to identify, test and replicate at least two new models of how we can help those who seek, often against daunting odds, to improve their lives and economic prospects through hard work, education, savings and civic engagement. The ability to achieve such an ambitious goal is dependent on the efforts of our many local, state and national partners, our sponsors and the leadership of the CFED Board and staff.

We doubled our investments in FM HOME Innovations in Manufactured Homes over the past year to produce market and policy changes that saw one million homes of manufactured housing— the major source of affordable housing in the country— can earn the same benefits from homeownership as do owners of site-built homes within the next five years. Our vision for these specific asset-building initiatives is paired with an equally powerful commitment to expand CFED’s role as a source of innovative ideas, products and services for building economic opportunity. We aim to identify, test and replicate at least two new models of how we can help those who seek, often against daunting odds, to improve their lives and economic prospects through hard work, education, savings and civic engagement.

The inspiration for all this work lies with the millions of Americans whose extraordinary talents, resources and dedication make working in low-income areas possible. Their contributions of all sectors; the huge centrifugal forces. We are proud that we were able to work by huge centrifugal forces. We are proud that we were able to work with CFED, First Nations Development Institute, the World Institute on Disability and others. We know that collaboration is ongoing work, and that here, as in so many other realms, collaboration is both the destination and the way we get there. We look forward to living our values, and giving them fuller expression. We believe that you deserve no less, and that we cannot achieve our goals in any other way.

Robert Frazier, Chair of the Board

Andrea Levere, President

Sincerely,

Andrea Levere, President
CFED’s Impact Across the Nation

Collaboration is central to CFED’s success as an innovator in expanding economic opportunity. CFED significantly advances its mission by forming key and lasting partnerships with national, regional and community level organizations equally committed to giving all Americans the chance to build a financially secure future for themselves and their families.

The map to the right illustrates the extent to which CFED is reaching out to local grantees, community lenders, financial institutions and national researchers to share and test ideas, goals and ultimately successes. Both “push pins” represent at least one partner (some represent multiple partners) with whom CFED is collaborating. Currently CFED partners with more than 347 organizations through 20 different programs.

Some of CFED’s partners are highlighted in the pages that follow. CFED thanks all its current and future partners for their wisdom, creativity and commitment.

“Collaboration is at the heart of the way we work, implicit in respect, learning and impact. Collaboration is both the destination and the way we get there.”

—Robert Friedman, CFED Founder and Chair of the Board
Financial Security

True financial security – the ability to build assets that can be used to meet the needs of the asset users, to start college, to purchase a home, or even to weather unexpected financial storms such as job loss, medical emergencies or other financial storms such as job loss, medical emergencies or other unexpected events – is a key ingredient of the American dream. Indeed, for too many Americans, financial security remains illusive. What is the American policy for asset building? How can we get there from here?

As an overview, CFED conducted a survey to assess attendees’ views on the importance of various asset policy goals, features and approaches, as well as their willingness to participate in advocacy to support these policies. Four hundred fifty people shared their views; almost half of all CFED attendees – making this the largest asset policy survey ever conducted. The results showed substantial consensus among respondents, affirming that there is more substance in the field than disengagement.

Savings for Education, Entrepreneurship and Homeownership (SEED) Policy and Practice Initiative

CFED continued its unprecedented partnership with the Federal Reserve System to host Innovations in Asset Building Policy, Programs and Products, a series of forums across the country. The forums – which began in 2005 - brought together leaders in economic policy, community development, philanthropy and the financial services industry to engage in serious conversation about the value of asset-building activities such as homeownership, business ownership, savings, and investment with expanded support for private markets. As of this writing, the Federal Reserve Bank of Kansas City convened a series of events focused on financial products, public policy and market information. At a major outcome was the promise of ongoing collaboration between CFED and member banks of the Federal Reserve System on the matters of economic opportunity and financial security.

CFED-Federal Reserve System Partnership

CFED continued its unparalleled partnership with the Federal Reserve System to host Innovations in Asset Building Policy, Programs and Products, a series of forums across the country.

Attention from candidates for public offices in the state. APDC has developed a comprehensive plan to pursue the development of a universal and progressive savings policy for children in California. Three organizations joined APDC in their efforts: AFSCME, SEIU, and their national partners and advises to develop state policies to create or sustain progressive savings programs. Those advocacy partners are The Sargent Shriver National Center on Poverty Law and Wexner Center for Urban Public Policy.

Easing Economic Security

In December, 2006, CFED, in collaboration with the Federal Reserve Bank of San Francisco, hosted a series of forums across the country. The forums – which began in 2005 - brought together leaders in economic policy, community development, philanthropy and the financial services industry to engage in serious conversation about the value of asset-building activities such as homeownership, business ownership, savings, and investment with expanded support for private markets.

The Oklahoma Kids’ College Savings Campaign managed by the Community Action Project of Tulsa County, Oklahoma. CFED’s work in late 2006 by introducing a progressive omnibus assets agenda for the state. Moved by the spirit of the state. This work led to the convening series. The event brought together key leaders on the subject of assets to interpret the information that emerged through the convening series. The event focused on financial products, public policy and market information.

Exposing Native Opportunity

CFED continued its work to support the community partners to ensure that families with SEED accounts are protected from asset limits in state-administered public assistance programs. IDAs are matched savings deposits and in the formation of the task force’s recommendations. Those recommendations include an automatic initial deposit at birth for low- and moderate-income families progressively matched deposits and in the formation of the task force’s recommendations. Those recommendations include an automatic initial deposit at birth for low- and moderate-income families. As it turned out, the biennial conference (the eighth of its kind) was the largest gathering of the assets field to date. It was also the most diverse, with attendees from NeighborWorks America and many others, including bank leaders, government officials, researchers, and many others, including bank leaders, government officials, researchers, and others.

OECD Task Force Anthology

The OECD Task Force continued to produce high-quality content on asset policy, research and practice. One hundred forty individuals and organizations contributed to the Task Force’s work, including a large number of government officials, researchers, and practitioners. The task force’s agenda will be issued in the form of recommendations to help enable Native communities to create and administer Individual Development Accounts (IDA) programs. IDAs are matched savings accounts specially designed to enable low-income individuals to save assets and create sustainable local economies. The task force’s agenda will be issued in the form of recommendations to help enable Native communities to create and administer Individual Development Accounts (IDA) programs.

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Improving Internal Opportunity

The Expanding Native Opportunity: Native IDA Initiative is CFED’s ongoing effort to help the Native community create and sustain asset-building activities such as business ownership, savings and investment with expanded support for private markets. As of this writing, the Federal Reserve Bank of Kansas City convened a series of events focused on financial products, public policy and market information. At a major outcome was the promise of ongoing collaboration between CFED and member banks of the Federal Reserve System on the matters of economic opportunity and financial security.

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Improving Internal Opportunity

Through the Expanding Native Opportunity: Native IDA Initiative, CFED is working to ensure that the Native community can create and sustain asset-building activities such as business ownership, savings and investment with expanded support for private markets. As of this writing, the Federal Reserve Bank of Kansas City convened a series of events focused on financial products, public policy and market information. At a major outcome was the promise of ongoing collaboration between CFED and member banks of the Federal Reserve System on the matters of economic opportunity and financial security.
Notable progress took place on the policy front: the goal is to implement an EDS in the transformation of a region — transformation of both the culture and practice of community economic development to stimulate enterprises. The EDS becomes the mechanism for achieving this goal. CFED’s work on the W.K. Kellogg Foundation Rural EDS Initiative will continue through 2008.

Learning from Small Businesses around the Globe
Small and medium-sized enterprises (SMEs or “small businesses”) play a vital role in economies throughout the world. Many questions remain, however, about how directly a healthy SME sector leads to economic growth and poverty reduction. The SME Small Grants Program, managed by CFED and commissioned by the Ford Foundation, explores the linkages between SME strategies and poverty reduction. CFED solicited proposals to document innovative pro-poor SME programs and/or policies, and received 42 submissions from 11 countries. From that pool, four organizations from around the world — Pacific Community Ventures, in San Francisco, California; Center for Human and Economic Development Studies, at Peking University in Beijing, China; Aavishkaar India Micro Venture Capital Fund, in Hyderabad, India; and FUNDES Argentina, in Buenos Aires, Argentina — were awarded grants to work with a third-party documenter to produce a study about their intervention.

Developers Report Card for the States
In January, CFED released the 19th edition of its annual economic development benchmarking tool, the Development Report Card for the States (DRC). For the first time in the report’s history, CFED hosted a Capital Hill briefing where it presented DRC findings and federal policy recommendations to more than 35 Hill staffers from 25 states. Released since 1987, the DRC grades each state on how well its economic development is doing for its people. How well is each state preparing for its future? The focus of the 2006 report harkened back to the DRC’s origins: business incentive reform. With roughly $60 billion spent each year by states and localities on incentive packages to lure businesses, the report’s essay questions the wisdom of incentive investments, noting cases where the cost for job attraction was as high as $15 million.

Small Business Impact on Poverty
Pacific Community Ventures (PCV) is located in San Francisco, California, and provides wealth-building opportunities to low-income workers as part of its triple-bottom line model of economic development. PCV seeks both financial and social returns, measuring social impact in terms of the number and quality of jobs provided for low-income individuals.

CFED was founded on the principle that strategic investments in communities and individuals make the most of local resources and talents will create the greatest opportunity for sustainable economic security and growth. Today CFED continues its important work to advance progressive economic development policies and practices that increase the rate of formation, development and success of new and growing enterprises to create wealth for low-income and rural residents.

Rural Workforce Ownership Development Systems
The work started in 2005 by the six grantees of the CFED-funded W.K. Kellogg Foundation Rural Entrepreneurship Development Systems (EDS) Initiative continued in 2006 with solid results. Local collaborators — representing rural regions in Kentucky, Nebraska, New Mexico, North Carolina, Ohio, Oregon, South Dakota, West Virginia and Wyoming — were tasked with creating a collaborative partnership, implementing an entrepreneurship support system and fostering a policy and cultural environment supportive of enterprise development. The groups are designated for use only in industrial recruitment.

W.K. Kellogg Foundation Rural Entrepreneurship Development Systems
Rural residents.

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W.K. Kellogg Foundation Rural Entrepreneurship Development Systems
Rural residents.
Purchasing a home is one of the most powerful investments a family can make in its future. Yet, in many parts of the country, the cost of homeownership is increasingly out of reach. Manufactured housing has opened the door to homeownership for millions of families, but only part of the way. CFED is working to enable owners of manufactured homes to enjoy benefits from homeownership, including asset appreciation, comparable to those enjoyed by owners of site-built homes.

I'M HOME – Innovations in Manufactured Homes
CFED and its partners are working to ensure that homeownership remains attainable for as many low-income families as possible. The Innovations in Manufactured Homes (I'M HOME) initiative, launched in January 2005 with major funding from the Ford Foundation, seeks to safeguard the wealth-building promise of homeownership for the approximately 10 million American families living in manufactured housing. The multi-year program will address market gaps and policy issues related to the ways the homes are sold, financed and treated under the law.

I'M HOME made over $1 million in new grant commitments to local organizations dedicated to improving housing quality and homeownership opportunities in this previously ignored sector. In its second year, I'M HOME nearly doubled its number of grantees (from 15 to 27). It expanded its geographic scope, with new local partners in regions such as the Pacific Northwest, the Southwest and the Mountain West, and a greater presence in New England.

CFED continued to manage relationships with all of its local partners, as well as with funders and national partners such as the New Hampshire Community Loan Fund, NeighborWorks America and the Opportunity Finance Network.

Local partner successes include:

- The California-based Oakland Community Housing Inc.'s award for Best Manufactured Home Subdivision in the United States;
- Henthucountry Cooperative Development Fund’s formation of the first manufactured home park cooperative conversion in Wisconsin;
- Community Reinvestment Association of North Carolina’s training session for community development executives on manufactured housing as an asset-building strategy; and
- Frontier Housing’s grand opening of its manufactured housing subdivision in Mounts, Kentucky.

A third round of I'M HOME grants will be awarded in 2007.

Preserving Affordable Rental Housing
For the past two years CFED has been working with the John D. and Catherine T. MacArthur Foundation, its partners, and a host of experienced public, private and nonprofit leaders to support a strategy for affordable rental housing preservation policy. The work encompassed research or field building and policy change, and the development of a consensus model policy framework for preservation.

The results from this work include lessons learned and best practices for policy change – drawn from asset building and other fields – and the development of a communications plan and model policy framework for leading practitioners and stakeholders.

These efforts – which include a special Preservation Policy Symposium, to be held in Washington, D.C. in 2007 – set the stage for making a major gain in addressing the market and policy reforms needed to preserve more than one million affordable units in 10 years.
Innovation

As the core of CFED’s mission is identifying, testing, implementing and championing innovative ideas that expand economic opportunity. Over the next 10 years CFED will advance at least two new ideas that each demonstrate the potential to build wealth and opportunity for one million low-income Americans, through a systemic process that engages a wide variety of individuals and organizations in the United States and internationally. CFED is currently engaged in two innovative projects that could make a lasting positive impact on the lives of many low-income Americans: the American Dream Match Fund and the Self-Employment Tax Initiative.

American Dream Match Fund

CFED has embarked on a new social venture that will expand the national market of donors to assist low-income savers with their efforts to save, acquire lifelong assets, and break the intergenerational cycle of poverty. The American Dream Match Fund will stimulate the growth of matched savings accounts, like Individual Development Accounts (IDAs) throughout the United States. Historically, the match incentives for such accounts – similar to an employer match for 401(k) contributions – have been provided through matching funds from private and public sources. As the number of accounts have increased over the last 10 years – to over 50,000 IDAs in programs run by more than 500 community-based organizations – so too have the challenges asset-building organizations face when it comes to raising the money that matches participants’ own savings. Many program sponsor’s report waiting lists for matched savings accounts, a situation that arises when the sponsor’s fundraising and/or operating capacity is constrained.

In late 2006, CFED initiated the American Dream Match Fund to provide a reliable and sustainable solution to these challenges and to spur innovation in the field. The Fund will raise money from individual donors primarily as well as from foundations and corporations, to reach the savings of low-income families and provide operating support to high-performing asset-building programs. The Fund’s other goals include raising public awareness of matched savings as an asset-building strategy and adapting software technology to facilitate the flow of information among donors, program providers and account holders.

Self-Employment Tax Initiative

CFED’s Self-Employment Tax Initiative is exploring a new high-impact approach that would use the tax code to deliver support to up to 6 million start-up and self-employed microbusinesses annually. While conventional microenterprise programs provide microcredit and/or self-employment training to start-up businesses, fewer than 200,000 per year access this delivery system. By contrast, the tax code presents a complementary delivery system that has the potential to reach much more unserved or poorly served microentrepreneurs. This includes millions of informal businesses which large voluntary tax compliance due to confusion and unexpected cash-flow realities.

CFED began working with microenterprise and Volunteer Income Tax Assistance programs in 13 different states to explore effective tax preparation assistance and develop related long-term products for self-employed businesses. Additionally, CFED is working with states to reform the tax code’s self-employment interface to make it a more effective “gateway” that can hold the chance of success for first-time business tax filers.

CFED is the only national nonprofit organization focusing on tax policies that impact the self-employed. CFED believes there are innovative ways to reform this traditionally unwieldy tax interface so that it helps low-income families working up the ladder of success through self-employment.
Achieving Financial Sustainability

2006 Sources of Funds

- Grants and Contributions: $9,385,888 (74%)
- Government Contracts and Service Fees: $1,612,654 (13%)
- Conference Revenue: $960,641 (8%)
- Investment Income: $626,340 (5%)
- Contributions and Grants: 74% of total

2006 Uses of Funds

- Field Development: $2,821,501 (23%)
- Applied Research and Innovation: $3,153,282 (26%)
- Policy: $476,431 (3%)
- SEED: $4,605,105 (38%)
- Communications: $443,902 (4%)
- Total Program Services: $11,500,221
- Supporting Services: $404,573 (3%)
- Fundraising: $457,942 (3%)
- Management and General: $273,515 (23%)
- Total Supporting Services: $772,515
- Total Expenses: $12,272,736
- Change in net assets: $343,430
- Net assets, beginning of year: $1,588,104
- Net assets, end of year: $1,931,734
- 2006 Net Assets Distribution
  - Unrestricted: 18%
  - Temporarily Restricted: 42%
  - Permanently Restricted: 40%

2006 Statement of Activities (unrestricted funds)

Sources of Funds 2006 2005
Grants and Contributions $ 9,385,888 $ 7,466,908
Government Contracts and Service Fees 1,612,654 521,764
Conference Revenue 960,641 —
Investment Income 626,340 219,816
Other Income 30,883 113,030
Total 13,616,384 8,321,530

Uses of Funds
Program Services
- Applied Research and Innovation 3,153,282 2,890,145
- Field Development 2,821,501 1,520,686
- Policy 476,431 520,615
- SEED 4,605,105 2,770,345
- Communications 443,902 —
Total Program Services 11,500,221 7,726,173
Supporting Services
- Fundraising 404,573 341,415
- Management and General 457,942 230,365
Total Supporting Services 772,515 578,680
Total Expenses 12,272,736 8,392,853
Change in net assets 343,430 18,667
Net assets, beginning of year 1,588,104 1,569,437
Net assets, end of year $ 1,931,734 $ 1,589,104

Combined Schedule of Financial Position as of December 31

<table>
<thead>
<tr>
<th>Assets</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
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<td>$ 9,746,455</td>
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<tr>
<td>Investments</td>
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<td>Accounts Receivable</td>
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<td>Gross Receivable</td>
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<tr>
<td>Prepaid Expenses</td>
<td>46,377</td>
<td>21,773</td>
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<tr>
<td>Fixed Assets, Net of Accumulated Depreciation</td>
<td>284,432</td>
<td>230,432</td>
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<tr>
<td>Deposit</td>
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<td>3,242</td>
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<tr>
<td>Total Assets</td>
<td>$14,718,824</td>
<td>$15,894,963</td>
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<table>
<thead>
<tr>
<th>Liabilities</th>
<th>2006</th>
<th>2005</th>
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</thead>
<tbody>
<tr>
<td>Line of Credit</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Accounts Payable and Accrued Expenses</td>
<td>513,113</td>
<td>378,100</td>
</tr>
<tr>
<td>Capital Lease Payable</td>
<td>120,951</td>
<td>97,531</td>
</tr>
<tr>
<td>Gross Payable</td>
<td>1,499,550</td>
<td>631,620</td>
</tr>
<tr>
<td>Incentive Payable</td>
<td>2,012,987</td>
<td>1,650,026</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>4,142,081</td>
<td>1,650,026</td>
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</table>

<table>
<thead>
<tr>
<th>Net Assets</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>$1,931,734</td>
<td>$1,589,104</td>
</tr>
<tr>
<td>Temporarily Restricted</td>
<td>4,435,791</td>
<td>1,650,026</td>
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<tr>
<td>Permanently Restricted</td>
<td>4,229,300</td>
<td>1,650,026</td>
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<tr>
<td>Total Net Assets</td>
<td>10,596,825</td>
<td>10,656,833</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Total Liabilities and Net Assets</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Liabilities and Net Assets</td>
<td>$15,894,963</td>
<td>$15,894,963</td>
</tr>
</tbody>
</table>

A complete copy of the independent auditor’s report is available upon request.
Supporters

CFED expresses many grateful thanks to its supporters:

AARF Foundation
Daniel and Patricia Lowy

AFL-CIO
Daniel and Patricia Lowy

Ford Foundation

 Atheists United

Bank of America Foundation

Barbara and Richard Rosenberg

Barbara Rosen

Betsy and Roy Eisenhardt

BofA Foundation

Breitenstein Foundation

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Development is a process of expanding the real freedoms that people enjoy. With adequate social opportunities, individuals can effectively shape their own destiny and help each other.

– Amartya Sen, Nobel Laureate
For more information on CFED, contact Anne Li, Development Director, at 202.207.0145 or ali@cfed.org.