

THE GLADNEY CENTER FOR ADOPTION, INC.

CONSOLIDATED FINANCIAL STATEMENTS

**Year Ended August 31, 2003
(with Summarized Comparative Information for 2002)**



THE GLADNEY FUND
Year Ended August 31, 2003
(with Summarized Comparative Information for 2002)

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THE GLADNEY CENTER FOR ADOPTION, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	August 31,	
	2003	2002
Assets		
Cash	\$ 1,213,154	\$ 850,673
Accounts receivable	960	38,272
Contributions receivable less allowance of uncollectible pledges of \$186,000 and \$204,000 and discounts of \$235,000 and \$427,000 as of August 31, 2003 and 2002, respectively	4,323,944	5,986,647
Prepaid expenses	98,950	104,136
Investments	25,213,736	23,406,534
Property and equipment, at cost	17,154,090	17,632,331
Bond issuance cost	92,658	99,883
Other assets	102,901	85,710
Total assets	\$ 48,200,393	\$ 48,204,186
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,134,771	\$ 1,839,137
Interest payable	824,841	837,592
Funds held on deposit for programs	113,667	76,765
Deferred revenue	29,415	50,677
Other	39,378	-
Bond payable	8,788,415	9,244,761
Total liabilities	10,930,487	12,048,932
Contingencies	-	-
Net assets:		
Unrestricted	17,455,422	17,987,825
Temporarily restricted	11,054,961	9,617,151
Permanently restricted	8,759,523	8,550,278
Total net assets	37,269,906	36,155,254
Total liabilities and net assets	\$ 48,200,393	\$ 48,204,186

See accompanying notes to consolidated financial statements.

THE GLADNEY CENTER FOR ADOPTION, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended August 31, 2003 with Comparative Totals for 2002

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2003	Total August 31, 2002
Revenues, Gains and Other Support					
Domestic adoption program	\$ 3,584,892	\$ -	\$ -	\$ 3,584,892	\$ 3,489,144
International adoption program	1,303,933	-	-	1,303,933	1,306,939
Resident insurance settlements	69,435	-	-	69,435	56,917
Post adoption	24,900	-	-	24,900	20,109
Contributions	1,726,379	-	163,405	1,889,784	5,400,147
Fees	85,939	-	-	85,939	33,994
Investment gains (losses)	103,609	2,217,532	45,840	2,366,981	(974,576)
Auxiliary special events	768,532	-	-	768,532	239,527
Other	9,239	-	-	9,239	32,517
Net assets released from restrictions	779,722	(779,722)	-	-	-
Total revenue, gains, and other support	8,456,580	1,437,810	209,245	10,103,635	9,604,718
Expenses					
Programs					
Domestic adoption program	2,626,425	-	-	2,626,425	2,512,997
International adoption program	1,369,847	-	-	1,369,847	1,484,346
Post adoption	338,598	-	-	338,598	349,876
Client services	1,519,845	-	-	1,519,845	1,474,049
Administration	1,736,648	-	-	1,736,648	2,099,185
Gladney Fund	1,397,620	-	-	1,397,620	1,221,117
Total expenses	8,988,983	-	-	8,988,983	9,141,570
Net increase (decrease) in net assets	(532,403)	1,437,810	209,245	1,114,652	463,148
Net assets at beginning of year	17,987,825	9,617,151	8,550,278	36,155,254	35,692,106
Net assets at end of period	\$ 17,455,422	\$ 11,054,961	\$ 8,759,523	\$ 37,269,906	\$ 36,155,254

See accompanying notes to consolidated financial statements.

THE GLADNEY CENTER FOR ADOPTION, INC.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended August 31, 2003 with Comparative Totals for 2002

	Domestic Adoption Program	International- Adoption Program	Post Adoption	Client Services	Administration	Gladney Fund	August 31, 2003 TOTAL FUNCTIONAL EXPENSES	August 31, 2002 TOTAL FUNCTIONAL EXPENSES
Salaries	\$ 936,860	\$ 565,590	\$ 160,214	\$ 297,006	\$ 854,824	\$ 569,894	\$ 3,384,388	\$ 3,456,797
Employee benefits	170,341	116,839	40,220	76,330	213,502	29,476	646,708	650,018
Medical services	148,838	1,561	157	496	362	-	151,414	177,764
Office expense	45,091	47,062	4,246	80,941	13,639	211,743	402,722	446,604
Utilities and groundkeeping	151,911	61,564	12,375	97,697	42,892	37,456	403,895	278,823
Leases & Rentals	198,894	39,628	2,626	6,686	3,271	-	251,105	434,514
Insurance expense	140,606	65,467	40,310	57,087	46,088	91,078	440,636	286,219
Depreciation expense	238,929	45,006	29,384	131,673	130,765	-	575,757	295,576
Other expenses	317,780	323,911	11,630	34,421	503,073	160,936	1,351,751	1,329,860
Professional fees	272,716	58,530	36,257	21,191	33,489	286,562	708,745	478,890
Marketing expenses	4,459	44,689	1,179	716,317	24,806	10,475	801,925	825,024
Unrealized (gain) loss on interest swap					(130,063)		(130,063)	481,481
Total functional expenses	\$ 2,626,425	\$ 1,369,847	\$ 338,598	\$ 1,519,845	\$ 1,736,648	\$ 1,397,620	\$ 8,988,983	\$ 9,141,570

See accompanying notes to consolidated financial statements.

THE GLADNEY CENTER FOR ADOPTION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended August 31,	
	2003	2002
Cash Flows from Operating Activities		
Net increase in net assets	\$ 1,114,652	\$ 463,148
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:		
Net realized and unrealized (appreciation) depreciation on investments	(2,047,646)	1,635,512
Provision for uncollectible contributions receivable	27,670	44,350
Losses on sale of fixed assets	3,333	-
Depreciation and amortization	582,982	295,578
Unrealized (gain) loss on interest swap	(130,063)	481,481
Contributions of assets and services	-	(461,140)
Changes in operating assets and liabilities:		
Accounts receivable	37,312	(21,335)
Contributions receivable	1,635,033	212,986
Prepaid expenses	5,186	88,667
Other assets	(17,191)	-
Accounts payable and accrued expenses	(452,741)	1,033,609
Funds held on deposit for programs	36,902	37,528
Deferred revenue	(21,262)	(190,314)
Other liabilities	39,378	-
Net cash provided by operating activities	813,545	3,620,070
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,530,308	11,542,264
Purchases of investments	(1,424,177)	(11,623,402)
Purchases of property and equipment	(100,849)	(11,412,633)
Net cash provided by (used in) investing activities	5,282	(1,493,771)
Cash Flows from Financing Activities		
Payments on bond payable	(456,346)	(432,194)
Net change in cash held for long-term investment	-	7,980,433
Net cash provided by (used in) financing activities	(456,346)	7,548,239
Net increase (decrease) in cash	362,481	(325,462)
Cash at beginning of year	850,673	1,176,135
Cash at end of year	\$ 1,213,154	\$ 850,673
 Supplemental Disclosure of Cash Flow Information		
Cash paid for interest, net of \$221,589 capitalized in 2002	\$ 419,812	\$ 226,989
Non-cash exchange of property and equipment	\$ (65,646)	\$ -

See accompanying notes to consolidated financial statements.

THE GLADNEY CENTER FOR ADOPTION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2003 and 2002

A. Nature of Business

The Gladney Center for Adoption, Inc. (the "Center") was established as a Texas non-profit corporation which is exempt from federal income taxes due to its 501(c)(3) tax-exempt status. The Center was organized to provide meaningful and ongoing services to the members of the adoption triad: the birth parents, the child, and the adoptive parents. The Center provides residential, medical, counseling, educational, infant and child placement, and post placement services as well as various non-residential services.

The accompanying consolidated financial statements of the Center include the financial information of the Gladney Fund (the "Fund") and certain trust entities that benefit the Center (collectively the "Organization"). The Fund is a distinct entity established as a 501(c)(3) non-profit corporation, which has a fiscal year end of August 31. The Fund was organized to exclusively perform the fundraising activities for the Center. These activities include generating, receiving, and administering funds for the growth, operations, and improvements of the Center. The trust entities were established by the Center as distinct 501(a)(3) entities for maintenance of investments previously held by the Center.

Programs and Services

The Organization provides a comprehensive array of maternity and adoption services at its Fort Worth campus and at additional counseling offices located throughout Texas, North Carolina, South Carolina, and New York.

Adoption Programs

Agency Assisted Adoption

The Agency Assisted Adoption Department obtains the best possible adoptive homes for infants entrusted to its care through a diligent education, preparation, and home study process. Program policies are based on child placing standards of the State of Texas and the other states where, the Center is licensed, and on the agency's commitment to helping couples build a family through adoption and to providing comprehensive services to birth parents. All services and the policies and procedures flowing from them are flexible in order to meet the needs of the agency's clients.

ABC Adoption Program

ABC stands for Gladney's commitment to African-American and Bi-racial children. The program was created in response to the startling shortage of adoptive parents who are able to provide homes for African-American and Bi-racial children. The Center is committed to providing permanent and loving families for these children.

THE GLADNEY CENTER FOR ADOPTION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

A. Nature of Business - continued

Adoption Programs – continued

International Adoption

Through this program, the Center helps people achieve their dreams of parenthood by adopting infants and children from around the globe. International adoptions provide loving homes for children who may be lingering in foreign orphanages. Through this broad-based program, the agency facilitates adoptions in three areas of the world, Asia, Latin America and Eastern Europe, often working with two or more countries in each area.

Special Needs

The Special Needs program seeks to find loving families for those children who are more difficult to place due to their particular circumstances. Special needs can refer to children who are older as well as those with medical or developmental difficulties. The Center works closely with state foster care systems to locate permanent, loving homes for these children.

B. Summary of Significant Accounting Policies

A summary of the Organization's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Basis of Accounting

The accounts are maintained and the consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. All significant accounts and transactions between the Fund, the Center and the trust entities have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates used by the Organization include the collectibility of contributions receivable.

THE GLADNEY CENTER FOR ADOPTION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (*continued*)

B. Accounting Policies - continued

Cash

The Organization considers all certificates of deposit, commercial paper and US government securities with original maturities of three months or less to be cash equivalents.

Contributions Receivable

The Organization states contributions receivable at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable receivable.

The Organization records contributions receivable at their discounted present value, with the exception of contributions to be pledged upon the death of an individual.

Investments

The Organization follows the provisions of Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. SFAS No. 124 requires investments with readily determinable fair values to be stated at their fair value with realized and unrealized gains and losses included in the statement of activities.

Bond Issuance Cost

The Organization amortizes bond issuance cost related to the bond payable over the life of the bond payable using the straight-line method. Amortization expense during 2003 and 2002 approximated \$7,000 per year.

Property and Equipment

The Organization states significant expenditures for property and equipment at cost less accumulated depreciation. Improvements, which substantially enhance the utilization of or increase the useful life of the property, are capitalized at cost. Depreciation is recognized using the straight-line method over the expected useful lives of the assets. Expected useful lives range from three to 10 years. The cost of assets disposed of and the related accumulated depreciation are eliminated, and the resulting gain or loss is reflected in the period of disposal.

THE GLADNEY CENTER FOR ADOPTION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

B. Accounting Policies - continued

Contributions

The Organization accounts for contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Under SFAS No. 116, time-restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time restriction. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Contributed assets are recorded at their fair value on the date of receipt. In the absence of donor restrictions, contributed assets are reported as unrestricted support. Necessary services contributed by persons with specialized skills are reported as unrestricted support at the fair value of those services during the period the service is provided. Services contributed by persons without specialized skills are not recorded due to the difficulty of objectively determining their value.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

C. Contributions Receivable

The Fund recognizes unconditional promises to give as support in the period the promise is made and reports them as contributions on the statement of activities. Contributions receivable, net of discounts of approximately \$235,000, are expected to be collected as follows:

Due in one year	\$ 1,318,000
Due in two to five years	<u>3,192,000</u>
Total	4,510,000
Less allowance	<u>186,000</u>
	<u>\$ 4,324,000</u>

As of August 31, 2003 and 2002, the Organization's allowance for uncollectible contributions receivable approximated \$186,000 and \$204,000, respectively.

THE GLADNEY CENTER FOR ADOPTION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

D. Investments

The composition of investments as of August 31, are reflected in the following table:

	<u>2003</u>	<u>2002</u>
Equity securities	\$ 13,436,821	\$ 10,954,804
Debt securities and other obligations	11,161,649	10,812,545
Money market funds	615,266	1,649,185
	<u>\$ 25,213,736</u>	<u>\$ 23,406,534</u>

The components of investment gains (losses) for the years ended August 31, 2003 and 2002 are reflected in the following table:

	<u>2003</u>	<u>2002</u>
Dividends and interest	\$ 319,335	\$ 660,936
Net realized and unrealized appreciation (depreciation) on investments	2,047,646	(1,635,512)
	<u>\$ 2,366,981</u>	<u>\$ (974,576)</u>

E. Property and Equipment

The following is a summary of property and equipment at August 31,:

	<u>2003</u>	<u>2002</u>
Land	\$ 1,335,252	\$ 1,335,252
Building	15,252,788	15,252,788
Furniture and fixtures	1,922,675	1,821,823
Automobiles	68,850	134,499
Total property and equipment	<u>18,579,565</u>	<u>18,544,362</u>
Less accumulated depreciation	(1,425,475)	(912,031)
Property and equipment, net	<u>\$ 17,154,090</u>	<u>\$ 17,632,331</u>

F. Liability Under Split Interest Agreements

The Organization has included in accounts payable and accrued expenses a discounted liability of approximately \$76,000 and \$88,000 as of August 31, 2003 and 2002, respectively, for amounts due to donor-specified beneficiaries. This discounted liability represents remaining annual payments due through October 28, 2006. This liability arose under a split interest agreement wherein the Fund received a cash gift of approximately \$300,000 during the fiscal year ended August 31, 1998.

THE GLADNEY CENTER FOR ADOPTION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

G. Bond Payable

The Organization borrowed \$9,750,000 from a financial institution in August 2000, incurring \$114,153 of issuance costs. The note agreement requires the Organization to maintain certain financial covenants, including but not limited to, liquidity and debt service coverage ratios. At August 31, 2003, the Company was in compliance with all such covenants. Payment terms require interest payments through June 1, 2016, the maturity date. The note bears interest at either 75% of the 30, 60 or 90-day LIBOR rate or 51% of the prime rate, whichever method is chosen at the discretion of the Organization (1.02% as of August 31, 2003).

Effective May 14, 2001, the Organization entered into an interest rate swap agreement with an initial notional principal amount of \$9,750,000 and an expiration date of June 1, 2016. Pursuant to the agreement, the Organization pays a fixed rate of 4.54% and receives a floating interest rate during the duration of the swap agreement. The effective interest rate of the swap is currently 3.52%. The change in fair value of the agreement since inception and the related fair value of the derivative instrument have been presented as a separate line item in the accompanying consolidated statements of functional expenses and the consolidated statement of financial position, respectively, as of and for the periods ended August 31, 2003 and 2002.

The note and the interest rate swap are collateralized by the contributions receivable for the Capital Campaign Project and the facilities constructed in 2002.

The minimum required principal loan payments over the next five years and thereafter, are as follows:

2004	\$	481,849
2005		508,777
2006		537,210
2007		567,231
2008		598,930
Thereafter		6,094,418
	\$	<u>8,788,415</u>

H. Temporarily Restricted Net Assets and Net Assets Released from Restrictions

Temporarily restricted net assets were available for the following purposes as of August 31,:

	2003	2002
Gladney Fund	\$ 10,868,750	\$ 9,450,361
Domestic programs	126,247	121,311
International programs	59,964	45,479
	<u>\$ 11,054,961</u>	<u>\$ 9,617,151</u>

THE GLADNEY CENTER FOR ADOPTION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

H. Temporarily Restricted Net Assets and Net Assets Released from Restrictions - continued

Net assets were released from donor restrictions by making expenditures satisfying the following restricted purposes during the years ended August 31,:

	2003	2002
Gladney Fund	\$ 151,670	\$ 4,081,751
Domestic programs	483,256	108,388
International programs	144,796	35,835
	\$ 779,722	\$ 4,225,974

I. Permanently Restricted Net Assets

Permanently restricted net assets were restricted to investments in perpetuity, the income from which is expendable to support the following as of August 31,:

	2003	2002
International Adoption Program	\$ 101,760	\$ 103,506
Greer Garson Educational Opportunities	545,000	545,000
ABC Adoption Program	1,221,700	1,021,700
Transitional care	370,753	370,753
Campus and capital improvement	535,000	535,000
Post adoption	306,318	306,445
Career Development	268,818	268,818
Any activities of the Center	5,410,174	5,399,056
	\$ 8,759,523	\$ 8,550,278

J. Auxiliary Special Events

The Fund has 17 auxiliary groups located throughout the United States that sponsor fund raising special events. These groups of volunteers raised a total of approximately \$1,540,000 and \$1,160,000 with related expenses of approximately \$772,000 and \$920,000 for the years ended August 31, 2003 and 2002, respectively.

K. Retirement Plan

The Center maintains a 403(b) defined contribution retirement plan for the benefit of its full-time employees who have attained 21 years of age and two years of service. The Center matches 50% of the employee's pre-tax compensation deferral contributions to the plan until their sixth year of service, and, thereafter, matches 100% of the employee's contribution. The expense recognized by the Center totaled approximately \$236,000 and \$248,000 for the years ended August 31, 2003 and 2002, respectively.

THE GLADNEY CENTER FOR ADOPTION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

L. Donated Services

The Fund received contributed architecture services of approximately \$88,000 for the construction of the Center's new facility, which was recorded in contributions and support for capital improvements of the Center in the accompanying statement of activities and changes in net assets for the year ended August 31, 2002.

M. Concentration of Credit Risk

The Federal Deposit Insurance Corporation insures accounts at financial institutions up to \$100,000. Cash on hand at two financial institutions exceeded the federally insured limit by approximately \$696,000 and \$624,000 as of August 31, 2003. The Organization did not experience any losses related to uninsured amounts during 2003.