

**THE GLADNEY CENTER FOR ADOPTION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Year Ended August 31, 2004  
(with Summarized Comparative Information  
for the year ended August 31, 2003)**



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**REPORT OF INDEPENDENT AUDITORS**

To the Board of Directors of  
The Gladney Center for Adoption

We have audited the accompanying consolidated statements of financial position of The Gladney Center for Adoption, a not-for-profit organization, as of August 31, 2004 and 2003, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Gladney Center for Adoption as of August 31, 2004 and 2003 and the consolidated results of activities and changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Whitley Penn*

Fort Worth, Texas  
November 5, 2004

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**THE GLADNEY CENTER FOR ADOPTION**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	August 31,	
	2004	2003
<b>Assets</b>		
Cash	\$ 865,788	\$ 1,213,154
Accounts receivable	698	960
Contributions receivable less allowance of uncollectible pledges of \$225,000 and \$186,000 and discounts of \$142,000 and \$235,000 , respectively	2,990,448	4,323,944
Prepaid expenses	142,914	98,950
Investments	27,110,458	25,213,736
Property and equipment, net	16,702,639	17,154,090
Bond issuance cost	85,615	92,658
Other assets	90,798	102,901
	\$ 47,989,358	\$ 48,200,393
 <b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 993,977	\$ 1,134,771
Interest payable	849,626	824,841
Funds held on deposit for programs	131,915	113,667
Deferred revenue	48,100	29,415
Other liabilities	31,088	39,378
Bond payable	8,306,566	8,788,415
Total liabilities	10,361,272	10,930,487
Contingencies	-	-
 <b>Net assets:</b>		
Unrestricted	19,341,626	17,455,422
Temporarily restricted	9,571,628	11,054,961
Permanently restricted	8,714,832	8,759,523
Total net assets	37,628,086	37,269,906
Total liabilities and net assets	\$ 47,989,358	\$ 48,200,393

See accompanying notes to consolidated financial statements.

THE GLADNEY CENTER FOR ADOPTION  
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
Year Ended August 31, 2004 with Summarized Comparative Totals for 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2004	Total August 31, 2003
<b>Revenues, Gains and Other Support</b>					
Domestic adoption program	\$ 3,806,280	\$ -	\$ -	\$ 3,806,280	\$ 3,584,892
International adoption program	1,405,528	-	-	1,405,528	1,303,933
Resident insurance settlements	52,808	-	-	52,808	69,435
Post adoption	22,165	-	-	22,165	24,900
Contributions	1,464,884	68,568	34,309	1,567,761	2,658,316
Fees	134,976	-	-	134,976	85,939
Investment gains	1,047,072	1,157,756	-	2,204,828	2,366,981
Other	1,576	-	-	1,576	9,239
Net assets released from restrictions	2,788,657	(2,709,657)	(79,000)	-	-
<b>Total revenue, gains, and other support</b>	<b>10,723,946</b>	<b>(1,483,333)</b>	<b>(44,691)</b>	<b>9,195,922</b>	<b>10,103,635</b>
<b>Expenses</b>					
<b>Programs</b>					
Domestic adoption program	2,559,272	-	-	2,559,272	2,626,425
International adoption program	1,348,004	-	-	1,348,004	1,369,847
Post adoption	307,971	-	-	307,971	338,598
Client services	1,520,215	-	-	1,520,215	1,519,845
Administration	1,826,914	-	-	1,826,914	1,736,648
Gladney Fund	1,275,366	-	-	1,275,366	1,397,620
<b>Total expenses</b>	<b>8,837,742</b>	<b>-</b>	<b>-</b>	<b>8,837,742</b>	<b>8,988,983</b>
<b>Net increase (decrease) in net assets</b>	<b>1,886,204</b>	<b>(1,483,333)</b>	<b>(44,691)</b>	<b>358,180</b>	<b>1,114,652</b>
<b>Net assets at beginning of year</b>	<b>17,455,422</b>	<b>11,054,961</b>	<b>8,759,523</b>	<b>37,269,906</b>	<b>36,155,254</b>
<b>Net assets at end of year</b>	<b>\$ 19,341,626</b>	<b>\$ 9,571,628</b>	<b>\$ 8,714,832</b>	<b>\$ 37,628,086</b>	<b>\$ 37,269,906</b>

See accompanying notes to consolidated financial statements.

**THE GLADNEY CENTER FOR ADOPTION**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**

Year Ended August 31, 2004 with Summarized Comparative Totals for 2003

	Domestic Adoption Program	International Adoption Program	Post Adoption	Client Services	Administration	Gladney Fund	August 31, 2004 TOTAL FUNCTIONAL EXPENSES	August 31, 2003 TOTAL FUNCTIONAL EXPENSES
Salaries	\$ 935,688	\$ 527,919	\$ 128,918	\$ 271,746	\$ 824,020	\$ 550,896	\$ 3,239,187	\$ 3,384,388
Employee benefits	186,095	132,368	36,764	76,631	208,610	5,654	646,122	646,708
Medical services	194,214	69	63	23	253	-	194,622	151,414
Office expense	32,556	37,261	4,147	71,746	11,404	148,793	305,907	402,722
Utilities and groundkeeping	174,691	59,214	14,918	81,938	77,677	34,500	442,938	403,895
Leases and rentals	93,582	42,002	4,720	5,064	4,356	-	149,724	251,105
Insurance expense	152,420	78,349	47,282	70,910	49,519	90,005	488,485	440,636
Depreciation expense	236,061	44,257	26,087	131,096	121,860	-	559,361	575,757
Professional fees	292,468	86,685	35,786	11,322	11,409	104,586	542,256	708,745
Other expenses:	248,906	296,581	8,711	24,791	552,130	334,292	1,465,411	1,351,751
Marketing expenses	12,591	43,299	575	774,948	15,662	6,640	853,715	801,925
Unrealized gain (loss) on interest rate swap	-	-	-	-	(49,986)	-	(49,986)	(130,063)
<b>Total functional expenses</b>	<b>\$ 2,559,272</b>	<b>\$ 1,348,004</b>	<b>\$ 307,971</b>	<b>\$ 1,520,215</b>	<b>\$ 1,826,914</b>	<b>\$ 1,275,366</b>	<b>\$ 8,837,742</b>	<b>\$ 8,988,983</b>

See accompanying notes to consolidated financial statements.

**THE GLADNEY CENTER FOR ADOPTION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year Ended August 31,</b>	
	<b>2004</b>	<b>2003</b>
<b>Operating Activities</b>		
Net increase in net assets	\$ 358,180	\$ 1,114,652
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:		
Net realized and unrealized appreciation on investments	(1,919,590)	(2,047,646)
Provision for uncollectible contributions receivable	207,866	27,670
Losses on sale of property and equipment	-	3,333
Depreciation	559,361	575,757
Amortization	7,043	7,225
Unrealized (gain) loss on interest swap	49,986	(130,063)
Changes in operating assets and liabilities:		
Accounts receivable	262	37,312
Contributions receivable	1,125,630	1,635,033
Prepaid expenses	(43,964)	5,186
Other assets	12,103	(17,191)
Accounts payable and accrued expenses	(140,794)	(452,741)
Funds held on deposit for programs	18,248	36,902
Deferred revenue	18,685	(21,262)
Other liabilities	(8,290)	39,378
Net cash provided by operating activities	244,726	813,545
<b>Investing Activities</b>		
Proceeds from sales of investments	1,329,206	1,530,308
Purchases of investments	(1,331,539)	(1,424,177)
Purchases of property and equipment	(107,910)	(100,849)
Net cash provided by (used in) investing activities	(110,243)	5,282
<b>Financing Activity</b>		
Payments on bond payable	(481,849)	(456,346)
Net increase (decrease) in cash	(347,366)	362,481
Cash at beginning of year	1,213,154	850,673
Cash at end of year	\$ 865,788	\$ 1,213,154
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	\$ 458,582	\$ 419,812
Non-cash exchange of property and equipment	\$ -	\$ (65,646)

See accompanying notes to consolidated financial statements.

# THE GLADNEY CENTER FOR ADOPTION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2004 and 2003

### A. Nature of Business

The Gladney Center for Adoption (the "Center") was established as a Texas non-profit corporation, which is exempt from federal income taxes due to its 501(c)(3) 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(c)(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. Program policies are also based on the Center'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 Center'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

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### A. Nature of Business - continued

##### Adoption Programs – continued

###### **International Adoption**

International adoptions provide loving homes for children who may be lingering in foreign orphanages. Through this broad-based program, the Center facilitates adoptions in three areas of the world, Asia, Latin America, and Eastern Europe, often working with two or more countries in each area.

###### **New Beginnings (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. The term “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 Center, the Fund, 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 consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates. Significant estimates used by the Organization include the collectibility of contributions receivable and the resulting allowance for uncollectible pledges.

## THE GLADNEY CENTER FOR ADOPTION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### **B. Summary of Significant 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 ("SFAS") 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.

##### **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 and equipment, 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.

##### **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 2004 and 2003 approximated \$7,000 per year.

THE GLADNEY CENTER FOR ADOPTION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**B. Summary of Significant 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. 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.

**Comparative Prior Year Information**

The consolidated statement of activities and changes in net assets for the year ended August 31, 2003 includes certain summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended August 31, 2003, from which the summarized information was derived.

**Reclassifications**

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

**C. Contributions Receivable**

The Organization recognizes unconditional promises to give as support in the period the promise is made and reports them as contributions in the accompanying consolidated statements of activities and changes in net assets. As of August 31, 2004, contributions receivable, net of discounts of approximately \$142,000, are expected to be collected as follows:

Due in one year	\$ 874,463
Due in two to five years	2,340,985
Total	<u>3,215,448</u>
Less allowance	225,000
	<u><u>\$ 2,990,448</u></u>

**THE GLADNEY CENTER FOR ADOPTION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**D. Investments and Investment Gains**

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

	<u>2004</u>	<u>2003</u>
Equity securities	\$ 14,872,019	\$ 13,436,821
Debt securities and other obligations	11,846,620	11,161,649
Money market funds	391,819	615,266
	<u>\$ 27,110,458</u>	<u>\$ 25,213,736</u>

The components of investment gains for the years ended August 31, 2004 and 2003 are reflected in the following table:

	<u>2004</u>	<u>2003</u>
Dividends and interest	\$ 310,439	\$ 319,335
Net realized and unrealized appreciation on investments	1,894,389	2,047,646
	<u>\$ 2,204,828</u>	<u>\$ 2,366,981</u>

**E. Property and Equipment**

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

	<u>2004</u>	<u>2003</u>
Land	\$ 1,335,252	\$ 1,335,252
Building	15,276,676	15,252,788
Furniture and fixtures	1,965,248	1,922,675
Automobiles	110,300	68,850
Total property and equipment	<u>18,687,476</u>	<u>18,579,565</u>
Less accumulated depreciation	1,984,837	1,425,475
Property and equipment, net	<u>\$ 16,702,639</u>	<u>\$ 17,154,090</u>

**F. Liability Under Split-Interest Agreements**

The Organization has included in accounts payable and accrued expenses a discounted liability of approximately \$62,000 and \$76,000 as of August 31, 2004 and 2003, 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**

**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. At August 31, 2004, the Organization was in compliance with all such covenants. Terms of the agreement require principal and 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 (1.24% and 1.02% as of August 31, 2004 and 2003, respectively).

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 for the duration of the swap agreement. The effective interest rate of the swap is currently 3.52%.

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

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

2005	\$ 509,000
2006	537,000
2007	567,000
2008	599,000
2009	632,000
Thereafter	5,463,000
	<u>\$ 8,307,000</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,:

	2004	2003
Gladney Fund	\$ 9,364,230	\$ 10,868,750
Domestic programs	138,044	126,247
International programs	69,354	59,964
	<u>\$ 9,571,628</u>	<u>\$ 11,054,961</u>

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

	2004	2003
Gladney Fund	\$ 2,653,705	\$ 151,670
Domestic programs	75,199	483,256
International programs	59,753	144,796
	<u>\$ 2,788,657</u>	<u>\$ 779,722</u>

## THE GLADNEY CENTER FOR ADOPTION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 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,:

	<u>2004</u>	<u>2003</u>
International Adoption Program	\$ 104,180	\$ 101,760
Greer Garson Educational Opportunities	545,000	545,000
ABC Adoption Program	1,221,700	1,221,700
Transitional care	370,753	370,753
Campus and capital improvement	555,000	535,000
Post adoption	302,318	306,318
Career Development	268,818	268,818
Any activities of the Center	5,347,063	5,410,174
	<u>\$ 8,714,832</u>	<u>\$ 8,759,523</u>

#### J. 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 \$615,000 and \$670,000 with related expenses of approximately \$264,000 and \$289,000 for the years ended August 31, 2004 and 2003, respectively.

The Fund also conducts a bi-annual golf tournament, The Gladney Cup. This tournament raised a total of approximately \$43,000 and \$870,000 with related expenses of approximately \$89,000 and \$483,000 for the years ended August 31, 2004 and 2003 respectively.

#### K. Retirement Plan

The Organization 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 Organization totaled approximately \$210,000 and \$236,000 for the years ended August 31, 2004 and 2003, respectively.

#### L. Federal Income Tax

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes is made in the accompanying consolidated financial statements.

THE GLADNEY CENTER FOR ADOPTION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

**M. Concentration of Credit Risk**

The Federal Deposit Insurance Corporation insures accounts at financial institutions up to \$100,000. Cash on hand at Bank of America exceeded the federally insured limits by approximately \$696,000 as of August 31, 2003. There were no such accounts in excess of the federally insured limits as of August 31, 2004. The Organization did not experience any losses related to uninsured amounts during 2004 or 2003.