THE GLADNEY CENTER FOR ADOPTION
AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2010
(with Summarized Comparative Information
for the Year Ended August 31, 2009)
with Report of Independent Auditors

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2010 (with Summarized Comparative Information for the Year Ended August 31, 2009)

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
The Gladney Center for Adoption and
The Gladney Fund

We have audited the accompanying combined statements of financial position of The Gladney Center for Adoption and The Gladney Fund (collectively, the "Organization"), as of August 31, 2010 and 2009, and the related combined statements of cash flows for the years then ended and the combined statements of activities and changes in net assets and functional expenses for the year ended August 31, 2010. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. The prior year summarized comparative information has been derived from the Organization's 2009 combined financial statements and, in our report dated December 14, 2009, we expressed an unqualified opinion on those combined financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. The Organization's is not required to have, nor were we engaged to perform, an audit of their internal controls over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Gladney Center for Adoption and The Gladney Fund as of August 31, 2010 and 2009, and their cash flows for the years then ended and the changes in their net assets for the year ended August 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

Whitley Penn LLP

Fort Worth, Texas
December 14, 2010

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED STATEMENTS OF FINANCIAL POSITION

	August 31, 2010	August 31, 2009
Assets		
Cash	$ 457,530	$ 659,160
Accounts receivable	7,652	41,591
Contributions receivable, less allowance for uncollectible pledges of $205,234 and $220,434 and discounts of $22,254 and $38,169, respectively	727,169	854,610
Prepaid expenses	212,029	553,032
Investments	25,604,777	26,748,916
Property and equipment, net	14,201,314	14,729,533
Bond issuance cost, net of accumulated amortization of $71,933 and $64,708, respectively	42,265	49,490
Other assets	-	5,000
Total assets	$ 41,252,736	$ 43,641,332
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 1,150,575	$ 1,702,501
Interest rate swap liability	608,277	594,490
Funds held on deposit for programs	216,017	200,056
Deferred revenue	-	745,668
Line-of-credit	187,000	-
Other liabilites	9,772	18,599
Bond payable	4,800,951	5,468,786
Total liabilities	6,972,592	8,730,100
Commitments and contingencies		
Net assets:		
Unrestricted	16,784,263	16,140,051
Temporarily restricted	8,515,822	8,686,460
Permanently restricted	8,980,059	10,084,721
Total net assets	34,280,144	34,911,232
Total liabilities and net assets	$ 41,252,736	$ 43,641,332

See accompanying notes to combined financial statements.

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended August 31, 2010 with Summarized Comparative Totals for 2009

	2010				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2009 Totals
Revenues, Gains (Losses), and Other Support					
Domestic adoption program	$ 4,579,964	$ -	$ -	$ 4,579,964	$ 4,588,890
Intercountry adoption program	3,189,929	-	-	3,189,929	2,709,939
Resident insurance settlements	2,930	-	-	2,930	7,445
Family services	46,420	-	-	46,420	478,173
Contributions	1,375,975	346,514	3,575	1,726,064	2,746,740
Fees	20,479	-	-	20,479	1,960
Special events, net	765,893	-	-	765,893	213,577
Investment income (loss)	762,684	872,726	-	1,635,410	(1,952,046)
Other	63,296	-	-	63,296	42,632
Net assets released from restrictions	2,498,115	(1,389,878)	(1,108,237)	-	-
Total revenues, gains (losses), and other support	13,305,685	(170,638)	(1,104,662)	12,030,385	8,837,310
Expenses					
Programs					
Domestic adoption program	3,547,836	-	-	3,547,836	3,445,935
Intercountry adoption program	3,227,687	-	-	3,227,687	3,261,093
Humanitarian aid program	1,021,791	-	-	1,021,791	907,890
Family services	1,018,506	-	-	1,018,506	948,535
Communication and outreach	1,349,380	-	-	1,349,380	1,791,710
Administration	1,703,930	-	-	1,703,930	2,530,909
Fundraising	792,343	-	-	792,343	796,355
Total expenses	12,661,473	-	-	12,661,473	13,682,427
Change in net assets	644,212	(170,638)	(1,104,662)	(631,088)	(4,845,117)
Net assets at beginning of year	16,140,051	8,686,460	10,084,721	34,911,232	39,756,349
Net assets at end of year	$ 16,784,263	$ 8,515,822	$ 8,980,059	$ 34,280,144	$ 34,911,232

See accompanying notes to combined financial statements.

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2010 with Summarized Comparative Totals for 2009

	2010								
	Domestic Adoption Program	**Intercountry Adoption Program**	**Humanitarian Aid Program**	**Family Services**	**Communication and Outreach**	**Administration**	**Fund-raising**	**Total**	**2009 Totals**
Salaries	$1,591,358	$ 1,284,735	$ 24,633	$ 573,169	$ 272,202	$ 820,072	$415,938	$ 4,982,107	$ 5,279,641
Employee benefits	416,249	259,390	15,566	126,011	66,211	200,227	72,865	1,156,519	1,218,256
Medical services	148,649	454	-	1,884	393	860	309	152,549	162,013
Office expense	42,986	283,484	750	28,960	41,628	16,366	26,712	440,886	364,810
Utilities and groundkeeping	187,329	76,101	-	28,105	73,043	57,829	26,549	448,956	467,630
Leases and rentals	232,669	157,091	-	4,296	3,887	7,307	3,159	408,409	357,803
Insurance expense	84,834	45,952	-	25,794	29,551	30,382	18,649	235,162	275,908
Depreciation expense	233,395	72,129	-	41,625	127,514	115,459	4,197	594,319	618,915
Professional fees	288,997	99,533	-	64,125	57,032	114,898	21,090	645,675	894,881
Other expenses	310,387	862,157	980,326	98,184	29,757	51,642	39,323	2,371,776	2,367,003
Outreach and education	10,983	86,661	516	26,353	648,162	27,034	163,552	963,261	1,243,482
Interest expense	-	-	-	-	-	248,067	-	248,067	280,256
Unrealized loss on interest rate swap	-	-	-	-	-	13,787	-	13,787	151,829
Total expenses	$3,547,836	$ 3,227,687	$ 1,021,791	$ 1,018,506	$ 1,349,380	$ 1,703,930	$792,343	$12,661,473	$13,682,427

See accompanying notes to combined financial statements.

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED STATEMENTS OF CASH FLOWS

	Year Ended August 31, 2010	2009
Operating Activities		
Change in net assets	$ (631,088)	$ (4,845,117)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized appreciation (depreciation) on investments	(1,094,391)	3,138,406
Provision for uncollectible contributions receivable	15,200	(52,766)
Depreciation and amortization	601,544	626,141
Unrealized loss on interest rate swap	13,787	151,829
Restricted contributions	(350,089)	(490,372)
Changes in operating assets and liabilities:		
Accounts receivable	33,939	180,336
Contributions receivable	112,241	1,518,051
Prepaid expenses	341,003	(355,629)
Other assets	5,000	(2)
Accounts payable and accrued expenses	(551,926)	(138,235)
Funds held on deposit for programs	15,961	43,898
Deferred revenue	(745,668)	738,168
Other liabilities	(8,827)	18,599
Net cash provided by (used in) operating activities	(2,243,314)	533,307
Investing Activities		
Proceeds from sales of investments	12,781,339	8,179,747
Purchases of investments	(10,542,809)	(8,125,597)
Purchases of property and equipment	(66,100)	(128,977)
Net cash provided by (used in) investing activities	2,172,430	(74,827)
Financing Activities		
Payments on bond payable	(667,835)	(632,493)
Net proceeds from (payments on) line-of-credit	187,000	(334,773)
Restricted contributions	350,089	490,372
Net cash used in financing activities	(130,746)	(476,894)
Net decrease in cash	(201,630)	(18,414)
Cash at beginning of year	659,160	677,574
Cash at end of year	$ 457,530	$ 659,160
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 268,435	$ 579,142

See accompanying notes to combined financial statements.

A. Nature of Business

The Gladney Center for Adoption (the "Center"), founded in 1887 in Fort Worth, Texas, is a licensed not-for-profit 501(c)(3) tax-exempt social services agency whose staff and directors are committed to providing ethical, timely, and individualized adoption services.

The accompanying combined financial statements include the financial information of the Center and The Gladney Fund (the "Fund") (collectively the "Organization"). The Fund was established as a Texas not-for-profit corporation organized and operating exclusively as a support organization for the benefit of the Center. The Fund provides support to the Center by administering investments for the growth, operations, and improvement of the Center. The Organization's corporate offices are located in Fort Worth, Texas.

The Organization provides comprehensive services to clients in order to fulfill its Mission: The Organization is committed to providing loving homes for children; a caring environment for birth parents; supportive services for families and adoptees; and assistance to orphans and underserved children throughout the world. Through these comprehensive programs and services the Organization is able to:

- Provide bright futures for children through placement in a permanent family
- Find forever families for children from other countries
- Support young women experiencing unplanned pregnancies
- Help to fulfill the dream of parenthood
- Offer each client access to post-adoption services and training
- Fund humanitarian aid programs to assist orphaned and underserved children throughout the world
- Educate the public about adoption

The Organization's focus on client satisfaction, providing comprehensive services, and global reach help make it one of the premier adoption agencies in the world.

Adoptive Parent Programs – Domestic

Agency Assisted

This flexible program matches prospective parents with young women who are planning adoption for their infant or toddler. The Center seeks the best possible homes for children entrusted to its care through a diligent preparation and education process for all adoptive families.

ABC

The ABC program represents the Center's commitment to African American and biracial children. It is designed for families who can provide an environment of cultural diversity and love for their child.

A. Nature of Business – continued

New Beginnings

Many children who need loving homes have special needs. The highly specialized New Beginnings program offers bright futures to children waiting in foster care and infants who have special medical needs. These children are placed in forever families with parents who can provide the necessary care and resources.

Adoptive Parent Programs – Intercountry

Intercountry Adoptions

In addition to placing children born in the United States, the Center's Intercountry program is committed to finding loving homes for children from other countries. International adoption opportunities are available in Eastern European, Latin American, African, and Asian countries. The Center is also committed to assisting orphaned and underserved children throughout the world through its efforts in humanitarian aid.

B. Summary of Significant Accounting Policies

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

Basis of Accounting

The accompanying combined financial statements are presented on the accrual basis of accounting in accordance with the recommendations of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Principles of Combination

The combined financial statements include the accounts of the Center and the Fund. All significant accounts and transactions between the Center and the Fund have been eliminated in combination.

B. Summary of Significant Accounting Policies – continued

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 dates of the combined financial statements and the reported amounts of revenues and expenses during the respective years. Actual results could differ from these estimates. Significant estimates used by the Organization include the collectability of contributions receivable and the resulting allowance for uncollectible pledges.

Cash

The Organization considers all certificates of deposit, commercial paper, and U.S. government securities with original maturities of three months or less, when purchased, to be cash. At August 31, 2009, the Organization has included certificates of deposit as cash in the amount of approximately $81,000. The Organization had no certificates of deposit at August 31, 2010. The Organization maintains deposits primarily in one financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Organization has not experienced any losses related to amounts in excess of FDIC limits.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate of 4.53%. Amortization of the discount is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Management provides for estimated uncollectible amounts through a provision for bad debt expense and an adjustment to an allowance for uncollectible pledges 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 allowance for uncollectible pledges and a credit to the applicable contribution receivable.

Investments

The Organization follows the provisions of FASB ASC 958-320 and FASB ASC 958-325, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, which requires investments with readily determinable fair values to be stated at their fair value with realized and unrealized gains and losses included in the combined statement of activities and changes in net assets of the respective period.

B. Summary of Significant Accounting Policies – continued

Investments – continued

The Organization also follows FASB ASC 820, *Fair Value Measurements and Disclosures*, which establishes a framework for measuring the fair value of certain assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. For more information related the Organization's valuation methodologies using ASC 820, see Note E of these financials.

Endowment Funds

In August 2008, the FASB issued FASB ASC 958-205, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act* ("UPMIFA")*, and Enhanced Disclosures for all Endowment Funds*. The intent of this ASC is to provide guidance on the net asset classification of donor-restricted endowment funds. The ASC also improves disclosures about the Organization's endowment funds, both donor-restricted and board-designated, whether or not the Organization is subject to the UPMIFA. All of the Organization's endowment funds are donor restricted.

The Organization has a number of endowments which provide funding for various programs and other operations of the Organization. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Management has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. Accordingly, the Organization classifies the original value of the permanently restricted endowment gifts as permanently restricted net assets. Remaining values and accumulated net earnings on endowment funds are classified as unrestricted or temporarily restricted net assets until those amounts are appropriated for expenditure in accordance with any applicable donor designations and in a manner consistent with the standard of prudence prescribed by the UPMIFA.

In accordance with UPMIFA, the Organization 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.

B. Summary of Significant Accounting Policies – continued

Endowment Funds – continued

The Organization's primary investment objectives are growth with income and preservation of capital. Management defines risk as the probability of not meeting these objectives. Accordingly, the Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to grants and operations supported by endowments while seeking to maintain the purchasing power of the endowment assets. Under these policies, as approved by the Organization's board of directors, endowment assets are invested in a manner that is intended to minimize risk and produce results that exceed a composite index comprised of relevant individual indices that reflect the Organization's asset allocations.

Property and Equipment

The Organization records 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. Expenditures for normal maintenance and repairs are expensed as incurred. Depreciation is recognized using the straight-line method over the expected useful lives of the assets. Expected useful lives range from three to forty years. The cost of assets disposed of and the related accumulated depreciation are eliminated, and any resulting gains or losses are reflected in the accompanying combined statement of activities and changes in net assets in the period of disposal. Included in property and equipment are certain statues in which the Organization considers to be works of art and have not been depreciated.

Bond Issuance Cost

The Organization amortizes the bond issuance cost related to the bond payable over the life of the bond payable using the straight-line method of accounting. Amortization expense during 2010 and 2009 approximated $7,000 per year.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities and changes in net assets as net assets released from restrictions. Cash received for services to be provided in the future is classified as deferred revenue until the services are rendered.

B. Summary of Significant Accounting Policies – continued

Contributions – continued

Donated assets are recorded at their estimated fair value (as determined by management) at the date of donation. Donated services are recognized as contributions if the services, (a) create or enhance non-financial assets, or (b) require specialized skills, and are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization pays for most services requiring specialized services. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific program functions, campaign solicitations and various other activities that are not recognized as contributions in the combined financial statements, because the recognition criteria under accounting principles generally accepted in the United States of America were not met.

Advertising

Advertising costs are expensed as incurred. Advertising expenses were approximately $546,000 and $911,000 for the year ended August 31, 2010 and 2009, respectively.

Comparative Prior Year Information

The combined statements of activities and changes in net assets and functional expenses for the year ended August 31, 2009 include certain summarized financial information in total but not by net asset class or program category for purposes of comparison to 2010 information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's combined financial statements for the year ended August 31, 2009, from which the summarized information was derived.

New Accounting Pronouncements

In June 2009, the FASB issued a standard which established the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The ASC was effective for financial statements issued for annual periods ending after September 15, 2009, and was adopted by the Organization in the year ended August 31, 2010. Adoption of this standard did not impact the Organization's financial statements.

In August 2009, the FASB issued additional guidance on how entities should estimate the fair value of certain alternative investments. The fair value of such investments can now be determined using a Net Asset Value ("NAV") as a practical expedient, unless it is probable the investment will be sold at something other than NAV. In those situations, the practical expedient cannot be used and disclosure of the remaining actions necessary to complete the sale will be required. The Organization adopted this guidance during the year ended August 31, 2010. The adoption did not result in a material impact on the valuation of the Organization's investments.

B. Summary of Significant Accounting Policies – continued

New Accounting Pronouncements – continued

In October 2008, the FASB issued FASB ASC 855, *Subsequent Events*, which requires management to evaluate subsequent events through the date the financial statements are issued, or are available to be issued as defined in the Statement. It also requires the Organization to disclose in the financial statements, the date through which subsequent events have been evaluated.

C. Contributions Receivable

As of August 31, 2010, contributions receivable, net of discounts of approximately $22,000, are expected to be collected as follows:

Due in one year	$ 760,594
Due in two to five years	171,809
Total	932,403
Less allowance for uncollectible pledges	205,234
Total contributions receivable	$ 727,169

D. Investments and Investment Gain (Loss)

The composition of investments as of August 31, is as follows:

	2010	2009
Fixed income mutual funds	$ 8,215,850	$ 9,631,531
Money market funds	4,639,424	6,846,216
Equity mutual funds	8,206,490	5,111,376
Equity securities	2,245,901	3,053,929
Hedge funds	1,906,763	1,719,492
Beneficial interest in trust	368,602	367,479
Fixed income securities	21,747	-
Debt securities and other obligations	-	18,893
Total investments	$ 25,604,777	$ 26,748,916

D. Investments and Investment Gain (Loss) – continued

The components of investment income (loss) for the years ended August 31, are as follows:

	2010	2009
Dividends and interest	$ 601,810	$ 1,281,852
Realized losses	(806,030)	(1,479,842)
Unrealized gains (losses)	1,900,421	(1,658,564)
Investment gains before investment fees	1,696,201	(1,856,554)
Less investment fees	60,791	95,492
Investment gain (loss)	$ 1,635,410	$ (1,952,046)

E. Fair Value of Investments

ASC 820, which among other things, requires certain disclosures about assets and liabilities carried at fair value. As defined in ASC 820, 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. ASC 820 describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach, each of which include multiple valuation techniques. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to measure fair value by converting future amounts, such as cash flows or earnings, into a single present value amount using current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace the service capacity of an asset.

ASC 820 does not prescribe which valuation technique should be used when measuring fair value and does not prioritize among techniques. ASC 820 establishes a fair value hierarchy that prioritizes the inputs used in applying the various valuation techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and lowest priority to unobservable inputs (level 3 measurements). The three levels of fair value hierarchy defined by ASC 820 are as follows:

E. Fair Value of Investments – continued

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Pricing inputs are other than quoted prices in active markets included in either Level 1, which are directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Where observable inputs are available, directly or indirectly, for substantially the full term of the asset or liability, the instrument is categorized in Level 2. There were no Level 2 investments at August 31, 2010 or 2009.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

The Organization generally uses a market approach for the fair value measurements and endeavors to use the best information available. Accordingly, valuation techniques that maximize the use of observable inputs are favored. The following table presents the fair value hierarchy table for investments measured at fair value, on a recurring basis, as set forth in ASC 820:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)	Total Carrying Value as of August 31, 2010
Fixed income mutual funds	$ 8,215,850	$ -	$ 8,215,850
Money market funds	4,639,424	-	4,639,424
Equity mutual funds	8,206,490	-	8,206,490
Equity securities	2,245,901	-	2,245,901
Hedge funds	-	1,906,763	1,906,763
Beneficial interest in trust	368,602	-	368,602
Fixed income securities	21,747	-	21,747
Total investments at fair value	$ 23,698,014	$ 1,906,763	$ 25,604,777

E. Fair Value of Investments – continued

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)	Total Carrying Value as of August 31, 2009
Fixed income mutual funds	$ 9,631,531	$ -	$ 9,631,531
Money market funds	6,846,216		6,846,216
Equity mutual funds	5,111,376	-	5,111,376
Equity securities	3,053,929	-	3,053,929
Hedge funds	-	1,719,492	1,719,492
Beneficial interest in trust	367,479	-	367,479
Debt securities and other obligations	18,893	-	18,893
Total investments at fair value	$ 25,029,424	$ 1,719,492	$ 26,748,916

These items are classified in their entirety based on the lowest priority level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement of assets and liabilities within the levels of the fair value hierarchy.

The table below reflects a summary of changes in the fair value of the Organization's level 3 investments for the years ended August, 31, 2010 and 2009:

	2010	**2009**
Balance at beginning of year	$ 1,719,492	$ 2,947,891
Unrealized / realized gains	187,271	(410,392)
Purchases, sales, issuances and settlements, net	-	(818,007)
Balance at end of year	$ 1,906,763	$ 1,719,492

The fair value of the Organization's investment in the hedge funds as of August 31, 2010 is based on the value of the underlying assets as published by the fund managers in the form of a net asset value per share or unit. The investment strategies of such investments are diversified as follows; a select group of private investments, various financial markets, trading in both long and short positions and securities for which there is no ready market or very limited liquidity.

The managers of these funds may restrict the number of quarterly withdraws the Organization may receive from these funds. Because of these withdrawal restrictions, the ultimate amount that the Organization may realize from these investments may vary significantly from their fair values as of August 31, 2010.

F. Property and Equipment

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

	2010	2009
Land	$ 1,335,252	$ 1,335,252
Building	15,472,716	15,472,716
Furniture and fixtures	2,488,058	2,435,920
Automobiles	306,695	306,695
Statues	63,185	63,185
Work-in-progress	13,962	-
Total property and equipment	19,679,868	19,613,768
Less accumulated depreciation	5,478,554	4,884,235
Property and equipment, net	$ 14,201,314	$ 14,729,533

G. Line-of-Credit

On March 19, 2009, the Organization entered into a $1,000,000 line-of-credit with a financial institution to meet short term borrowing needs. Interest is payable monthly at the higher of the bank's prime rate or 4.00%. The prime rate at August 31, 2010 and 2009 was 3.25%. The line-of-credit is unsecured and matures on December 31, 2010. Borrowings of $813,000 was available to the Organization under this line-of-credit as of August 31, 2010.

H. Bond Payable

The Organization borrowed $9,750,000 from a financial institution in August 2000, incurring $114,153 of bond issuance costs. The note agreement underlying the bond payable requires the Organization to maintain certain financial covenants. As of August 31, 2010 and 2009, the Organization was in compliance with all such covenants.

Terms of the agreement require principal and interest payments through the maturity date of June 1, 2016. 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 (0.23% and 0.21% as of August 31, 2010 and 2009, 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.

H. Bond Payable – continued

FASB ASC 815, *Derivative and Hedging*, as amended, establishes accounting and reporting standards for derivative instruments. Specifically, FASB ASC 815 requires all entities, including not-for-profit organizations, to recognize all derivatives as either assets or liabilities in the statement of financial position and to measure such instruments at fair value and changes therein must be recorded as unrealized gains (losses) in the Organization's combined statement of activities and changes in net assets.

The fair value of the swap agreement was determined by the financial institution which holds the swap agreement using a pricing model that considers various market conditions, including discounted cash flow estimates. This fair value estimate is considered a Level 2 measurement under ASC 820. The fair value of the swap agreement at August 31, 2010 and 2009 represented a liability of approximately $608,000 and $594,000, respectively. The unrealized loss associated with the change in the liability was approximately $14,000 and $152,000 during 2010 and 2009, respectively.

The note and the interest rate swap are collateralized by the building financed.

The minimum required annual principal loan payments as of August 31, 2010, are as follows:

2011	$ 705,000
2012	744,000
2013	786,000
2014	830,000
2015	876,000
Thereafter	859,951
Total	$ 4,800,951

I. Temporarily Restricted Net Assets

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

	2010	2009
Gladney Fund	$ 7,895,780	$ 8,109,948
Domestic programs	288,060	170,149
International programs	331,982	406,363
Total temporarily restricted net assets	$ 8,515,822	$ 8,686,460

J. Permanently Restricted Net Assets

As of August 31, permanently restricted net assets, all of which are donor imposed restrictions, were restricted to investments in perpetuity, the income from which is expendable to support the following:

	2010	2009
Any activities of the Center	$ 5,363,761	$ 5,360,286
ABC Adoption Program	1,221,700	1,221,700
Edna Gladney Home Endowment	-	1,108,237
Campus and capital improvement	555,000	555,000
Greer Garson Educational Opportunities	545,000	545,000
Transitional care	370,753	370,753
Post adoption	302,318	302,318
Career development	268,818	268,818
China Endowment	246,574	246,474
Intercountry Adoption Program	106,135	106,135
Total permanently restricted net assets	$ 8,980,059	$ 10,084,721

The changes in endowment fund net assets for the year ended August 31, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Balance - beginning of year	$ -	$ 1,754,452	$ 10,084,721	$ 11,839,173
Net unrealized and realized gains	-	379,225	-	379,225
Investment income	202,307	-	-	202,307
Contributions	-	-	3,575	3,575
Release from restrictions	(202,307)	-	(1,108,237)	(1,310,544)
Balance - end of year	$ -	$ 2,133,677	$ 8,980,059	$ 11,113,736

J. Permanently Restricted Net Assets - continued

The changes in endowment fund net assets for the year ended August 31, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Balance - beginning of year	$ -	$ 2,718,011	$ 12,210,411	$ 14,928,422
Net unrealized and realized gains	-	(963,559)	-	(963,559)
Investment income	501,973	-	-	501,973
Contributions	-	-	20,150	20,150
Release from restrictions	(501,973)	-	(2,145,840)	(2,647,813)
Balance - end of year	$ -	$ 1,754,452	$ 10,084,721	$ 11,839,173

K. Commitments and Contingencies

The Organization leases office space and equipment under multiple non-cancelable operating leases, which expire in various years through 2013. Total lease expense approximated $218,000 and $176,000 for the years ended August 31, 2010 and 2009, respectively.

Future minimum annual lease obligations, as of August 31, 2010, are as follows:

2011	$ 141,199
2012	120,787
2013	44,108
Total future minimum lease payments	$ 306,094

L. Special Events

The Organization had 19 family associations located throughout the United States that sponsored fund raising special events in 2010 and 2009. These groups of volunteers raised a total of approximately $560,000 and $441,000 with related expenses of approximately $248,000 and $227,000 for the years ended August 31, 2010 and 2009, respectively.

L. Special Events – continued

The Organization also conducts a bi-annual golf tournament, The Gladney Cup. This tournament raised a total of approximately $1,444,000 with related expenses of approximately $990,000 for the year ended August 31, 2010. There was no golf tournament for the year ended August 31, 2009.

M. 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. The Organization may make a discretionary match of 50% of the employee's pre-tax compensation deferral contributions to the plan after two years of service until their sixth year of service, and, thereafter, matches 100% of the employee's contributions. The expense recognized by the Organization totaled approximately $177,000 for the year ended August 31, 2009. There was no match during year ended August 31, 2010.

During 2008, the Board of Directors approved a deferred compensation package for an executive of the Organization, which calls for certain amounts to be paid through August 31, 2009. The expense recognized by the Organization related to this deferred compensation package was approximately $206,000 for the year ended August 31, 2009.

During 2009, the Board of Directors approved a 457(b) deferred compensation plan for another executive of the Organization which calls for certain amounts to be paid annually. The expense recognized by the Organization related to this deferred compensation plan was $16,500 for each of the years ended August 31, 2010 and 2009.

N. Federal Income Taxes

The Center and Fund are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, as organizations other than a private foundation. Therefore, no provision for income taxes is made in the accompanying combined financial statements.

O. Subsequent Events

In preparing the combined financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through December 14, 2010, the date the combined financial statements were available for issuance.