THE GLADNEY CENTER FOR ADOPTION
AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2011
(with Summarized Comparative Information
for the Year Ended August 31, 2010)
with Report of Independent Auditors

THE GLADNEY CENTER FOR ADOPTION
AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2011 (with Summarized Comparative Information for the Year Ended August 31, 2010)

Table of Contents

whitleypenn

Fort Worth Office
1400 West 7th Street, Suite 400
Fort Worth, Texas 76102
817.259.9100 Main

Dallas Office
8343 Douglas Avenue, Suite 400
Dallas, Texas 75225
214.393.9300 Main

whitleypenn.com

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, 2011 and 2010, 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, 2011. 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 2010 combined financial statements and, in our report dated December 14, 2010, 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, 2011 and 2010, and their cash flows for the years then ended and the changes in their net assets for the year ended August 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

Whitley Penn LLP

Fort Worth, Texas
December 16, 2011

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED STATEMENTS OF FINANCIAL POSITION

	August 31, 2011	August 31, 2010
Assets		
Cash	$ 79,946	$ 457,530
Accounts receivable	76,301	7,652
Contributions receivable, less allowance for uncollectible pledges of $0 and $205,234 and discounts of $110 and $22,254, respectively	377,736	727,169
Prepaid expenses	487,573	212,029
Investments	25,618,423	25,236,175
Beneficial interest in trust	388,879	368,602
Property and equipment, net	13,706,135	14,201,314
Bond issuance cost, net of accumulated amortization of $79,158 and $71,933, respectively	35,040	42,265
Total assets	$ 40,770,033	$ 41,252,736
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 1,485,406	$ 1,150,575
Interest rate swap liability	481,088	608,277
Funds held on deposit for programs	260,000	216,017
Line-of-credit	-	187,000
Other liabilites	12,831	9,772
Bond payable	4,088,666	4,800,951
Total liabilities	6,327,991	6,972,592
Commitments and contingencies		
Net assets:		
Unrestricted	16,476,839	16,784,263
Temporarily restricted	8,975,983	8,515,822
Permanently restricted	8,989,220	8,980,059
Total net assets	34,442,042	34,280,144
Total liabilities and net assets	$ 40,770,033	$ 41,252,736

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, 2011 with Summarized Comparative Totals for 2010

	2011				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**2010 Totals**
Revenues, Gains, and Other Support					
Domestic adoption program	$ 4,803,896	$ -	$ -	$ 4,803,896	$ 4,579,964
Intercountry adoption program	2,297,309	-	-	2,297,309	3,189,929
Resident insurance settlements	3,993	-	-	3,993	2,930
Family services	41,370	-	-	41,370	46,420
Contributions	2,098,912	520,177	9,161	2,628,250	1,726,064
Fees	9,096	-	-	9,096	20,479
Special events, net	608,541	-	-	608,541	765,893
Investment income	1,009,502	1,106,793	-	2,116,295	1,635,410
Other	25,421	-	-	25,421	63,296
Net assets released from restrictions	1,166,809	(1,166,809)	-	-	-
Total revenues, gains, and other support	12,064,849	460,161	9,161	12,534,171	12,030,385
Expenses					
Programs					
Domestic adoption program	3,605,848	-	-	3,605,848	3,547,836
Intercountry adoption program	3,122,752	-	-	3,122,752	3,227,687
Humanitarian aid program	1,051,575	-	-	1,051,575	1,021,791
Family services	780,728	-	-	780,728	1,018,506
Communication and outreach	1,513,452	-	-	1,513,452	1,349,380
Administration	1,462,661	-	-	1,462,661	1,703,930
Fundraising	835,257	-	-	835,257	792,343
Total expenses	12,372,273	-	-	12,372,273	12,661,473
Change in net assets	(307,424)	460,161	9,161	161,898	(631,088)
Net assets at beginning of year	16,784,263	8,515,822	8,980,059	34,280,144	34,911,232
Net assets at end of year	$ 16,476,839	$ 8,975,983	$ 8,989,220	$ 34,442,042	$ 34,280,144

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, 2011 with Summarized Comparative Totals for 2010

	2011								
	Domestic Adoption Program	**Intercountry Adoption Program**	**Humanitarian Aid Program**	**Family Services**	**Communication and Outreach**	**Administration**	**Fundraising**	**Total**	**2010 Totals**
Salaries	$ 1,630,277	$ 1,385,603	$ 24,893	$ 410,846	$ 327,894	$ 874,924	$ 430,841	$ 5,085,278	5,163,215
Employee benefits	381,288	214,709	10,898	106,096	73,850	182,119	81,462	1,050,422	1,185,082
Medical services	175,749	3,222	-	990	456	833	231	181,481	152,978
Office expense	55,221	218,663	-	28,452	40,156	14,730	18,350	375,572	442,546
Utilities and groundkeeping	211,035	70,387	-	27,980	76,352	56,524	26,248	468,526	459,375
Leases and rentals	235,682	148,409	-	2,706	2,673	4,946	2,232	396,648	409,815
Insurance expense	88,689	49,941	568	24,412	27,831	29,598	16,762	237,801	249,554
Depreciation expense	224,526	62,232	-	33,501	127,492	100,492	4,010	552,253	594,319
Professional fees	192,729	44,669	-	41,008	105,327	103,272	61,802	548,807	392,734
Other expenses	393,033	873,469	1,007,074	71,714	28,847	62,223	48,403	2,484,763	2,384,917
Outreach and education	17,619	51,448	8,142	33,023	702,574	25,735	144,916	983,457	965,084
Interest expense	-	-	-	-	-	134,454	-	134,454	248,067
Unrealized (gain)/loss on interest rate swap	-	-	-	-	-	(127,189)	-	(127,189)	13,787
Total functional expenses	$ 3,605,848	$ 3,122,752	$ 1,051,575	$ 780,728	$ 1,513,452	$ 1,462,661	$ 835,257	$ 12,372,273	$ 12,661,473

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, 2011	2010
Operating Activities		
Change in net assets	$ 161,898	$ (631,088)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized appreciation (depreciation) on investments	(1,463,948)	(1,094,391)
Provision for uncollectible contributions receivable	(3,334)	15,200
Depreciation and amortization	559,478	601,544
Unrealized (gain) loss on interest rate swap	(127,189)	13,787
Restricted contributions	(529,338)	(350,089)
Changes in operating assets and liabilities:		
Accounts receivable	(68,649)	33,939
Contributions receivable	352,767	112,241
Prepaid expenses	(275,544)	341,003
Other assets	-	5,000
Accounts payable and accrued expenses	334,831	(551,926)
Funds held on deposit for programs	43,983	15,961
Deferred revenue	-	(745,668)
Other liabilities	(10,975)	(8,827)
Net cash used in operating activities	(1,026,020)	(2,243,314)
Investing Activities		
Proceeds from sales of investments	6,573,576	12,781,339
Purchases of investments	(5,512,153)	(10,542,809)
Purchases of property and equipment	(43,040)	(66,100)
Net cash provided by investing activities	1,018,383	2,172,430
Financing Activities		
Payments on bond payable	(712,285)	(667,835)
Net proceeds from (payments on) line-of-credit	(187,000)	187,000
Restricted contributions	529,338	350,089
Net cash used in financing activities	(369,947)	(130,746)
Net decrease in cash	(377,584)	(201,630)
Cash at beginning of year	457,530	659,160
Cash at end of year	$ 79,946	$ 457,530
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 218,227	$ 268,435

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.

<u>Adoptive Parent Programs – Domestic</u>

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, *Presentation of Financial Statements*. 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.

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. 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 an 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 *Investments – Debt and Equity Securities,* and FASB ASC 958-325, *Investments - Other*. This statement requires investments with readily determinable fair values to be stated at their fair value with unrealized gains and losses from fluctuations in the market value included in the statement of activities and changes in net assets. The fair values of investments in equity securities and debt securities (including mutual fund shares) with readily determinable fair values are based on the quoted market price of the shares owned at August 31, 2011 and 2010.

B. Summary of Significant Accounting Policies – continued

Investments – continued

The Organization also follows FASB ASC 820, *Fair Value Measurements*, 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 D of these combined financial statements.

Endowment Funds

The Organizations follows FASB ASC 958-205, *Presentation of Financial Statements* for the net asset classification of donor-restricted and board-designated endowment funds.

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 Uniform Prudent Management of Institutional Funds Act ("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. 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.

Beneficial Interest in Trust

The beneficial interest in trust consists of investments held in trust by outside trustees with the Organization as the income beneficiary. Certain income from the beneficial trust is paid to the Organization and gains (losses) are retained by the beneficial trust. The Organization has no control over investment decisions regarding these assets and has no right to use any of these assets for any purposes; nor are these assets available under any circumstances to creditors of the Organization. However, the Organization's interest in the beneficial trust is required by accounting principles generally accepted in the Unites States of America to be recorded on the books of the Organization as a permanently restricted net asset. The beneficial interest in the trust is reported at its estimated fair value based on the fair value of the beneficial trust's underlying investments with changes in the fair value reflected in the investment income in the combined statement of activities and changes in net assets.

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 2011 and 2010 approximated $7,000 per year.

B. Summary of Significant Accounting Policies – continued

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.

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 $611,000 and $546,000 for the year ended August 31, 2011 and 2010, respectively.

Comparative Prior Year Information

The combined statements of activities and changes in net assets and functional expenses for the year ended August 31, 2011 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, 2010, from which the summarized information was derived.

Reclassifications

Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

B. Summary of Significant Accounting Policies – continued

Recently Issued Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements,* ("ASU 2010-06"). ASU 2010-06 amended FASB ASC 820 to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each "class" of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed, the guidance in ASU 2010-06 became effective for reporting periods beginning after December 15, 2009.

C. Contributions Receivable

As of August 31, 2011, contributions receivable, net of discounts of approximately $100, are expected to be collected as follows:

Due in one year	$ 375,319
Due in two to five years	2,417
Total	377,736
Less allowance for uncollectible pledges	-
Total contributions receivable	$ 377,736

D. 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.

D. Fair Value of Investments – continued

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:

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 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, 2011 or 2010.

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:

D. Fair Value of Investments – continued

	2011		
	Level 1	Level 3	Total
Mutual funds			
Fixed income	$ 9,088,078	$ -	$ 9,088,078
International	5,515,261	-	5,515,261
Large cap growth	1,773,565	-	1,773,565
Large cap value	1,702,499	-	1,702,499
Small cap value	1,095,244	-	1,095,244
Hedge funds	-	3,426,600	3,426,600
Money market funds	1,891,329	-	1,891,329
Equity securities			
Small/mid cap growth	1,102,662	-	1,102,662
Treasury bond	23,185	-	23,185
Total investments at fair value	$ 22,191,823	$ 3,426,600	$ 25,618,423

	2010		
	Level 1	Level 3	Total
Mutual funds			
Fixed income	$ 8,215,850	$ -	$ 8,215,850
International	5,698,609	-	5,698,609
Large cap value	1,534,869	-	1,534,869
Small cap value	973,015	-	973,015
Hedge funds	-	1,906,763	1,906,763
Money market funds	4,639,424	-	4,639,424
Equity securities			
Small/mid cap growth	974,603	-	974,603
Large cap growth	1,271,295	-	1,271,295
Treasury bond	21,747	-	21,747
Total investments at fair value	$ 23,329,412	$ 1,906,763	$ 25,236,175

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.

D. Fair Value of Investments – continued

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, 2011 and 2010:

	2011	2010
Balance at beginning of year	$ 1,906,763	$ 1,719,492
Unrealized / realized gains	19,837	187,271
Contributions, net	1,500,000	-
Balance at end of year	$ 3,426,600	$ 1,906,763

The fair value of the Organization's investment in the hedge funds as of August 31, 2011 and 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 redemption frequency to quarterly withdraws with a notice period of 90 days. Additionally, one fund has a lock-up provision with an expiration date of July 2012. 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, 2011.

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

	2011	2010
Dividends and interest	$ 692,477	$ 601,810
Realized gains (losses)	36,895	(806,030)
Unrealized gains	1,427,053	1,900,421
Investment gains before investment fees	2,156,425	1,696,201
Less investment fees	40,130	60,791
Investment gain	$ 2,116,295	$ 1,635,410

E. Property and Equipment

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

	2011	2010
Land	$ 1,335,252	$ 1,335,252
Building	15,472,716	15,472,716
Furniture and fixtures	2,545,060	2,488,058
Automobiles	296,117	306,695
Statues	63,185	63,185
Work-in-progress	-	13,962
Total property and equipment	19,712,330	19,679,868
Less accumulated depreciation	6,006,195	5,478,554
Property and equipment, net	$ 13,706,135	$ 14,201,314

F. Line-of-Credit

The Organization has $1,000,000 unsecured 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, 2011 and 2010 was 3.25%. The line-of-credit was renewed in December 31, 2010 and matures on December 31, 2011. Borrowings of $1,000,000 were available to the Organization under this line-of-credit as of August 31, 2011.

G. 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, 2011 and 2010, 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 (0.14% and 0.23% as of August 31, 2011 and 2010, 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.

G. Bond Payable – continued

FASB ASC 815, *Derivative and Hedging*, 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, 2011 and 2010 represented a liability of approximately $481,000 and $608,000, respectively. The unrealized gain (loss) associated with the change in the liability was approximately $127,000 and ($14,000) during 2011 and 2010, respectively.

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

The approximated minimum required annual principal loan payments as of August 31, 2011, are as follows:

2012	$ 745,000
2013	786,000
2014	830,000
2015	876,000
2016	852,000
Total	$ 4,089,000

H. Temporarily Restricted Net Assets

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

	2011	2010
Gladney Fund	$ 8,087,378	$ 7,895,780
Domestic programs	507,972	288,060
International programs	380,633	331,982
Total temporarily restricted net assets	$ 8,975,983	$ 8,515,822

I. 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:

	2011	2010
Any activities of the Center	$ 5,372,922	$ 5,363,761
ABC Adoption Program	1,221,700	1,221,700
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	246,574
Intercountry Adoption Program	106,135	106,135
Total permanently restricted net assets	$ 8,989,220	$ 8,980,059

The changes in endowment fund net assets for the year ended August 31, 2011 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Balance - beginning of year	$ 2,133,677	$ 8,980,059	$ 11,113,736
Net unrealized and realized gains	62,036	-	62,036
Investment income	270,863	-	270,863
Contributions	-	9,161	9,161
Release from restrictions	(270,863)	-	(270,863)
Balance - end of year	$ 2,195,713	$ 8,989,220	$ 11,184,933

I. Permanently Restricted Net Assets – continued

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

	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. Commitments and Contingencies

Leases

The Organization leases office space and equipment under multiple non-cancelable operating leases, which expire in various years through 2016. Total lease expense approximated $201,000 and $218,000 for the years ended August 31, 2011 and 2010, respectively.

Future minimum annual lease obligations, as of August 31, 2011, are as follows:

2012	$ 134,268
2013	57,337
2014	13,278
2015	13,229
2016	12,127
Total future minimum lease payments	$ 230,239

Litigation

The Organization is subject to certain claims and litigation arising in the normal course of business. In the opinion of management, the outcome of such matters will not have a materially adverse effect on the combined results of operations or financial position.

K. Special Events

The Organization had 19 family associations located throughout the United States that sponsored fundraising special events in 2011 and 2010. These groups of volunteers raised a total of approximately $707,000 and $560,000 with related expenses of approximately $378,000 and $248,000 for the years ended August 31, 2011 and 2010, respectively.

The Organization also conducts a bi-annual golf tournament, The Gladney Cup. The two recent tournaments occurred in April 2011 and October 2009 and therefore, have been included in fiscal years ended August 31, 2011 and 2010. This tournament raised a total of approximately $650,000 and $1,444,000 with related expenses of approximately $370,000 and $990,000 for the years ended August 31, 2011 and 2010.

L. 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 discretionary contributions to the plan. There were no contributions during years ended August 31, 2011 and 2010.

During 2009, the Board of Directors approved a 457(b) deferred compensation plan for an 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, 2011 and 2010.

M. 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.

The Organization follows the guidance under FASB ASC Topic No. 740, *Income Taxes*, which prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain in tax positions taken or expected to be taken in income tax returns. Management believes that it has not taken a tax position that, if challenged, would have a material effect on the Organization’s combined financial statements. The Organization files Form 990 in the United States federal jurisdiction within the United States and as of August 31, 2011, the Organizations’s tax returns related to the years ended August 31, 2008 through 2010 remain open to possible examination by the Internal Revenue Service; however no tax returns are currently under examination.

N. Subsequent Events

In preparing the combined financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through December 16, 2011, the date the combined financial statements were available for issuance.