THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2012
(with Summarized Comparative Information
for the Year Ended August 31, 2011)
with Report of Independent Auditors

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

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

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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, 2012 and 2011, 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, 2012. 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 2011 combined financial statements and, in our report dated December 16, 2011, 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. 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 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, 2012 and 2011, and their cash flows for the years then ended and the changes in their net assets for the year ended August 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

Whitley Penn LLP

Fort Worth, Texas
December 7, 2012

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED STATEMENTS OF FINANCIAL POSITION

	August 31, 2012	August 31, 2011
Assets		
Cash	$ 630,910	$ 79,946
Accounts receivable	43,006	76,301
Contributions receivable, less discounts of $120,854 and $110, respectively	2,038,225	377,736
Prepaid expenses	353,379	487,573
Investments	26,153,927	25,618,423
Beneficial interest in trust	390,832	388,879
Property and equipment, net	13,400,462	13,706,135
Bond issuance cost, net of accumulated amortization of $86,292 and $79,158, respectively	27,906	35,040
Total assets	$ 43,038,647	$ 40,770,033
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 1,978,744	$ 1,485,406
Interest rate swap liability	343,874	481,088
Funds held on deposit for programs	255,542	260,000
Other liabilites	7,835	12,831
Bond payable	3,344,204	4,088,666
Total liabilities	5,930,199	6,327,991
Commitments and contingencies		
Net assets:		
Unrestricted	16,935,536	16,476,839
Temporarily restricted	8,554,096	8,975,983
Permanently restricted	11,618,816	8,989,220
Total net assets	37,108,448	34,442,042
Total liabilities and net assets	$ 43,038,647	$ 40,770,033

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, 2012 with Summarized Comparative Totals for 2011

	2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2011 Totals
Revenues, Gains, and Other Support					
Domestic adoption program	$ 5,621,973	$ -	$ -	$ 5,621,973	$ 4,803,896
Intercountry adoption program	1,179,947	-	-	1,179,947	2,297,309
Resident insurance settlements	162	-	-	162	3,993
Family services	25,030	-	-	25,030	41,370
Contributions	3,082,716	152,235	2,629,596	5,864,547	2,628,250
Fees	6,705	-	-	6,705	9,096
Special events, net	100,674	-	-	100,674	608,541
Investment income	730,100	744,484	-	1,474,584	2,116,295
Other	10,401	-	-	10,401	25,421
Net assets released from restrictions	1,318,606	(1,318,606)	-	-	-
Total revenues, gains, and other support	12,076,314	(421,887)	2,629,596	14,284,023	12,534,171
Expenses					
Programs					
Domestic adoption program	3,721,527	-	-	3,721,527	3,605,848
Intercountry adoption program	2,359,581	-	-	2,359,581	3,122,752
Humanitarian aid program	965,671	-	-	965,671	1,051,575
Family services	690,570	-	-	690,570	780,728
Communication and outreach	1,699,755	-	-	1,699,755	1,513,452
Administration	1,385,199	-	-	1,385,199	1,462,661
Fundraising	795,314	-	-	795,314	835,257
Total expenses	11,617,617	-	-	11,617,617	12,372,273
Change in net assets	458,697	(421,887)	2,629,596	2,666,406	161,898
Net assets at beginning of year	16,476,839	8,975,983	8,989,220	34,442,042	34,280,144
Net assets at end of year	$ 16,935,536	$ 8,554,096	$ 11,618,816	$ 37,108,448	$ 34,442,042

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, 2012 with Summarized Comparative Totals for 2011

	2012								
	Domestic Adoption Program	Intercountry Adoption Program	Humanitarian Aid Program	Family Services	Communication and Outreach	Administration	Fundraising	Total	2011 Totals
Salaries	$ 1,748,258	$ 896,285	$ 25,017	$ 399,498	$ 276,759	$ 702,012	$ 394,971	$ 4,442,799	$ 5,085,278
Employee benefits	353,897	185,949	2,118	83,820	62,515	147,561	75,731	911,591	1,050,422
Medical services	181,455	418	-	87	205	597	293	183,055	181,481
Office expense	63,259	150,536	-	16,236	38,804	11,419	22,229	302,483	375,572
Utilities and groundkeeping	240,653	71,400	-	32,760	83,937	61,718	30,160	520,628	468,526
Leases and rentals	257,815	131,251	-	2,742	3,018	5,844	2,182	402,852	396,648
Insurance expense	93,871	44,074	154	21,927	19,337	47,796	12,213	239,372	237,801
Depreciation expense	217,389	41,313	-	27,093	123,130	100,003	2,214	511,142	552,253
Professional fees	180,106	104,137	-	15,917	178,673	116,282	60,314	655,429	548,807
Other expenses	366,146	698,926	938,333	66,293	35,484	93,853	50,154	2,249,189	2,484,763
Outreach and education	18,678	35,292	49	24,197	877,893	43,133	144,853	1,144,095	983,457
Interest expense	-	-	-	-	-	192,195	-	192,195	134,454
Unrealized (gain)/loss on interest rate swap	-	-	-	-	-	(137,214)	-	(137,214)	(127,189)
Total functional expenses	$ 3,721,527	$ 2,359,581	$ 965,671	$ 690,570	$ 1,699,755	$ 1,385,199	$ 795,314	$ 11,617,617	$ 12,372,273

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, 2012	2011
Operating Activities		
Change in net assets	$ 2,666,406	$ 161,898
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized depreciation on investments	(837,202)	(1,463,948)
Donated investments	(444,730)	(48,815)
Provision for uncollectible contributions receivable	-	(3,334)
Depreciation and amortization	518,276	559,478
Unrealized gain on interest rate swap	(137,214)	(127,189)
Restricted contributions	(2,781,831)	(529,338)
Changes in operating assets and liabilities:		
Accounts receivable	33,295	(68,649)
Contributions receivable	(1,660,489)	352,767
Prepaid expenses	134,194	(275,544)
Accounts payable and accrued expenses	493,338	334,831
Funds held on deposit for programs	(4,458)	43,983
Other liabilities	(4,996)	(10,975)
Net cash used in operating activities	(2,025,411)	(1,074,835)
Investing Activities		
Proceeds from sales of investments	4,357,016	6,573,576
Purchases of investments	(3,612,541)	(5,463,338)
Purchases of property and equipment	(205,469)	(43,040)
Net cash provided by investing activities	539,006	1,067,198
Financing Activities		
Payments on bond payable	(744,462)	(712,285)
Net payments on line-of-credit	-	(187,000)
Restricted contributions	2,781,831	529,338
Net cash provided by (used in) financing activities	2,037,369	(369,947)
Net increase (decrease) in cash	550,964	(377,584)
Cash at beginning of year	79,946	457,530
Cash at end of year	$ 630,910	$ 79,946
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 183,317	$ 218,227

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.

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

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") Topic No. 958-205, *Presentation of Financial Statements*. Under FASB ASC Topic No. 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.

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 and assumptions.

B. Summary of Significant Accounting Policies – continued

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 4.54%. 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 Topic No. 958-320 *Investments – Debt and Equity Securities,* and FASB ASC Topic No. 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 combined statement of activities and changes in net assets.

The Organization also follows FASB ASC Topic No. 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 FASB ASC Topic No. 820, see Note D of these combined financial statements.

B. Summary of Significant Accounting Policies – continued

Endowment Funds

The Organization follows FASB ASC Topic No. 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.

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.

B. Summary of Significant Accounting Policies – continued

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. Works of art and other historical treasures are recorded at cost. The Organization accounts for such works of art and historical treasures consistent with FASB ASC Topic No. 958-360, *Not-for-Profit-Entities: Property, Plant and Equipment* in that depreciation is not recorded for those objects whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long and has cultural, aesthetic, or historical value that is worth preserving perpetually and assuming the Organization has the ability to protect and preserve the asset.

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 2012 and 2011 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 $795,000 and $611,000 for the year ended August 31, 2012 and 2011, respectively.

Comparative Prior Year Information

The combined statements of activities and changes in net assets and functional expenses for the year ended August 31, 2012 include certain summarized financial information in total but not by net asset class or program category for purposes of comparison to 2011 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, 2011, from which the summarized information was derived.

Reclassifications

Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

B. Summary of Significant Accounting Policies – continued

Recently Issued Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update ("ASU") 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs.* ASU 2011-04 amended FASB ASC Topic No. 820, to converge the fair value measurement guidance in accounting principles generally accepted in the United States of America and International Financial Reporting Standards. Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in FASB ASC Topic No. 820. In addition, ASU 2011-04 requires additional fair value disclosures, although certain of these new disclosures will not be required for nonpublic entities like the Organization. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. Management is currently evaluating the effect that the provisions of ASU 2011-04 will have on the Organization's combined financial statements.

C. Contributions Receivable

As of August 31, 2012, contributions receivable, net of discounts of approximately $121,000, are expected to be collected as follows:

Due in one year	$ 606,352
Due in two to five years	1,431,873
Total	2,038,225
Less allowance for uncollectible pledges	-
Total contributions receivable	$ 2,038,225

D. Fair Value of Investments

FASB ASC Topic No. 820, which among other things, requires certain disclosures about assets and liabilities carried at fair value. As defined in FASB ASC Topic No. 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. FASB ASC Topic No. 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

FASB ASC Topic No. 820 does not prescribe which valuation technique should be used when measuring fair value and does not prioritize among techniques. FASB ASC Topic No. 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 FASB ASC Topic No. 820 are as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities as of the reporting date. 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, 2012 and 2011.

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, 2012 or 2011.

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 FASB ASC Topic No. 820:

D. Fair Value of Investments – continued

	2012		
	Level 1	Level 3	Total
Mutual funds			
Fixed income	$ 8,211,333	$ -	$ 8,211,333
International	5,525,997	-	5,525,997
Large cap growth	2,005,282	-	2,005,282
Large cap value	1,803,043	-	1,803,043
Small cap value	1,142,939	-	1,142,939
MLP fund of funds	1,241,214	-	1,241,214
Hedge funds	-	3,722,789	3,722,789
Money market funds	1,292,379	-	1,292,379
Equity securities			
Small/mid cap growth	1,184,722	-	1,184,722
Treasury bond	24,229	-	24,229
Total investments at fair value	$ 22,431,138	$ 3,722,789	$ 26,153,927

	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

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, 2012 and 2011:

	2012	2011
Balance at beginning of year	$ 3,426,600	$ 1,906,763
Unrealized / realized gains	103,505	19,837
Contributions, net	1,150,000	1,500,000
Transfers	(957,316)	-
Balance at end of year	$ 3,722,789	$ 3,426,600

The fair value of the Organization's investment in the hedge funds as of August 31, 2012 and 2011 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. 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, 2012.

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

	2012	2011
Dividends and interest	$ 678,243	$ 692,477
Realized gains (losses)	(61,507)	36,895
Unrealized gains	898,709	1,427,053
Investment gains before investment fees	1,515,445	2,156,425
Less investment fees	40,861	40,130
Investment gain	$ 1,474,584	$ 2,116,295

E. Property and Equipment

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

	2012	2011
Land	$ 1,335,252	$ 1,335,252
Building	15,472,716	15,472,716
Furniture and fixtures	1,854,760	2,545,060
Automobiles	282,950	296,117
Statues	63,185	63,185
Work-in-progress	36,590	-
Total property and equipment	19,045,453	19,712,330
Less accumulated depreciation	5,644,991	6,006,195
Property and equipment, net	$ 13,400,462	$ 13,706,135

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, 2012 and 2011 was 3.25%. The line-of-credit was renewed in December 31, 2011 and matures on December 31, 2012. Borrowings of $1,000,000 were available to the Organization under this line-of-credit as of August 31, 2012.

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, 2012 and 2011, 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 (0.18% and 0.14% as of August 31, 2012 and 2011, 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 Topic No. 815, *Derivative and Hedging*, establishes accounting and reporting standards for derivative instruments. Specifically, FASB ASC Topic No. 815 requires all entities, including not-for-profit organizations, to recognize all derivatives as either assets or liabilities in the combined 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 Topic No. 820. The fair value of the swap agreement at August 31, 2012 and 2011 represented a liability of approximately $344,000 and $481,000, respectively. The unrealized gain (loss) associated with the change in the liability was approximately $137,000 and $127,000 during 2012 and 2011, 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, 2012, are as follows:

2013	$ 786,000
2014	830,000
2015	876,000
2016	852,000
Total	$ 3,344,000

H. Temporarily Restricted Net Assets

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

	2012	2011
Gladney Fund	$ 7,904,082	$ 8,087,378
Domestic programs	301,970	507,972
International programs	348,044	380,633
Total temporarily restricted net assets	$ 8,554,096	$ 8,975,983

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:

	2012	2011
Any activities of the Center	$ 5,373,372	$ 5,372,922
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	2,931,464	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	$ 11,618,816	$ 8,989,220

The changes in endowment fund net assets for the year ended August 31, 2012 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Balance - beginning of year	$ 2,195,713	$ 8,989,220	$ 11,184,933
Net unrealized and realized losses	810,584	-	810,584
Investment income	223,063	-	223,063
Contributions	-	2,629,596	2,629,596
Release from restrictions	(223,063)	-	(223,063)
Balance - end of year	$ 3,006,297	$ 11,618,816	$ 14,625,113

I. Permanently Restricted Net Assets – continued

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

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 $181,000 and $201,000 for the years ended August 31, 2012 and 2011, respectively.

Future minimum annual lease obligations, as of August 31, 2012, are as follows:

2013	$ 61,082
2014	13,278
2015	13,229
2016	7,717
Total future minimum lease payments	$ 95,306

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 has 20 and 19 family associations located throughout the United States that sponsored fundraising special events in 2012 and 2011. These groups of volunteers raised a total of approximately $623,000 and $707,000 with related expenses of approximately $343,000 and $378,000 for the years ended August 31, 2012 and 2011, respectively.

The Organization also celebrated their 125th anniversary with multiple events that raised $116,000 with related expenses of $295,000 for the year ended August 31, 2012.

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 a discretionary match of the employee's pre-tax compensation deferral contributions to the plan after two years of service. The discretionary match is 20% for 2012 and was 10% for 2011. The expense recognized by the Organization totaled approximately $45,000 for the year ended August 31, 2012 and $37,000 for the year ended August 31, 2011.

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. At such time as the executive attains age 66, death or disability and is still an employee of the Organization, a lump sum payment of the balance amount will be distributed to the executive. If employment terminates for any other reason, all funds will be forfeit. The expense recognized by the Organization related to this deferred compensation plan was $16,500 for each of the years ended August 31, 2012 and 2011.

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, 2012, the Organization's tax returns related to the years ended August 31, 2009 through 2011 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 7, 2012, the date the combined financial statements were available for issuance.