THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2008
(with Summarized Comparative Information
for the Year Ended August 31, 2007)
with Report of Independent Auditors

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2008 (with Summarized Comparative Information for the Year Ended August 31, 2007)

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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, 2008 and 2007, 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, 2008. 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 2007 combined financial statements and, in our report dated December 4, 2007, we expressed an unqualified opinion on those 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, 2008 and 2007, and their cash flows for the years then ended and the changes in their net assets for the year ended August 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

Whitley Penn LLP

Fort Worth, Texas
December 19, 2008

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED STATEMENTS OF FINANCIAL POSITION

	August 31, 2008	2007
Assets		
Cash	$ 677,574	$ 900,608
Accounts receivable	19,867	19,559
Contributions receivable, less allowance for uncollectible pledges of $184,000 and $176,000 and discounts of $25,000 and $40,000, respectively	2,319,895	1,477,943
Prepaid expenses	197,403	319,724
Investments	29,941,472	33,885,792
Property and equipment, net	15,219,472	15,747,143
Bond issuance cost, net of accumulated amortization of $57,483 and $50,213, respectively	56,715	63,940
Other assets	207,058	72,758
Total assets	$ 48,639,456	$ 52,487,467
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 1,769,128	$ 1,492,704
Accrued interest payable	71,477	79,276
Interest rate swap liability	442,792	247,881
Funds held on deposit for programs	156,158	160,205
Deferred revenue	7,500	1,250
Other liabilities	-	6,218
Line-of-credit	334,773	-
Bond payable	6,101,279	6,700,301
Total liabilities	8,883,107	8,687,835
Commitments and contingencies		
Net assets:		
Unrestricted	16,776,574	19,758,329
Temporarily restricted	10,769,364	11,877,197
Permanently restricted	12,210,411	12,164,106
Total net assets	39,756,349	43,799,632
Total liabilities and net assets	$ 48,639,456	$ 52,487,467

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, 2008 with Summarized Comparative Totals for 2007

	2008				2007
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, Gains, and Other Support					
Domestic adoption program	$ 3,695,073	$ -	$ -	$ 3,695,073	$ 5,051,135
Intercountry adoption program	2,504,281	-	-	2,504,281	2,072,069
Resident insurance settlements	17,476	-	-	17,476	42,418
Family services	78,017	-	-	78,017	184,077
Contributions	2,760,710	351,924	46,305	3,158,939	2,478,836
Fees	107,986	-	-	107,986	141,099
Special events, net	235,315	-	-	235,315	774,464
Investment income (loss)	(188,112)	(386,187)		(574,299)	2,982,317
Other	5,531	-	-	5,531	447
Net assets released from restrictions	1,073,570	(1,073,570)	-	-	-
Total revenues, gains, and other support	10,289,847	(1,107,833)	46,305	9,228,319	13,726,862
Expenses					
Programs					
Domestic adoption program	3,258,949	-	-	3,258,949	3,145,769
Intercountry adoption program	3,237,866	-	-	3,237,866	1,957,885
Family services	997,311	-	-	997,311	765,720
Communication and outreach	2,105,617	-	-	2,105,617	2,179,406
Administration	2,936,056	-	-	2,936,056	2,235,006
Fundraising	735,803	-	-	735,803	652,334
Total expenses	13,271,602	-	-	13,271,602	10,936,120
Net increase (decrease) in net assets	(2,981,755)	(1,107,833)	46,305	(4,043,283)	2,790,742
Net assets at beginning of year	19,758,329	11,877,197	12,164,106	43,799,632	41,008,890
Net assets at end of year	$16,776,574	$10,769,364	$12,210,411	$39,756,349	$43,799,632

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, 2008 with Summarized Comparative Totals for 2007

	2008							2007
	Domestic Adoption Program	Intercountry Adoption Program	Family Services	Communication & Outreach	Administration	Fundraising	Total Functional Expenses	Total Functional Expenses
Salaries	$ 1,403,326	$ 1,124,489	$ 422,719	$ 253,304	$ 1,163,406	$ 371,108	$ 4,738,352	$ 4,177,506
Employee benefits	346,561	280,989	113,089	37,708	671,248	105,992	1,555,587	1,002,352
Medical services	141,287	9,812	412	177	638	162	152,488	231,006
Office expense	41,372	99,909	14,390	46,656	22,118	64,476	288,921	354,647
Utilities and groundkeeping	196,222	87,395	27,083	93,185	86,507	26,062	516,454	457,269
Leases and rentals	142,576	140,001	3,573	4,729	5,414	3,109	299,402	265,879
Insurance expense	121,891	65,110	36,510	44,362	49,097	-	316,970	357,299
Depreciation expense	242,302	61,566	32,481	141,409	128,735	2,792	609,285	592,516
Professional fees	306,583	199,515	103,559	28,245	79,681	41,380	758,963	628,022
Other expenses	306,607	1,153,372	204,811	68,291	199,639	41,459	1,974,179	1,174,887
Outreach and education	10,222	15,708	38,684	1,387,551	30,422	79,263	1,561,850	1,366,040
Interest expense	-	-	-	-	304,240	-	304,240	327,870
Unrealized loss on interest rate swap	-	-	-	-	194,911	-	194,911	827
Total functional expenses	$ 3,258,949	$ 3,237,866	$ 997,311	$ 2,105,617	$ 2,936,056	$ 735,803	$ 13,271,602	$ 10,936,120

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, 2008	2007
Operating Activities		
Net increase (decrease) in net assets	$ (4,043,283)	$ 2,790,742
Adjustments to reconcile net increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (appreciation) depreciation on investments	2,274,837	(1,627,254)
Provision for uncollectible contributions receivable	(11,540)	(6,876)
Depreciation and amortization	616,512	599,944
Unrealized loss on interest rate swap	194,911	827
Changes in operating assets and liabilities:		
Accounts receivable	(308)	(18,060)
Contributions receivable, net	(830,412)	94,324
Prepaid expenses	122,321	(105,003)
Other assets	(134,300)	(67,758)
Accounts payable and accrued expenses	276,424	339,372
Accrued interest payable	(7,799)	(7,371)
Funds held on deposit for programs	(4,047)	57,268
Deferred revenue	6,250	(29,975)
Other liabilities	(6,218)	(8,289)
Restricted contributions	(398,229)	(250,238)
Net cash provided by (used in) operating activities	(1,944,881)	1,761,653
Investing Activities		
Proceeds from sales of investments	19,010,140	3,137,885
Purchases of investments	(17,340,657)	(3,922,723)
Purchases of property and equipment	(81,616)	(239,524)
Net cash provided by (used in) investing activities	1,587,867	(1,024,362)
Financing Activities		
Payments on bond payable	(599,022)	(560,279)
Net proceeds from line-of-credit	334,773	-
Restricted contributions	398,229	250,238
Net cash provided by (used in) financing activities	133,980	(310,041)
Net increase (decrease) in cash	(223,034)	427,250
Cash at beginning of year	900,608	473,358
Cash at end of year	$ 677,574	$ 900,608
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 342,275	$ 328,697

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 accounts are maintained and the combined financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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. Significant estimates used by the Organization include the collectability of contributions receivable and the resulting allowance for uncollectible pledges.

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. At August 31, 2008 and 2007, the Organization has included certificates of deposit as cash in the amount of $80,959 and $80,364, respectively. 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"). Approximately $544,000 and $748,000 exceeded FDIC limits at August 31, 2008 and 2007, respectively. The Organization has not experienced any losses related to such uninsured amounts.

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 risk-free interest rates (4.53%) applicable to the years in which the promises are expected to be received. 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 Statement of Financial Accounting Standards ("SFAS") No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. SFAS No. 124 requires investments with readily determinable fair values to be stated at their fair value with realized and unrealized gains and losses included in the combined statement of activities and changes in net assets of the respective period.

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.

B. Summary of Significant Accounting Policies – continued

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 2008 and 2007 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 statement of activities 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.

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 financial statements, because the recognition criteria under GAAP were not met.

Comparative Prior Year Information

The combined statements of activities and changes in net assets and functional expenses for the year ended August 31, 2007 include certain summarized financial information in total but not by net asset class or program category for purposes of comparison to 2008 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, 2007, from which the summarized information was derived.

Reclassification

Certain 2007 amounts have been reclassified to conform to the 2008 presentation.

C. Contributions Receivable

As of August 31, 2008, contributions receivable, net of discounts, are expected to be collected as follows:

Due in one year	$ 2,242,848
Due in two to five years	260,715
Total	2,503,563
Less allowance for uncollectible pledges	183,668
Total contributions receivable	$ 2,319,895

D. Investments and Investment Income (Loss)

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

	2008	2007
Equity securities	$ 3,773,178	$ 6,408,296
Debt securities and other obligations	1,785,227	1,738,073
Fixed income mutual funds	8,671,030	12,370,749
Equity mutual funds	9,159,220	10,888,257
Hedge funds	2,947,891	1,499,055
Beneficial interest in trust	385,861	397,520
Money market funds	3,219,065	583,842
Total investments	$ 29,941,472	$ 33,885,792

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

	2008	2007
Dividends and interest	$ 1,820,506	$ 1,450,504
Realized gains	1,007,843	334,770
Unrealized gains (losses)	(3,282,680)	1,292,454
Investment gains (losses) before investment fees	(454,331)	3,077,728
Less investment fees	119,968	95,411
Investment income (loss)	$ (574,299)	$ 2,982,317

E. Property and Equipment

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

	2008	2007
Land	$ 1,335,252	$ 1,335,252
Building	15,471,008	15,521,908
Furniture and fixtures	2,360,434	2,293,614
Automobiles	254,912	189,216
Statues	63,185	63,185
Total property and equipment	19,484,791	19,403,175
Less accumulated depreciation	4,265,319	3,656,032
Property and equipment, net	$ 15,219,472	$ 15,747,143

F. Line-of-Credit

On March 19, 2008, the Organization entered into a $500,000 line-of-credit with a financial institution to meet short term borrowing needs. Interest is payable monthly at the bank's prime rate (5.00% at August 31, 2008). The line-of-credit is unsecured and matures on March 19, 2009. Approximately $165,000 was available to the Organization under this line-of-credit as of August 31, 2008.

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, 2008 and 2007, 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 (1.85% and 3.99% as of August 31, 2008 and 2007, respectively).

Effective May 14, 2001, the Organization entered into an interest rate swap agreement with an initial notional principal amount of $9,750,000 and an expiration date of June 1, 2016. Pursuant to the agreement, the Organization pays a fixed rate of 4.54% and receives a floating interest rate for the duration of the swap agreement.

The note and the interest rate swap are collateralized by the contributions receivable from a previous capital campaign and the land and building financed.

G. Bond Payable – continued

The minimum required annual principal loan payments as of August 31, 2008, are as follows:

2009	$ 633,000
2010	668,000
2011	705,000
2012	744,000
2013	786,000
Thereafter	2,565,279
Total	$ 6,101,279

H. Temporarily Restricted Net Assets

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

	2008	2007
Gladney Fund	$ 10,245,919	$ 11,528,035
Domestic programs	181,584	297,241
International programs	341,861	51,921
Total temporarily restricted net assets	$ 10,769,364	$ 11,877,197

I. Permanently Restricted Net Assets

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

	2008	2007
Any activities of the Center	$ 5,360,502	$ 5,350,497
Sproesser Wynn Endowment	2,145,348	2,145,348
ABC Adoption Program	1,221,700	1,221,700
Edna Gladney Home Endowment	1,108,237	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	226,600	190,300
Intercountry Adoption Program	106,135	106,135
Total permanently restricted net assets	$ 12,210,411	$ 12,164,106

J. Commitments and Contingencies

The Organization leases office space under multiple non-cancelable operating leases, which expire in various years through 2012. Total lease expense approximated $142,000 and $148,000 for the years ended August 31, 2008 and 2007, respectively.

Future minimum annual lease obligations, as of August 31, 2008, are as follows:

2009	$ 114,632
2010	100,857
2011	103,884
2012	107,000
Total future minimum lease payments	$ 462,373

K. Special Events

The Organization had 17 family associations located throughout the United States that sponsored fund raising special events. These groups of volunteers raised a total of approximately $637,000 and $505,000 with related expenses of approximately $402,000 and $227,000 for the years ended August 31, 2008 and 2007, respectively.

The Organization also conducts a bi-annual golf tournament, The Gladney Cup. This tournament raised a total of approximately $814,000 with related expenses of approximately $317,000 for the year ended August 31, 2007. There was no golf tournament for the year ended August 31, 2008.

L. Donated Services

During 2008 and 2007, a local television station in Dallas/Fort Worth, ran weekly profiles and promotions to increase the community's awareness of children needing forever homes. These services were donated to the Organization. The total value of the promotion approximated $190,000 and $163,000 in 2008 and 2007, respectively. During 2008 and 2007, a local advertising agency provided donated services approximating $100,000 and $200,000, respectively. These services included creative work in the production of outreach material for birth mothers and adoptive parents and website design consulting. All donated services were recorded as a contribution and expense in the accompanying combined statement of activities and changes in net assets.

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 and two years of service. The Organization matches 50% of the employee's pre-tax compensation deferral contributions to the plan until their sixth year of service, and, thereafter, matches 100% of the employee's contributions. The expense recognized by the Organization totaled approximately $407,000 and $373,000 for the years ended August 31, 2008 and 2007, respectively.

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 $340,000 for the year ended August 31, 2008.

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.