THE GLADNEY CENTER FOR ADOPTION
AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2009
(with Summarized Comparative Information
for the Year Ended August 31, 2008)
with Report of Independent Auditors

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2009 (with Summarized Comparative Information for the Year Ended August 31, 2008)

Table of Contents

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, 2009 and 2008, 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, 2009. 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 2008 combined financial statements and, in our report dated December 19, 2008, 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, 2009 and 2008, and their cash flows for the years then ended and the changes in their net assets for the year ended August 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

Whitley Penn LLP

Fort Worth, Texas
December 14, 2009

Fort Worth: 1400 West 7th Street, Suite 400 | Fort Worth, Texas 76102 | main 817.259.9100 | fax 817.259.9102
www.wpcpa.com Dallas: 5420 LBJ Freeway, Suite 1440 | Dallas, Texas 75240 | main 214.393.9300 | fax 214.393.9301

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED STATEMENTS OF FINANCIAL POSITION

	August 31, 2009	August 31, 2008
Assets		
Cash	$ 659,160	$ 677,574
Accounts receivable	41,591	221,927
Contributions receivable, less allowance for uncollectible pledges of $220,434 and $184,000 and discounts of $38,000 and $25,000, respectively	854,610	2,319,895
Prepaid expenses	553,032	197,403
Investments	26,748,916	29,941,472
Property and equipment, net	14,729,533	15,219,472
Bond issuance cost, net of accumulated amortization of $64,708 and $57,483, respectively	49,490	56,715
Other assets	5,000	4,998
Total assets	$ 43,641,332	$ 48,639,456
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 1,702,501	$ 1,840,605
Interest rate swap liability	594,490	442,792
Funds held on deposit for programs	200,056	156,158
Deferred revenue	745,668	7,500
Line-of-credit	-	334,773
Other liabilites	18,599	-
Bond payable	5,468,786	6,101,279
Total liabilities	8,730,100	8,883,107
Commitments and contingencies		
Net assets:		
Unrestricted	16,140,051	16,776,574
Temporarily restricted	8,686,460	10,769,364
Permanently restricted	10,084,721	12,210,411
Total net assets	34,911,232	39,756,349
Total liabilities and net assets	$ 43,641,332	$ 48,639,456

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, 2009 with Summarized Comparative Totals for 2008

	2009				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**2008 Totals**
Revenues, Gains (losses), and Other Support					
Domestic adoption program	$ 4,588,890	$ -	$ -	$ 4,588,890	$ 3,695,073
Intercountry adoption program	2,709,939	-	-	2,709,939	2,504,281
Resident insurance settlements	7,445	-	-	7,445	17,476
Family services	478,173	-	-	478,173	78,017
Contributions	2,256,368	470,222	20,150	2,746,740	3,158,939
Fees	1,960	-	-	1,960	107,986
Special events, net	213,577	-	-	213,577	235,315
Investment loss	(722,948)	(1,229,098)	-	(1,952,046)	(574,299)
Other	42,632	-	-	42,632	5,531
Net assets released from restrictions	3,469,868	(1,324,028)	(2,145,840)	-	-
Total revenues, gains (losses), and other support	13,045,904	(2,082,904)	(2,125,690)	8,837,310	9,228,319
Expenses					
Programs					
Domestic adoption program	3,445,935	-	-	3,445,935	3,258,949
Intercountry adoption program	3,261,093	-	-	3,261,093	2,894,020
Humanitarian aid program	907,890	-	-	907,890	343,846
Family services	948,535	-	-	948,535	997,311
Communication and outreach	1,791,710	-	-	1,791,710	2,105,617
Administration	2,530,909	-	-	2,530,909	2,936,056
Fundraising	796,355	-	-	796,355	735,803
Total expenses	13,682,427	-	-	13,682,427	13,271,602
Net decrease in net assets	(636,523)	(2,082,904)	(2,125,690)	(4,845,117)	(4,043,283)
Net assets at beginning of year	16,776,574	10,769,364	12,210,411	39,756,349	43,799,632
Net assets at end of year	$ 16,140,051	$ 8,686,460	$ 10,084,721	$ 34,911,232	$ 39,756,349

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, 2009 with Summarized Comparative Totals for 2008

	2009								
	Domestic Adoption Program	**Intercountry Adoption Program**	**Humanitarian Aid Program**	**Family Services**	**Communication and Outreach**	**Administration**	**Fund Raising**	**Total**	**2008 Totals**
Salaries	$1,535,863	$1,213,107	$ 67,517	$458,730	$ 288,746	$ 1,266,210	$449,468	5,279,641	$ 4,738,352
Employee benefits	374,974	278,209	13,326	112,765	70,430	277,275	91,277	1,218,256	1,555,587
Medical services	157,893	526	473	1,920	445	651	105	162,013	152,488
Office expense	40,270	196,844	3,357	21,238	42,092	23,446	37,563	364,810	288,921
Utilities and groundkeeping	188,237	87,882	117	27,691	80,139	55,328	28,236	467,630	516,454
Leases and rentals	178,212	145,628	-	18,743	4,456	7,525	3,239	357,803	299,402
Insurance expense	101,285	57,658	-	30,147	35,370	37,472	13,976	275,908	316,970
Depreciation expense	235,421	76,708	-	41,371	131,959	129,404	4,052	618,915	609,285
Professional fees	300,605	354,542	-	47,966	65,910	106,546	19,312	894,881	758,963
Other expenses	322,569	801,002	821,412	160,070	52,465	154,445	55,040	2,367,003	1,974,179
Outreach and education	10,606	48,987	1,688	27,894	1,019,698	40,522	94,087	1,243,482	1,561,850
Interest expense	-	-	-	-	-	280,256	-	280,256	304,240
Unrealized loss on interest rate swap	-	-	-	-	-	151,829	-	151,829	194,911
Total expenses	$ 3,445,935	$ 3,261,093	$ 907,890	$948,535	$ 1,791,710	$ 2,530,909	$796,355	$ 13,682,427	$ 13,271,602

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, 2009	2008
Operating Activities		
Net decrease in net assets	$ (4,845,117)	$ (4,043,283)
Adjustments to reconcile net decrease in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized depreciation on investments	3,138,406	2,274,837
Provision for uncollectible contributions receivable	(52,766)	(11,540)
Depreciation and amortization	626,141	616,512
Unrealized loss on interest rate swap	151,829	194,911
Changes in operating assets and liabilities:		
Accounts receivable	180,336	(308)
Contributions receivable	1,518,051	(830,412)
Prepaid expenses	(355,629)	122,321
Other assets	(2)	(134,300)
Accounts payable and accrued expenses	(138,235)	268,625
Funds held on deposit for programs	43,898	(4,047)
Deferred revenue	738,168	6,250
Other liabilities	18,599	(6,218)
Restricted contributions	(490,372)	(398,229)
Net cash provided by (used in) operating activities	533,307	(1,944,881)
Investing Activities		
Proceeds from sales of investments	8,179,747	19,010,140
Purchases of investments	(8,125,597)	(17,340,657)
Purchases of property and equipment	(128,977)	(81,616)
Net cash provided by (used in) investing activities	(74,827)	1,587,867
Financing Activities		
Payments on bond payable	(632,493)	(599,022)
Net proceeds from (payments on) line-of-credit	(334,773)	334,773
Restricted contributions	490,372	398,229
Net cash provided by (used in) financing activities	(476,894)	133,980
Net decrease in cash	(18,414)	(223,034)
Cash at beginning of year	677,574	900,608
Cash at end of year	$ 659,160	$ 677,574
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 579,142	$ 342,275

See accompanying notes to combined financial statements.

A. Nature of Business

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

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

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

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

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

Adoptive Parent Programs – Domestic

Agency Assisted

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

ABC

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

A. Nature of Business – continued

New Beginnings

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

Adoptive Parent Programs – Intercountry

Intercountry Adoptions

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

B. Summary of Significant Accounting Policies

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

Basis of Accounting

The accompanying combined financial statements are presented on the accrual basis of accounting in accordance with the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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. 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, 2009 and 2008, the Organization has included certificates of deposit as cash in the amount of approximately $81,000. 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 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 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.

The Organization adopted SFAS No. 157, *Fair Value Measurements,* effective September 1, 2008, 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 SFAS 157, see Note E of these financials.

B. Summary of Significant Accounting Policies – continued

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 2009 and 2008 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 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 $911,000 and $1,112,000 for the year ended August 31, 2009 and 2008, respectively.

B. Summary of Significant Accounting Policies – continued

Comparative Prior Year Information

The combined statements of activities and changes in net assets and functional expenses for the year ended August 31, 2008 include certain summarized financial information in total but not by net asset class or program category for purposes of comparison to 2009 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, 2008, from which the summarized information was derived.

New Accounting Pronouncement

In August 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FAS No 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Fund Subject to an Enacted Version of the Uniform Prudent Management of Institutional fund Act ("UPMIFS"), and Enhanced Disclosures for all Endowment Funds*. The intent of this FSP is to provide guidance on the net asset classification of donor-restricted endowment funds. The FSP also improves disclosures about an Organization's endowment funds, both donor-restricted and board-designated, whether or not the Organization is subject to the UPMIFS. FSP FAS No 117-1 is effective for fiscal years ending after December 15, 2008 and did not have a material impact on the Organization.

Reclassifications

Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

C. Contributions Receivable

As of August 31, 2009, contributions receivable, net of discounts of $38,000, are expected to be collected as follows:

Due in one year	$ 552,747
Due in two to five years	522,297
Total	1,075,044
Less allowance for uncollectible pledges	220,434
Total contributions receivable	$ 854,610

D. Investments and Investment Income (Loss)

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

	2009	2008
Fixed income mutual funds	$ 9,631,531	$ 8,671,030
Money market funds	6,846,216	3,219,065
Equity mutual funds	5,111,376	9,159,220
Equity securities	3,053,929	3,773,178
Hedge funds	1,719,492	2,947,891
Beneficial interest in trust	367,479	385,861
Debt securities and other obligations	18,893	1,785,227
Total investments	$ 26,748,916	$ 29,941,472

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

	2009	2008
Dividends and interest	$ 1,289,888	$ 1,820,506
Realized gains (losses)	(1,479,842)	1,007,843
Unrealized losses	(1,666,600)	(3,282,680)
Investment losses before investment fees	(1,856,554)	(454,331)
Less investment fees	95,492	119,968
Investment loss	$ (1,952,046)	$ (574,299)

E. Fair Value of Investments

SFAS 157, which among other things, requires enhanced disclosures about assets and liabilities carried at fair value. As defined in SFAS No. 157, 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. SFAS No. 157 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.

E. Fair Value of Investments – continued

SFAS No. 157 does not prescribe which valuation technique should be used when measuring fair value and does not prioritize among techniques. SFAS No. 157 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 SFAS No. 157 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 either Level 1, which are directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Where observable inputs are available, directly or indirectly, for substantially the full term of the asset or liability, the instrument is categorized in Level 2.

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 SFAS No. 157:

E. Fair Value of Investments – continued

		Fair Value Measurements at August 31, 2009 Using:		
	Total Carrying Value as of August 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income mutual funds	$ 9,631,531	$ 9,631,531	$ -	$ -
Money market funds	6,846,216	6,846,216	-	-
Equity mutual funds	5,111,376	5,111,376	-	-
Equity securities	3,053,929	3,053,929	-	-
Hedge funds	1,719,492	-	-	1,719,492
Beneficial interest in trust	367,479	367,479	-	-
Debt securities and other obligations	18,893	18,893	-	-
Total investments at fair value	$ 26,748,916	$ 25,029,424	$ -	$ 1,719,492

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

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

	Hedge funds
Balance at beginning of year	$ 2,947,891
Unrealized / realized gains (losses)	(410,392)
Purchases, sales, issuances and settlements, net	(818,007)
Balance at end of year	$ 1,719,492

F. Property and Equipment

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

	2009	2008
Land	$ 1,335,252	$ 1,335,252
Building	15,472,716	15,471,008
Furniture and fixtures	2,435,920	2,360,434
Automobiles	306,695	254,912
Statues	63,185	63,185
Total property and equipment	19,613,768	19,484,791
Less accumulated depreciation	4,884,235	4,265,319
Property and equipment, net	$ 14,729,533	$ 15,219,472

G. 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. Subsequently, on December 22, 2008 the Organization increased this line-of-credit to $1,000,000. Interest is payable monthly at the higher of the bank's prime rate or 4.00%. The prime rate at August 31, 2009 and 2008 was 3.25% and 5.00%; respectively. The line-of-credit is unsecured and matures on December 31, 2009. The entire line-of-credit was available to the Organization as August 31, 2009 and approximately $165,000 was available to the Organization under this line-of-credit as of August 31, 2008.

H. Bond Payable

The Organization borrowed $9,750,000 from a financial institution in August 2000, incurring $114,153 of bond issuance costs. The note agreement underlying the bond payable requires the Organization to maintain certain financial covenants. As of August 31, 2009 and 2008, 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 (0.21% and 1.85% as of August 31, 2009 and 2008, respectively).

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

H. Bond Payable – continued

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, establishes accounting and reporting standards for derivative instruments. Specifically, SFAS No. 133 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 SFAS No. 157. The fair value of the swap agreements at August 31, 2009 and 2008 represented a liability of approximately $594,000 and $443,000, respectively. The unrealized loss associated with the change in the liability was approximately $152,000 and $195,000 during 2009 and 2008, respectively.

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

The minimum required annual principal loan payments as of August 31, 2009, are as follows:

2010	$ 668,000
2011	705,000
2012	744,000
2013	786,000
2014	830,000
Thereafter	1,735,786
Total	$ 5,468,786

I. Temporarily Restricted Net Assets

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

	2009	2008
Gladney Fund	$ 8,109,948	$ 10,245,919
Domestic programs	170,149	181,584
International programs	406,363	341,861
Total temporarily restricted net assets	$ 8,686,460	$ 10,769,364

J. 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:

	2009	2008
Any activities of the Center	$ 5,360,286	$ 5,360,502
Sproesser Wynn Endowment	-	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	246,474	226,600
Intercountry Adoption Program	106,135	106,135
Total permanently restricted net assets	$ 10,084,721	$ 12,210,411

K. 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 $176,000 and $142,000 for the years ended August 31, 2009 and 2008, respectively.

Future minimum annual lease obligations, as of August 31, 2009, are as follows:

2010	$ 128,979
2011	112,405
2012	110,425
Total future minimum lease payments	$ 351,809

L. Special Events

The Organization had 17 family associations located throughout the United States that sponsored fund raising special events in 2009 and 2008. These groups of volunteers raised a total of approximately $441,000 and $637,000 with related expenses of approximately $227,000 and $402,000 for the years ended August 31, 2009 and 2008, respectively.

M. Donated Services

During 2008, 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 in 2008. During 2008, a local advertising agency provided donated services approximating $100,000, 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.

N. 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. In 2008, the Organization made a discretionary match of 50% of the employee's pre-tax compensation deferral contributions to the plan until their sixth year of service, and, thereafter, matched 100% of the employee's contributions. The expense recognized by the Organization totaled approximately $177,000 and $407,000 for the years ended August 31, 2009 and 2008, 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 $206,000 and $340,000 for the years ended August 31, 2009 and 2008, respectively.

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

O. 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.