THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2013
(with Summarized Comparative Information
for the Year Ended August 31, 2012)
with Report of Independent Auditors

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2013 (with Summarized Comparative Information for the Year Ended August 31, 2012)

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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 financial statements of The Gladney Center for Adoption and The Gladney Fund (collectively, the "Organization"), a non-for-profit organization, which comprise the combined statements of financial position as of August 31, 2013 and 2012, and the related combined statements of activities, and cash flows for the years then ended, and functional expenses for the year ended August 31, 2013, the combined statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Gladney Center for Adoption and The Gladney Fund as of August 31, 2013 and 2012, their cash flows for the years then ended and the changes in their net assets for the year ended August 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2012 financial statements, and our report dated December 7, 2012, expressed an unqualified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein for the year ended August 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Whitley Penn LLP

Fort Worth, Texas
December 11, 2013

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED STATEMENTS OF FINANCIAL POSITION

	August 31, 2013	August 31, 2012
Assets		
Cash	$ 419,927	$ 630,910
Accounts receivable	12,220	43,006
Contributions receivable, less discounts of $21,125 and $120,854, respectively	2,128,725	2,038,225
Prepaid expenses	422,748	353,379
Investments	26,479,679	26,153,927
Beneficial interest in trust	400,108	390,832
Property and equipment, net	13,069,781	13,400,462
Bond issuance cost, net of accumulated amortization of $93,426 and $86,292, respectively	20,772	27,906
Total assets	$ 42,953,960	$ 43,038,647
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 1,914,534	1,986,579
Interest rate swap liability	198,720	343,874
Funds held on deposit for programs	111,874	255,542
Line-of-credit	300,000	-
Bond payable	2,558,138	3,344,204
Total liabilities	5,083,266	5,930,199
Commitments and contingencies		
Net assets:		
Unrestricted	16,649,663	16,935,536
Temporarily restricted	9,402,016	8,554,096
Permanently restricted	11,819,015	11,618,816
Total net assets	37,870,694	37,108,448
Total liabilities and net assets	$ 42,953,960	$ 43,038,647

See accompanying notes to combined financial statements.

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED STATEMENT OF ACTIVITIES

Year Ended August 31, 2013 with Summarized Comparative Totals for 2012

	2013				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**2012 Totals**
Revenues, Gains, and Other Support					
Domestic adoption program	$ 5,405,924	$ -	$ -	$ 5,405,924	$ 5,621,973
Intercountry adoption program	860,824	-	-	860,824	1,179,947
Resident insurance settlements	3,519	-	-	3,519	162
Family services	28,062	-	-	28,062	25,030
Contributions	2,378,594	561,804	200,199	3,140,597	5,864,547
Fees	3,469	-	-	3,469	6,705
Special events, net	284,362	-	-	284,362	100,674
Investment income, net	1,112,038	1,384,261	-	2,496,299	1,474,584
Other	(7,025)	-	-	(7,025)	10,401
Net assets released from restrictions	1,098,145	(1,098,145)	-	-	-
Total revenues, gains, and other support	11,167,912	847,920	200,199	12,216,031	14,284,023
Expenses					
Programs					
Domestic adoption program	3,811,186	-	-	3,811,186	3,721,527
Intercountry adoption program	2,360,355	-	-	2,360,355	2,359,581
Humanitarian aid program	353,999	-	-	353,999	965,671
Family services	764,943	-	-	764,943	690,570
Communication and outreach	1,885,033	-	-	1,885,033	1,699,755
Administration	1,435,104	-	-	1,435,104	1,385,199
Fundraising	843,165	-	-	843,165	795,314
Total expenses	11,453,785	-	-	11,453,785	11,617,617
Change in net assets	(285,873)	847,920	200,199	762,246	2,666,406
Net assets at beginning of year	16,935,536	8,554,096	11,618,816	37,108,448	34,442,042
Net assets at end of year	$ 16,649,663	$ 9,402,016	$ 11,819,015	$ 37,870,694	$ 37,108,448

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, 2013 with Summarized Comparative Totals for 2012

	2013								
	Domestic Adoption Program	Intercountry Adoption Program	Humanitarian Aid Program	Family Services	Communication and Outreach	Administration	Fundraising	Total	2012 Totals
Salaries	$ 1,820,406	$ 865,059	$ 8,434	$ 411,868	$ 299,385	$ 729,668	$ 419,025	$ 4,553,845	$ 4,442,799
Employee benefits	386,361	169,368	911	84,848	78,638	153,223	84,837	958,186	911,591
Medical services	138,073	485	-	154	35	475	92	139,314	183,055
Office expense	46,365	153,776	-	23,656	44,317	13,560	45,286	326,960	302,483
Utilities and groundkeeping	246,325	55,527	-	33,973	71,725	57,210	28,604	493,364	520,628
Leases and rentals	272,405	102,927	-	6,039	3,493	11,813	5,041	401,718	402,852
Insurance expense	122,364	46,940	50	24,743	21,287	40,691	13,183	269,258	239,372
Depreciation expense	211,183	39,817	-	37,888	128,488	97,228	1,530	516,134	511,142
Professional fees	127,828	242,121	-	14,828	105,854	161,364	61,744	713,739	655,429
Other expenses	367,431	657,773	344,604	93,312	34,439	84,353	51,508	1,633,420	2,249,189
Outreach and education	72,445	26,562	-	33,634	1,097,372	65,076	132,315	1,427,404	1,144,095
Interest expense	-	-	-	-	-	165,597	-	165,597	192,195
Unrealized gain on interest rate swap	-	-	-	-	-	(145,154)	-	(145,154)	(137,214)
Total functional expenses	$ 3,811,186	$ 2,360,355	$ 353,999	$ 764,943	$ 1,885,033	$ 1,435,104	$ 843,165	$11,453,785	$11,617,617

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, 2013	2012
Operating Activities		
Change in net assets	$ 762,246	$ 2,666,406
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized appreciation on investments	(1,817,182)	(837,202)
Donated investments	(32,862)	(444,730)
Provision for uncollectible contributions receivable	(8,579)	-
Depreciation and amortization	523,268	518,276
Unrealized gain on interest rate swap	(145,154)	(137,214)
Restricted contributions	(762,003)	(2,781,831)
Changes in operating assets and liabilities:		
Accounts receivable	30,786	33,295
Contributions receivable	(81,921)	(1,660,489)
Prepaid expenses	(69,369)	134,194
Accounts payable and accrued expenses	(72,045)	488,342
Funds held on deposit for programs	(143,668)	(4,458)
Net cash used in operating activities	(1,816,483)	(2,025,411)
Investing Activities		
Proceeds from sales of investments	6,922,731	4,357,016
Purchases of investments	(5,407,715)	(3,612,541)
Purchases of property and equipment	(185,453)	(205,469)
Net cash provided by investing activities	1,329,563	539,006
Financing Activities		
Payments on bond payable	(786,066)	(744,462)
Net borrowings on line-of-credit	300,000	-
Restricted contributions	762,003	2,781,831
Net cash provided by financing activities	275,937	2,037,369
Net increase (decrease) in cash	(210,983)	550,964
Cash at beginning of year	630,910	79,946
Cash at end of year	$ 419,927	$ 630,910
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 148,995	$ 183,317

See accompanying notes to combined financial statements.

A. Nature of Business

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

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

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

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

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

Adoptive Parent Programs – Domestic

Agency Assisted

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

ABC

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

A. Nature of Business – continued

New Beginnings

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

Adoptive Parent Programs – Intercountry

Intercountry Adoptions

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

B. Summary of Significant Accounting Policies

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

Basis of Accounting

The accompanying combined financial statements are presented on the accrual basis of accounting in accordance with the recommendations of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. 958-205, *Not-for-Profit Entities - 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.

B. Summary of Significant Accounting Policies – continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the combined financial statements and the reported amounts of revenues and expenses during the respective years. Actual results could differ from these estimates.

Cash

The Organization considers all certificates of deposit, commercial paper, and U.S. government securities with original maturities of three months or less, when purchased, to be cash. The Organization maintains deposits primarily in one financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Organization has not experienced any losses related to amounts in excess of FDIC limits.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using an interest rate of 0.75%. 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 statement of activities. 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, 2013 and 2012.

B. Summary of Significant Accounting Policies – continued

Investments – continued

The Organization also follows FASB ASC Topic No. 820, *Fair Value Measurement*, 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.

Endowment Funds

The Organizations follows FASB ASC Topic No. 958-205, *Not-for-Profit Entities - 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 GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund,
- The purposes of the Organization and the donor-restricted endowment fund,
- General economic conditions,
- The possible effect of inflation and deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of the Organization, and
- The investment policies of the Organization.

B. Summary of Significant Accounting Policies – continued

Endowment Funds – continued

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

Beneficial Interest in Trust

The beneficial interest in trust consists of investments held in trust by outside trustees with the Organization as the income beneficiary. Certain income from the beneficial trust is paid to the Organization and gains (losses) are retained by the beneficial trust. The Organization has no control over investment decisions regarding these assets and has no right to use any of these assets for any purposes; nor are these assets available under any circumstances to creditors of the Organization. However, the Organization's interest in the beneficial trust is required by GAAP to be recorded on the books of the Organization as a permanently restricted net asset. The beneficial interest in the trust is reported 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 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 2013 and 2012 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 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 GAAP were not met.

Advertising

Advertising costs are expensed as incurred. Advertising expenses were approximately $998,000 and $795,000 for the years ended August 31, 2013 and 2012, respectively.

Comparative Prior Year Information

The combined statements of activities and functional expenses for the year ended August 31, 2013 include certain summarized financial information in total but not by net asset class or program category for purposes of comparison to 2012 information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's combined financial statements for the year ended August 31, 2012, from which the summarized information was derived.

Reclassifications

Certain 2012 amounts have been reclassified to conform to the 2013 presentation.

C. Contributions Receivable

As of August 31, 2013, contributions receivable, net of discounts of approximately $21,000, are expected to be collected as follows:

Due in one year	$ 600,250
Due in two to five years	1,528,475
Total	2,128,725
Less allowance for uncollectible pledges	-
Total contributions receivable	$ 2,128,725

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.

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:

D. Fair Value of Investments – continued

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities in the active markets that the Foundation has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted process that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

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:

	2013		
	Level 1	Level 3	Total
Mutual funds			
Fixed income	$ 8,054,358	$ -	$ 8,054,358
International	5,633,282	-	5,633,282
Large cap growth	1,846,486	-	1,846,486
Large cap value	2,231,921	-	2,231,921
Small cap value	1,431,336	-	1,431,336
Master L.P. fund of funds	1,254,857	-	1,254,857
Hedge funds	-	2,738,051	2,738,051
Money market funds	1,774,030	-	1,774,030
Equity securities			
Small/mid cap growth	1,475,548	-	1,475,548
Treasury bond	39,810	-	39,810
Total investments at fair value	$ 23,741,628	$ 2,738,051	$ 26,479,679

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	2,005,582	-	2,005,582
Large cap value	1,803,043	-	1,803,043
Small cap value	1,142,939	-	1,142,939
Master L.P. 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

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

The table below reflects a summary of changes in the fair value of the Organization's level 3 investments for the years ended August, 31, 2013 and 2012:

	2013	2012
Balance at beginning of year	$ 3,722,789	$ 3,426,600
Unrealized / realized gains	316,477	103,505
Contributions	-	1,150,000
Transfers	(1,301,215)	(957,316)
Balance at end of year	$ 2,738,051	$ 3,722,789

The fair value of the Organization's investment in the hedge funds as of August 31, 2013 and 2012 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.

D. Fair Value of Investments – continued

The managers of these funds may restrict the redemption frequency to quarterly withdrawals 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, 2013.

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

	2013	2012
Dividends and interest	$ 720,838	$ 678,243
Realized gains (losses)	349,113	(61,507)
Unrealized gains	1,468,069	898,709
Investment gains before investment fees	2,538,020	1,515,445
Less investment fees	41,721	40,861
Investment gain	$ 2,496,299	$ 1,474,584

E. Property and Equipment

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

	2013	2012
Land	$ 1,335,252	$ 1,335,252
Building	15,614,357	15,472,716
Furniture and fixtures	1,926,074	1,854,760
Automobiles	255,616	282,950
Statues	63,185	63,185
Work-in-progress	9,089	36,590
Total property and equipment	19,203,573	19,045,453
Less accumulated depreciation	6,133,792	5,644,991
Property and equipment, net	$ 13,069,781	$ 13,400,462

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, 2013 and 2012 was 3.25%. The line-of-credit matures on December 17, 2013. Borrowings of $700,000 were available to the Organization under this line-of-credit as of August 31, 2013.

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, 2013 and 2012, the Organization was in compliance with all such covenants.

Terms of the agreement require principal and interest payments through the maturity date of June 1, 2016. The note bears interest at either 75% of the 30, 60 or 90-day LIBOR rate or 51% of the prime rate, whichever method is chosen at the discretion of the Organization (0.14% and 0.18% as of August 31, 2013 and 2012, 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.

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 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.

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 FASB ASC Topic No. 820. The fair value of the swap agreement at August 31, 2013 and 2012 represented a liability of approximately $199,000 and $344,000, respectively. The unrealized gain associated with the change in the liability was approximately $145,000 and $137,000 during 2013 and 2012, 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, 2013, are as follows:

2014	$ 830,000
2015	876,000
2016	852,000
Total	$ 2,558,000

H. Temporarily Restricted Net Assets

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

	2013	2012
Gladney Fund	$ 8,353,282	$ 7,904,082
Domestic programs	693,181	301,970
International programs	355,553	348,044
Total temporarily restricted net assets	$ 9,402,016	$ 8,554,096

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:

	2013	2012
Any activities of the Center	$ 5,373,842	$ 5,373,372
ABC Adoption Program	1,321,700	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	3,031,193	2,931,464
Career development	268,818	268,818
China Endowment	246,574	246,574
Intercountry Adoption Program	106,135	106,135
Total permanently restricted net assets	$ 11,819,015	$ 11,618,816

I. Permanently Restricted Net Assets – continued

The changes in endowment fund net assets for the year ended August 31, 2013 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Balance - beginning of year	$ 3,397,129	$ 11,618,816	$ 15,015,945
Net unrealized and realized gains	866,882	-	866,882
Investment income	317,177	-	317,177
Contributions	-	200,199	200,199
Amounts appropriated for expenditure	(317,177)	-	(317,177)
Balance - end of year	$ 4,264,011	$ 11,819,015	$ 16,083,026

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	$ 2,584,592	$ 8,989,220	$ 11,573,812
Net unrealized and realized gains	812,537	-	812,537
Investment income	223,063	-	223,063
Contributions	-	2,629,596	2,629,596
Amounts appropriated for expenditure	(223,063)	-	(223,063)
Balance - end of year	$ 3,397,129	$ 11,618,816	$ 15,015,945

J. Commitments and Contingencies

Leases

The Organization leases office space and equipment under multiple non-cancelable operating leases, which expire in various years through 2018. Total lease expense approximated $176,000 and $181,000 for the years ended August 31, 2013 and 2012, respectively.

Future minimum annual lease obligations, as of August 31, 2013, are as follows:

2014	$ 126,332
2015	137,310
2016	134,087
2017	125,439
2018	77,754
Total future minimum lease payments	$ 600,922

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 family associations located throughout the United States that sponsored fundraising special events in 2013 and 2012. These groups of volunteers raised a total of approximately $563,000 and $623,000 with related expenses of approximately $279,000 and $343,000 for the years ended August 31, 2013 and 2012, respectively.

During 2012, The Organization also celebrated its 125th anniversary with multiple events that raised $116,000 with related expenses of $295,000. These events were not held during 2013.

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 both 2013 and 2012. The expense recognized by the Organization totaled approximately $68,000 for the year ended August 31, 2013 and $45,000 for the year ended August 31, 2012.

During 2009, the Board of Directors approved a 457(b) deferred compensation plan for an executive of the Organization which calls for certain amounts to be paid annually. The expense recognized by the Organization related to this deferred compensation plan was $16,500 for each of the years ended August 31, 2013 and 2012. The Organization has also recognized an additional liability related to the 457(b) nonelectrive contributions of $42,500 and $34,000 as of August 31, 2013 and 2012, respectively.

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 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, 2013, the Organization's tax returns related to the years ended August 31, 2010 through 2012 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 11, 2013, the date the combined financial statements were available for issuance.

The Organization purchased a triplex apartment building on October 15, 2013 for $166,000. The purpose of the property is for temporary housing of birthmothers who are not eligible to live in the Organization's dorms.