THE GLADNEY CENTER FOR ADOPTION
AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2015
(with Summarized Comparative Information
for the Year Ended August 31, 2014)
with Report of Independent Auditors

THE GLADNEY CENTER FOR ADOPTION
AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2015 (with Summarized Comparative Information for the Year Ended August 31, 2014)

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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 (nonprofit organizations) (collectively, the "Organization"), which comprise the combined statement of financial position as of August 31, 2015, and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the year 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 ("GAAP"); 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, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with GAAP.

Report on Summarized Comparative Information

We have previously audited the Organization's 2014 combined financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated December 12, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014 is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Whitley Penn LLP

Fort Worth, Texas
December 10, 2015

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED STATEMENTS OF FINANCIAL POSITION

	August 31, 2015	August 31, 2014
Assets		
Cash	$ 214,335	$ 96,994
Accounts receivable	110,810	97,826
Contributions receivable, less discounts of $1,848 and $12,511, respectively	1,128,152	1,827,489
Prepaid expenses	497,919	363,588
Investments	25,000,159	28,000,769
Beneficial interest in trust	416,879	434,710
Property and equipment, net	12,701,998	13,092,830
Bond issuance cost, net of accumulated amortization of $107,694 and $100,560, respectively	6,504	13,638
Total assets	$ 40,076,756	$ 43,927,844
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 1,895,663	$ 1,345,744
Interest rate swap liability	34,277	98,958
Funds held on deposit for programs	117,043	98,647
Line-of-credit	1,400,000	700,000
Bond payable	851,763	1,728,142
Total liabilities	4,298,746	3,971,491
Commitments and contingencies		
Net assets:		
Unrestricted	16,327,663	18,101,702
Temporarily restricted	7,601,653	10,019,919
Permanently restricted	11,848,694	11,834,732
Total net assets	35,778,010	39,956,353
Total liabilities and net assets	$ 40,076,756	$ 43,927,844

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, 2015 with Summarized Comparative Totals for 2014

	2015				2014
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Total**
Revenues, Gains, and Other Support					
Domestic adoption program	$ 5,212,119	$ -	$ -	$ 5,212,119	$ 5,031,680
Intercountry adoption program	580,611	-	-	580,611	596,662
Resident insurance settlements	9,251	-	-	9,251	4,348
Family services	16,876	-	-	16,876	24,170
Contributions	2,506,464	516,685	13,962	3,037,111	3,404,464
Fees	4,101	-	-	4,101	3,600
Special events, net	320,139	-	-	320,139	791,156
Investment income (loss)	(608,552)	(997,626)	-	(1,606,178)	3,842,312
Other	(3,165)	-	-	(3,165)	(7,879)
Net assets released from restrictions	1,937,325	(1,937,325)	-	-	-
Total revenue, gains (losses), and other support	9,975,169	(2,418,266)	13,962	7,570,865	13,690,513
Expenses					
Programs					
Domestic adoption program	4,808,874	-	-	4,808,874	4,404,672
Intercountry adoption program	1,452,024	-	-	1,452,024	1,685,922
Humaniatarian aid program	249,619	-	-	249,619	563,071
Family services	814,549	-	-	814,549	791,496
Communication and outreach	2,063,815	-	-	2,063,815	1,957,252
Administration	1,501,348	-	-	1,501,348	1,422,290
Fundraising	858,979	-	-	858,979	780,151
Total expenses	11,749,208	-	-	11,749,208	11,604,854
Change in net assets	(1,774,039)	(2,418,266)	13,962	(4,178,343)	2,085,659
Net assets at beginning of year	18,101,702	10,019,919	11,834,732	39,956,353	37,870,694
Net assets at end of year	$16,327,663	$ 7,601,653	$11,848,694	$35,778,010	$ 39,956,353

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, 2015 with Summarized Comparative Totals for 2014

	2015								
	Domestic Adoption Program	**Intercountry Adoption Program**	**Humanitarian Aid Program**	**Family Services**	**Communication and Outreach**	**Administration**	**Fundraising**	**Total**	**2014 Totals**
Salaries	$ 2,370,773	$ 676,000	$ -	$ 484,819	$ 351,344	$ 801,067	$ 423,395	$ 5,107,398	$ 4,740,599
Employee benefits	499,743	135,564	-	118,213	86,311	170,659	101,480	1,111,970	999,471
Medical services	152,112	257	-	155	76	176	52	152,828	161,189
Office expense	68,653	28,350	-	13,748	103,661	20,644	52,048	287,104	288,554
Utilities and groundkeeping	252,785	45,099	-	35,778	66,487	52,212	24,648	477,009	531,106
Leases and rentals	359,548	83,016	-	7,987	5,383	16,652	6,552	479,138	503,833
Insurance expense	156,225	42,467	-	26,460	24,964	46,002	17,269	313,387	308,786
Depreciation expense	221,482	35,185	-	36,998	133,565	88,901	1,908	518,039	513,057
Professional fees	181,030	206,518	-	4,194	46,057	119,092	38,299	595,190	559,074
Other expenses	483,424	182,726	249,302	58,850	28,414	82,989	34,551	1,120,256	1,523,541
Outreach and education	63,099	16,842	317	27,347	1,217,553	63,903	158,777	1,547,838	1,436,720
Interest expense	-	-	-	-	-	107,449	-	107,449	138,686
Unrealized gain on interest rate swap	-	-	-	-	-	(68,398)	-	(68,398)	(99,762)
Total functional expenses	$ 4,808,874	$ 1,452,024	$ 249,619	$ 814,549	$ 2,063,815	$ 1,501,348	$ 858,979	$ 11,749,208	$ 11,604,854

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, 2015	2014
Operating Activities		
Change in net assets	$ (4,178,343)	$ 2,085,659
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized appreciation (depreciation) on investments	2,460,201	(3,073,792)
Donated investments	(21,723)	(112,174)
Provision for uncollectible contributions receivable	-	(8,579)
Depreciation and amortization	525,173	520,192
Unrealized gain on interest rate swap	(68,398)	(99,762)
Restricted contributions	(530,647)	(361,353)
Changes in operating assets and liabilities:		
Accounts receivable	(12,984)	(85,606)
Contributions receivable, net	699,337	309,815
Prepaid expenses	(134,331)	59,160
Accounts payable and accrued expenses	553,636	(568,790)
Funds held on deposit for programs	18,396	(13,227)
Net cash used in operating activities	(689,683)	(1,348,457)
Investing Activities		
Proceeds from sales of investments	18,467,257	9,819,500
Purchases of investments	(17,887,294)	(8,189,226)
Purchases of property and equipment	(127,207)	(536,107)
Net cash provided by investing activities	452,756	1,094,167
Financing Activities		
Payments on bond payable	(876,379)	(829,996)
Borrowings on line-of-credit	2,815,000	2,375,000
Repayments on line-of-credit	(2,115,000)	(1,975,000)
Restricted contributions	530,647	361,353
Net cash provided by (used in) financing activities	354,268	(68,643)
Net increase (decrease) in cash	117,341	(322,933)
Cash at beginning of year	96,994	419,927
Cash at end of year	$ 214,335	$ 96,994
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 105,932	$ 138,686

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

Domestic Infant

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.

A. Nature of Business – continued

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

Waiting Child – 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>Waiting Child – Intercountry</u>

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 Latin American 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 accounting principles generally accepted in the United States of America ("GAAP"). 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 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.

B. Summary of Significant Accounting Policies – continued

Cash

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

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using a risk free interest rate. 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. Management considers all outstanding pledges to be fully collectible.

Fair Value of Financial Instruments

The Organization follows the provisions of GAAP, which requires assets and liabilities with readily determinable fair values to be stated at their fair value with unrealized gains and losses from fluctuations in the market value included in the statement of activities and changes in net assets of the respective period.

GAAP establishes a framework for measuring fair value and provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GAAP are described below:

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

B. Summary of Significant Accounting Policies – continued

Fair Value of Financial Instruments – continued

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Where observable inputs are available, directly or indirectly, for substantially the full term of the asset or liability, the instrument is categorized in Level 2. There were no Level 2 investments at August 31, 2015 or 2014.

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.

Endowment Funds

The Organizations follows GAAP 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. 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:

B. Summary of Significant Accounting Policies – continued

Endowment Funds – continued

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

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

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 purpose; 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 at its estimated fair value based on the fair value of the beneficial trust's underlying investments with changes in the fair value reflected in the investment income in the combined statement of activities and changes in net assets.

Property and Equipment

The Organization records significant expenditures for property and equipment at cost less accumulated depreciation. Improvements, which substantially enhance the utilization of or increase the useful life of the property and equipment, are capitalized at cost. Expenditures for normal maintenance and repairs are expensed as incurred. Depreciation is recognized using the straight-line method over the expected useful lives of the assets. Expected useful lives range from three to forty years. The cost of assets disposed of and the related accumulated depreciation are eliminated, and any resulting gains or losses are reflected in the accompanying combined statement of activities and changes in net assets in the period of disposal. Included in property and equipment are certain statues which the Organization considers to be works of art and have not been depreciated.

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 2015 and 2014 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 combined statement of activities and changes in net assets as net assets released from restrictions.

Donated assets are recorded at their estimated fair value (as determined by management) at the date of donation. Donated services are recognized as contributions if the services, (a) create or enhance non-financial assets, or (b) require specialized skills, and are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization pays for most services requiring specialized services. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific program functions, campaign solicitations and various other activities that are not recognized as contributions in the combined financial statements, because the recognition criteria were not met.

Advertising

Advertising costs are expensed as incurred. Advertising expenses were approximately $1,031,000 and $987,000 for the years ended August 31, 2015 and 2014, respectively.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Comparative Prior Year Information

The combined statements of activities and changes in net assets and functional expenses for the year ended August 31, 2015 include certain summarized financial information in total but not by net asset class or program category for purposes of comparison to 2014 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, 2014, from which the summarized information was derived.

C. Contributions Receivable

As of August 31, 2015, contributions receivable are expected to be collected as follows:

Due in one year	$ 660,000
Due in two to five years	470,000
Total	1,130,000
Less discounts on contributions receivable	2,000
Total contributions receivable	$ 1,128,000

D. Investments

The following table presents the fair value hierarchy table for investments measured at fair value, on a recurring basis:

	2015		
	Level 1	Level 3	Total
Mutual funds			
Fixed income	$ 7,069,613	$ -	$ 7,069,613
International	5,240,491	-	5,240,491
Large cap growth	2,431,264	-	2,431,264
Large cap value	2,448,516	-	2,448,516
Small cap value	1,237,324	-	1,237,324
MLP fund of funds	1,109,862	-	1,109,862
Hedge funds	-	4,169,831	4,169,831
Money market funds	68,760	-	68,760
Equity securities			
Small/mid cap growth	1,181,685	-	1,181,685
Treasury bond	42,813	-	42,813
Total investments at fair value	$ 20,830,328	$ 4,169,831	$ 25,000,159

D. Investments – continued

	2014		
	Level 1	Level 3	Total
Mutual funds			
Fixed income	$ 6,859,819	$ -	$ 6,859,819
International	6,389,956	-	6,389,956
Large cap growth	2,209,313	-	2,209,313
Large cap value	2,208,918	-	2,208,918
Small cap value	1,481,097	-	1,481,097
MLP fund of funds	3,250,681	-	3,250,681
Hedge funds	-	4,192,601	4,192,601
Money market funds	75,231	-	75,231
Equity securities			
Small/mid cap growth	1,290,340	-	1,290,340
Treasury bond	42,813	-	42,813
Total investments at fair value	$ 23,808,168	$ 4,192,601	$ 28,000,769

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 fair values of investments in equity 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, 2015 and 2014. Money market funds are valued based on the short-term cash component as of the measurement date and classified within Level 1 of the valuation 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:

	2015	2014
Balance at beginning of year	$ 4,192,601	$ 2,738,051
Unrealized / realized gain (loss), net of fees	(18,742)	280,003
Contributions	-	1,250,000
Distributions	(4,028)	(75,453)
Balance at end of year	$ 4,169,831	$ 4,192,601

The fair value of the Organization's investment in the hedge funds as of August 31, 2015 and 2014 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. Investments – continued

The managers of these funds may restrict the redemption frequency to quarterly withdraws with a notice period of 90 days. Because of these withdrawal restrictions, the ultimate amount that the Organization may realize from these investments may vary significantly from their fair values as of August 31, 2015.

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

	2015	2014
Dividends and interest	$ 896,109	$ 816,614
Realized gains	1,965,007	635,666
Unrealized gains (losses)	(4,425,207)	2,438,126
Investment gains (losses) before investment fees	(1,564,091)	3,890,406
Less investment fees	42,087	48,094
Investment gain (loss)	$ (1,606,178)	$ 3,842,312

E. Property and Equipment

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

	2015	2014
Land	$ 1,346,752	$ 1,346,752
Building	15,836,984	15,845,844
Furniture and fixtures	2,053,720	1,978,203
Automobiles	257,530	257,530
Statues	63,185	63,185
Work-in-progress	306,212	248,166
Total property and equipment	19,864,383	19,739,680
Less accumulated depreciation	7,162,385	6,646,850
Property and equipment, net	$ 12,701,998	$ 13,092,830

F. Line-of-Credit

The Organization has an unsecured line-of-credit with a financial institution to meet short term borrowing needs. Effective April 2015, the line-of-credit was increased from $1,000,000 to $1,500,000. As of August 31, 2014, interest was payable monthly at the higher of the bank's prime rate or 4.00%. Effective April 1, 2015, interest is payable monthly at the bank's prime rate plus 0.25%. The prime rate at August 31, 2015 and 2014 was 3.25%. The line-of-credit matures on December 31, 2016. Borrowings of $100,000 were available to the Organization under this line-of-credit as of August 31, 2015.

G. Bond Payable

The Organization borrowed $9,750,000 from a financial institution in August 2000, incurring approximately $114,000 of bond issuance costs. The note agreement underlying the bond payable requires the Organization to maintain certain financial covenants. As of August 31, 2015 and 2014, 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 0.11% as of August 31, 2015 and 2014, 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% for the duration of the swap agreement.

GAAP establishes accounting and reporting standards for derivative instruments. Specifically, GAAP 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. The fair value of the swap agreement at August 31, 2015 and 2014 represented a liability of approximately $34,000 and $99,000, respectively. The unrealized gain associated with the change in the liability was approximately $68,000 and $100,000 during 2015 and 2014, 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, 2015 equal approximately $852,000 and are due by June 1, 2016.

H. Temporarily Restricted Net Assets

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

	2015	2014
Gladney Fund	$ 6,586,245	$ 9,077,078
Domestic programs	723,037	642,983
International programs	292,371	299,858
Total temporarily restricted net assets	$ 7,601,653	$ 10,019,919

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:

	2015	2014
Any activities of the Center	$ 5,383,917	$ 5,378,092
Post adoption	3,050,797	3,042,660
ABC Adoption Program	1,321,700	1,321,700
Campus and capital improvement	555,000	555,000
Greer Garson Educational Opportunities	545,000	545,000
Transitional care	370,753	370,753
Career development	268,818	268,818
China Endowment	246,574	246,574
Intercountry Adoption Program	106,135	106,135
Total permanently restricted net assets	$ 11,848,694	$ 11,834,732

J. Endowment Fund

The changes in endowment fund net assets for the year ended August 31, 2015 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Balance – beginning of year	$ 6,509,027	$ 11,834,732	$ 18,343,759
Net unrealized and realized losses	(1,345,672)	-	(1,345,672)
Investment income	461,925	-	461,925
Contributions	-	13,962	13,962
Release from restrictions	(544,417)	-	(544,417)
Balance – end of year	$ 5,080,863	$ 11,848,694	$ 16,929,557

J. Endowment Fund – continued

The changes in endowment fund net assets for the year ended August 31, 2014 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Balance - beginning of year	$ 4,665,151	$ 11,819,015	$ 16,484,166
Net unrealized and realized gains	1,972,477	-	1,972,477
Investment income	357,738	-	357,738
Contributions	-	15,717	15,717
Release from restrictions	(486,339)	-	(486,339)
Balance - end of year	$ 6,509,027	$ 11,834,732	$ 18,343,759

K. 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 $174,000 and $154,000 for the years ended August 31, 2015 and 2014, respectively.

Future minimum annual lease obligations, as of August 31, 2015, are approximately as follows:

2016	$ 137,000
2017	127,000
2018	84,000
Total	$ 348,000

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.

L. Special Events

The Organization has 20 family associations located throughout the United States that sponsored fundraising special events in 2015 and 2014. These groups of volunteers raised a total of approximately $693,000 and $515,000 with related expenses of approximately $373,000 and $204,000 for the years ended August 31, 2015 and 2014, respectively.

The Organization celebrated the 2014 Gladney Cup Golf Tournament with multiple events that raised $1,090,000 with related expenses of $610,000 for the year ended August 31, 2014.

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. 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 was 20% for 2015 and 2014. The expense recognized by the Organization totaled approximately $64,000 and $62,000 for the years ended August 31, 2015 and 2014, respectively.

During 2009, the Board of Directors approved 457(b) deferred compensation plans for an executive of the Organization which calls for certain amounts to be paid annually. During 2015, the Board of Directors approved 457(b) deferred compensation plans for two additional executives. The expense recognized by the Organization related to the deferred compensation plans was $43,000 and $17,500 for the years ended August 31, 2015 and 2014, respectively. The Organization has also recognized an additional liability related to the non-elective contribution of $57,000 and $50,000 as of August 31, 2015 and 2014, respectively.

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. The Center and Fund file Form 990's in the United States federal jurisdiction within the United States and as of August 31, 2015, the Organization's tax returns related to the years ended August 31, 2012 through 2014 remain open to possible examination by the Internal Revenue Service; however no tax returns are currently under examination.

O. Subsequent Events

In preparing the accompanying combined financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through December 10, 2015, the date the combined financial statements were available for issuance.