THE GLADNEY CENTER FOR ADOPTION
AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2016
(with Summarized Comparative Information
for the Year Ended August 31, 2015)
with Report of Independent Auditors

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2016 (with Summarized Comparative Information for the Year Ended August 31, 2015)

Table of Contents

Fort Worth Office
1400 West 7th Street
Suite 400
Fort Worth, Texas 76102
817.259.9100 Main
whitleypenn.com

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, 2016, 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 combined 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 audit. We conducted our audit 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, 2016, 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 2015 combined financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated December 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2015 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 9, 2016

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED STATEMENTS OF FINANCIAL POSITION

	August 31, 2016	August 31, 2015
Assets		
Cash	$ 223,681	$ 214,335
Accounts receivable	130,194	110,810
Contributions receivable, less discounts of $2,029 and $1,848, respectively	752,971	1,128,152
Prepaid expenses	254,938	504,423
Investments	24,406,125	25,000,159
Beneficial interest in trust	415,926	416,879
Property and equipment, net	12,229,725	12,701,998
Total assets	$ 38,413,560	$ 40,076,756
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 1,481,872	$ 1,895,663
Funds held on deposit for programs	123,788	117,043
Interest rate swap liability	-	34,277
Line-of-credit	1,700,000	1,400,000
Bond payable	-	851,763
Total liabilities	3,305,660	4,298,746
Commitments and contingencies		
Net assets:		
Unrestricted	16,710,584	16,327,663
Temporarily restricted	6,647,101	7,601,653
Permanently restricted	11,750,215	11,848,694
Total net assets	35,107,900	35,778,010
Total liabilities and net assets	$ 38,413,560	$ 40,076,756

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, 2016 with Summarized Comparative Totals for 2015

	2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2015 Total
Revenues, Gains (losses), and Other Support					
Domestic adoption program	$ 5,267,738	$ -	$ -	$ 5,267,738	$ 5,212,119
Intercountry adoption program	829,372	-	-	829,372	580,611
Resident insurance settlements	16,674	-	-	16,674	9,251
Family services	15,434	-	-	15,434	16,876
Contributions	1,321,895	621,783	1,521	1,945,199	3,037,111
Fees	2,250	-	-	2,250	4,101
Special events, net	917,472	-	-	917,472	320,139
Investment income (loss)	369,766	507,126	-	876,892	(1,606,178)
Other	(12,846)	-	-	(12,846)	(3,165)
Net assets released from restrictions	- 2,183,461	(2,083,461)	(100,000)	-	-
Total revenue, gains (losses), and other support	10,911,216	(954,552)	(98,479)	9,858,185	7,570,865
Expenses					
Programs					
Domestic adoption program	4,372,392	-	-	4,372,392	4,808,874
Intercountry adoption program	968,404	-	-	968,404	1,452,024
Humaniatarian aid program	189,856	-	-	189,856	249,619
Family services	724,042	-	-	724,042	814,549
Communication and outreach	1,754,856	-	-	1,754,856	2,063,815
Administration	1,586,753	-	-	1,586,753	1,501,348
Fundraising	931,992	-	-	931,992	858,979
Total expenses	10,528,295	-	-	10,528,295	11,749,208
Change in net assets	382,921	(954,552)	(98,479)	(670,110)	(4,178,343)
Net assets at beginning of year	16,327,663	7,601,653	11,848,694	35,778,010	39,956,353
Net assets at end of year	$16,710,584	$ 6,647,101	$11,750,215	$35,107,900	$ 35,778,010

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, 2016 with Summarized Comparative Totals for 2015

	2016								
	Domestic Adoption Program	Intercountry Adoption Program	Humanitarian Aid Program	Family Services	Communication and Outreach	Administration	Fundraising	Total	2015 Totals
Salaries	$ 2,264,293	$ 435,088	$ -	$ 414,394	$ 437,165	$ 785,620	$ 456,917	$ 4,793,477	$ 5,107,398
Employee benefits	500,551	87,306	-	103,021	104,352	199,214	116,668	1,111,112	1,111,970
Medical services	89,310	63	-	435	226	341	155	90,530	152,828
Office expense	56,515	10,312	-	9,714	44,529	17,331	33,319	171,720	287,104
Utilities and groundkeeping	282,824	28,730	-	55,516	71,262	42,609	21,157	502,098	477,009
Leases and rentals	269,965	86,343	-	5,705	6,963	9,527	4,074	382,577	479,138
Insurance expense	154,023	27,928	-	32,199	25,979	50,604	20,938	311,671	313,387
Depreciation expense	218,665	34,735	-	29,138	135,872	84,184	1,577	504,171	518,039
Professional fees	88,880	111,774	-	4,508	48,922	155,087	67,514	476,685	595,190
Other expenses	381,718	131,572	179,109	49,347	25,337	119,910	41,372	928,365	1,120,256
Outreach and education	65,648	14,553	10,747	20,065	854,249	64,683	168,301	1,198,246	1,547,838
Interest expense	-	-	-	-	-	88,203	-	88,203	107,449
Realized gain on interest rate swap	-	-	-	-	-	(30,560)	-	(30,560)	-
Unrealized gain on interest rate swap	-	-	-	-	-	-	-	-	(68,398)
Total functional expenses	$ 4,372,392	$ 968,404	$ 189,856	$ 724,042	$ 1,754,856	$ 1,586,753	$ 931,992	$ 10,528,295	$ 11,749,208

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, 2016	2015
Operating Activities		
Change in net assets	$ (670,110)	$ (4,178,343)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (appreciation) depreciation on investments	(15,657)	2,460,201
Donated investments	(15,815)	(21,723)
Depreciation and amortization	504,171	525,173
Realized gain on interest rate swap	(30,560)	-
Unrealized gain on interest rate swap	-	(68,398)
Loss on sale of property and equipment	26,781	-
Restricted contributions	(623,304)	(530,647)
Changes in operating assets and liabilities:		
Accounts receivable	(19,384)	(12,984)
Contributions receivable	375,181	699,337
Prepaid expenses	249,485	(134,331)
Accounts payable and accrued expenses	(417,508)	553,636
Funds held on deposit for programs	6,745	18,396
Net cash used in operating activities	(629,975)	(689,683)
Investing Activities		
Proceeds from sales of investments	3,813,214	18,467,257
Purchases of investments	(3,186,755)	(17,887,294)
Proceeds from sales of propery and equipment	183,256	-
Purchases of property and equipment	(241,935)	(127,207)
Net cash provided by investing activities	567,780	452,756
Financing Activities		
Payments on bond payable	(851,763)	(876,379)
Borrowings on line-of-credit	2,150,000	2,815,000
Repayments on line-of-credit	(1,850,000)	(2,115,000)
Restricted contributions	623,304	530,647
Net cash provided by financing activities	71,541	354,268
Net increase in cash	9,346	117,341
Cash at beginning of year	214,335	96,994
Cash at end of year	$ 223,681	$ 214,335
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 91,837	$ 105,932

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

Adoptive Parent Programs – Domestic – continued

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.

Waiting Child – Intercountry

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, 2016 or 2015.

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

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 $724,000 and $1,031,000 for the years ended August 31, 2016 and 2015, 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 2016 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, 2015, from which the summarized information was derived.

C. Contributions Receivable

As of August 31, 2016, contributions receivable are expected to be collected as follows:

Due in one year	$ 695,000
Due in two to five years	60,000
Total	755,000
Less discounts on contributions receivable	2,029
Total contributions receivable	$ 752,971

D. Investments

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

	2016		
	Level 1	Level 3	Total
Mutual funds			
Fixed income	$ 5,790,166	$ -	$ 5,790,166
International	5,518,966	-	5,518,966
Large cap growth	2,422,582	-	2,422,582
Large cap value	2,400,449	-	2,400,449
Small cap value	1,297,659	-	1,297,659
MLP fund of funds	1,294,762	-	1,294,762
Money market funds	559,785	-	559,785
Equity securities			
Small/mid cap growth	1,262,867	-	1,262,867
Treasury bond	47,572	-	47,572
Hedge funds	-	3,811,317	3,811,317
Total investments at fair value	$ 20,594,808	$ 3,811,317	$ 24,406,125

D. Investments – continued

	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
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
Hedge funds	-	4,169,831	4,169,831
Total investments at fair value	$ 20,830,328	$ 4,169,831	$ 25,000,159

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, 2016 and 2015. 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:

	2016	2015
Balance at beginning of year	$ 4,169,831	$ 4,192,601
Unrealized / realized gain (loss), net of fees	46,586	(18,742)
Distributions	(405,100)	(4,028)
Balance at end of year	$ 3,811,317	$ 4,169,831

The fair value of the Organization’s investment in the hedge funds as of August 31, 2016 and 2015 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, 2016.

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

	2016	2015
Dividends and interest	$ 896,388	$ 896,109
Realized gains	65,826	1,965,007
Unrealized losses	(50,169)	(4,425,207)
Investment gains (losses) before investment fees	912,045	(1,564,091)
Less investment fees	35,153	42,087
Investment gain (loss)	$ 876,892	$ (1,606,178)

E. Property and Equipment

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

	2016	2015
Land	$ 1,335,252	$ 1,346,752
Building	15,639,059	15,836,984
Furniture and fixtures	2,492,377	2,053,720
Automobiles	282,694	257,530
Statues	63,185	63,185
Work-in-progress	58,067	306,212
Total property and equipment	19,870,634	19,864,383
Less accumulated depreciation	7,640,909	7,162,385
Property and equipment, net	$ 12,229,725	$ 12,701,998

F. Line-of-Credit

The Organization has an unsecured line-of-credit with a financial institution to meet short term borrowing needs. Effective June 2016, the line-of-credit was increased from $1,500,000 to $1,750,000. Effective April 1, 2015, interest is payable monthly at the bank's prime rate plus 0.25%. The prime rate at August 31, 2016 and 2015 was 3.50% and 3.25%, respectively. The line-of-credit matures on December 27, 2016. Borrowings of $50,000 were available to the Organization under this line-of-credit as of August 31, 2016.

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, which required the Organization to maintain certain financial covenants, was fully paid off during the year ended August 31, 2016 before its maturity date of June 1, 2016.

Terms of the agreement required principal and interest payments through the maturity date. The note bore 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. The note was collateralized by the building financed.

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 paid 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. Further, a realized gain (loss) is recorded in the period in which the derivative expires.

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 represented a liability of approximately $34,000. The unrealized gain associated with the change in the liability was approximately $68,000 during 2015. During 2016, the swap agreement expired, and the fair value of the swap agreement of approximately $31,000 was recognized as a gain on interest rate swap in the accompanying combined statement of functional expenses.

H. Temporarily Restricted Net Assets

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

	2016	2015
Gladney Fund	$ 5,587,805	$ 6,586,245
Domestic programs	825,859	723,037
International programs	233,437	292,371
Total temporarily restricted net assets	$ 6,647,101	$ 7,601,653

I. Permanently Restricted Net Assets

During the year ended August 31, 2016, a donor who had given a $100,000 permanently restricted contribution in a previous year altered the purpose of their contribution. This alternation caused the net asset balance to be considered temporarily restricted. The restrictions were satisfied during the year ended August 31, 2016. As a consequence, the $100,000 contribution is presented as net assets released from permanently restricted net assets in the accompanying combined statement of activities and changes in net assets for the year ended August 31, 2016.

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:

	2016	2015
Any activities of the Center	$ 5,383,917	$ 5,383,917
Post adoption	3,052,318	3,050,797
ABC Adoption Program	1,221,700	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	$ 11,750,215	$ 11,848,694

J. Endowment Fund

The changes in endowment fund net assets for the year ended August 31, 2016 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Balance – beginning of year	$ 5,080,863	$ 11,848,694	$ 16,929,557
Net unrealized and realized gains	51,132	-	51,132
Investment income	497,377	-	497,377
Contributions	-	1,521	1,521
Release from restrictions	(621,275)	(100,000)	(721,275)
Balance – end of year	$ 5,008,097	$ 11,750,215	$ 16,758,312

J. Endowment Fund – continued

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

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 $163,000 and $174,000 for the years ended August 31, 2016 and 2015, respectively.

Future minimum annual lease obligations, as of August 31, 2016, are approximately as follows:

2017	$ 136,000
2018	82,000
Total	$ 218,000

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 18 family associations located throughout the United States that sponsored fundraising special events in 2016 and 2015. These groups of volunteers raised a total of approximately $548,000 and $693,000 with related expenses of approximately $338,000 and $373,000 for the years ended August 31, 2016 and 2015, respectively.

The Organization celebrated the 2016 Gladney Cup Golf Tournament with multiple events that raised $1,550,000 with related expenses of $843,000 for the year ended August 31, 2016.

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 2016 and 2015. The expense recognized by the Organization totaled approximately $57,000 and $64,000 for the years ended August 31, 2016 and 2015, 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 for the years ended August 31, 2016 and 2015. The Organization has also recognized an additional liability related to the non-elective contribution of $64,000 and $57,000 as of August 31, 2016 and 2015, 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, 2016, the Organization's tax returns related to the years ended August 31, 2013 through 2015 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 9, 2016, the date the combined financial statements were available for issuance.