THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

Year Ended August 31, 2023
(with Summarized Comparative Information
for the Year Ended August 31, 2022)
with Report of Independent Auditors

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED FINANCIAL STATEMENTS

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(with Summarized Comparative Information for the Year Ended August 31, 2022)

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
The Gladney Center for Adoption and
The Gladney Fund

Opinion

We have audited the 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, 2023, and the related combined statement 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.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Organization as of August 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the combined financial statements are issued.

HLB WE ARE AN INDEPENDENT MEMBER OF THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

Auditor's Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Organization's 2022 combined financial statements, and we expressed an unmodified opinion on those audited combined financial statements in our report dated December 21, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2022, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Whitley Penn LLP

Fort Worth, Texas
February 1, 2024

THE GLADNEY CENTER FOR ADOPTION AND THE GLADNEY FUND

COMBINED STATEMENTS OF FINANCIAL POSITION

	August 31, 2023	August 31, 2022
Assets		
Cash and cash equivalents	$ 242,642	$ 265,336
Accounts receivable	171,460	180,578
Contributions receivable	1,097,422	-
Prepaid expenses	710,337	263,688
Investments	37,823,797	23,414,554
Beneficial interest in trust	460,585	449,121
Property and equipment, net	9,778,452	10,068,672
Right-of-use asset, operating lease	104,430	-
Intangible assets, net	3,035,610	3,303,458
Total assets	$ 53,424,735	$ 37,945,407
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 2,475,071	$ 1,448,265
Deferred adoption fee revenue	1,301,710	662,227
Other liabilities	40,383	106,283
Operating lease liability	104,430	-
Note payable	3,427,028	3,882,166
Line of credit	250,000	1,150,000
Total liabilities	7,598,622	7,248,941
Commitments and contingencies		
Net assets:		
Without donor restrictions	11,452,831	11,404,769
With donor restrictions	34,373,282	19,291,697
Total net assets	45,826,113	30,696,466
Total liabilities and net assets	$ 53,424,735	$ 37,945,407

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, 2023 with Summarized Comparative Totals for 2022

	2023			
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**2022 Total**
Revenues, Gains, and Other Support				
Domestic Infant adoption program	$ 4,113,751	$ -	$ 4,113,751	$ 2,464,573
New Beginnings adoption program	304,434	-	304,434	330,142
Intercountry adoption program	358,649	-	358,649	325,400
Website advertising revenue	181,135	-	181,135	343,078
Special events, net	147,927	-	147,927	900,292
Contributions of cash and other financial assets	2,812,800	16,098,853	18,911,653	3,145,488
Contributions of nonfinancial assets	3,608	-	3,608	8,063
Employee retention credit	837,487	-	837,487	-
Investment income (loss), net	652,628	942,508	1,595,136	(3,762,214)
Other income (expense)	(9,348)	-	(9,348)	11,856
Net assets released from restrictions	1,959,776	(1,959,776)	-	-
Total revenue, gains, and other support	11,362,847	15,081,585	26,444,432	3,766,678
Expenses				
Programs and Support				
Domestic Infant adoption program	3,917,060	-	3,917,060	3,984,885
New Beginnings adoption program	663,628	-	663,628	798,840
Gladney home residential foster care	837,776	-	837,776	827,878
Intercountry adoption program	667,195	-	667,195	688,297
Family services	775,270	-	775,270	589,810
Communication and outreach	1,408,788	-	1,408,788	1,676,673
Administration	2,181,172	-	2,181,172	1,625,254
Fundraising	863,896	-	863,896	819,545
Total expenses	11,314,785	-	11,314,785	11,011,182
Change in net assets	48,062	15,081,585	15,129,647	(7,244,504)
Net assets at beginning of year	11,404,769	19,291,697	30,696,466	37,940,970
Net assets at end of year	$ 11,452,831	$ 34,373,282	$ 45,826,113	$ 30,696,466

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, 2023 with Summarized Comparative Totals for 2022

	2023									
	Domestic Infant Adoption Program	New Beginnings Adoption Program	Gladney Home Residential Foster Care	Intercountry Adoption Program	Family Services	Communication and Outreach	Administration	Fundraising	Total	2022 Totals
Salaries	$ 1,396,119	$ 432,622	$ 344,420	$ 414,867	$ 475,772	$ 385,903	$ 780,511	$ 417,110	$ 4,647,324	$ 4,956,360
Employee benefits	260,648	85,198	56,497	61,010	94,153	59,368	203,194	108,726	928,794	1,018,975
Medical services	27,659	2,517	2,771	3	24,616	54	549	-	58,169	68,554
Office expense	28,309	5,351	9,597	5,793	17,461	39,510	16,387	15,630	138,038	125,393
Utilities and ground keeping	130,786	25,658	99,776	11,665	39,724	96,574	58,679	23,213	486,075	488,688
Leases and rentals	344,016	5,637	28,429	6,356	8,154	14,888	6,447	6,354	420,281	277,016
Insurance expense	86,112	32,401	28,654	18,681	23,672	21,871	40,096	26,422	277,909	275,214
Depreciation expense	85,157	12,714	159,735	31,794	34,362	149,783	80,136	45,882	599,563	608,928
Amortization expense	267,848	-	-	-	-	-	-	-	267,848	267,847
Professional fees	391,937	12,010	10,607	34,975	23,669	146,161	602,360	24,118	1,245,837	668,241
Other expenses	446,545	37,037	90,335	80,270	24,221	16,101	343,198	100,888	1,138,595	1,070,117
Outreach and education	385,465	12,483	6,955	1,781	9,466	478,575	49,615	95,553	1,039,893	1,124,133
Interest expense	66,459	-	-	-	-	-	-	-	66,459	61,716
Total functional expenses	$ 3,917,060	$ 663,628	$ 837,776	$ 667,195	$ 775,270	$ 1,408,788	$ 2,181,172	$ 863,896	$ 11,314,785	$ 11,011,182

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, 2023	2022
Operating Activities		
Change in net assets	$ 15,129,647	$ (7,244,504)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (appreciation) depreciation on investments	177,606	4,390,995
Non-cash contributions	(10,135,210)	(70,189)
Non-cash lease expense	51,048	-
Depreciation	599,563	608,928
Amortization	267,848	267,847
Loss on sale of property and equipment	3,153	-
Donor-restricted contributions	(163,232)	(779,619)
Changes in operating assets and liabilities:		
Accounts receivable	9,118	(51,168)
Contributions receivable	(1,097,422)	-
Prepaid expenses	(446,649)	(29,200)
Accounts payable and accrued expenses	1,026,806	(578,890)
Deferred adoption fee revenue	639,483	237,882
Other liabilities	(65,900)	62,763
Operating lease liabiltiy	(51,048)	-
Net cash provided by (used in) operating activities	5,944,811	(3,185,155)
Investing Activities		
Proceeds from sales of investments	12,404,506	2,848,360
Purchases of investments	(16,867,609)	(1,241,622)
Purchases of property and equipment	(312,496)	(202,073)
Net cash provided by (used in) investing activities	(4,775,599)	1,404,665
Financing Activities		
Borrowings on line of credit	3,257,729	1,050,000
Repayments on line of credit	(4,157,729)	-
Repayments on note payable	(455,138)	(439,535)
Restricted contributions	163,232	779,619
Net cash provided by (used in) financing activities	(1,191,906)	1,390,084
Net decrease in cash and cash equivalents	(22,694)	(390,406)
Cash and cash equivalents at beginning of year	265,336	655,742
Cash and cash equivalents at end of year	$ 242,642	$ 265,336
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 190,648	$ 185,814
Supplemental Disclosure of Non-Cash Information		
Right-of-use asset assumed through operating lease liability	$ 155,478	$ -

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.
- 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 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 – continued

New Beginnings

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.

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.

Gladney Home

The Center operates a Group Residential Operation ("GRO") on its Fort Worth Campus that houses teen and preteen girls who are currently residing in foster care in the State of Texas but are actively seeking permanency through adoption. The home can house up to 30 girls but currently is capped at 15 as the program is being evaluated.

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").

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 and Cash Equivalents

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 equivalents. 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 in future years are recorded at their net realizable value. Uncollectible 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 which 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, 2023 and 2022.

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 Organization 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.

B. Summary of Significant Accounting Policies – continued

Endowment Funds – continued

In accordance with the 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.

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 net asset with donor restriction. 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.

B. Summary of Significant Accounting Policies – continued

Property and Equipment

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

Intangible Assets

Intangible assets consist of key adoption domain names and digital content. The Organization amortizes its intangible assets over their useful lives on a straight-line basis, which is estimated to be 15 years.

Long-Lived Assets

The Organization evaluates its long-lived assets including definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amounts to future undiscounted cash flows that the assets are expected to generate. If long-lived assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value and is recorded in the period the determination was made. Based upon management's assessment, there was no impairment of long-lived assets at August 31, 2023.

Revenue Recognition

Adoption Program Revenues

The Organization generates revenue primarily through adoption services for adoptive families and accounts for a contract when: (i) it has approval and commitment from both parties, (ii) the rights of the parties are identified, (iii) payment terms are identified, (iv) the contract has commercial substance, and (v) collectability of consideration is probable. The Organization considers the start of an adoption to be when the above criteria have been met and when written authorization from the adoptive family to proceed has been received.

B. Summary of Significant Accounting Policies – continued

Revenue Recognition – continued

Adoption Program Revenues – continued

The Organization has identified four distinct performance obligations over the life of the adoption, which include: (i) application, (ii) approved and waiting, (iii) match, and (iv) marketing. The application, approved and waiting, and match phases are all recognized at a point in time, while the marketing performance obligation is recognized over the estimated life of the adoption. The revenue allocated to the marketing phase is determined based on the marketing costs for the year, which are allocated to the number of families in a given year. The adoptive family is required to make payments throughout the adoption process which generally match the performance obligations identified above.

Contract liabilities represent payments received from customers prior to the satisfaction of the corresponding performance obligations and are presented as deferred adoption fee revenue in the accompanying combined statements of financial position. Contract liabilities are recognized as revenue once the corresponding performance obligations are satisfied based on the contract with the customer. Contract liabilities as of September 1, 2021, were approximately $424,000.

Website Advertisement Revenue

The Organization also recognizes revenue for website advertising through Adoption.com, which is recognized at a point in time when the advertisement takes place.

Revenue is disaggregated by the timing of revenue recognition as follows for the year ended August 31:

	2023	2022
Revenue earned at a point in time	$ 4,466,413	$ 4,125,603
Revenue earned over time	639,483	237,882
Total revenues from contracts with customers	$ 5,105,896	$ 4,363,485

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities of the respective period as net assets released from restrictions.

B. Summary of Significant Accounting Policies – continued

Contributed Nonfinancial Assets

The Organization receives various assets in the form of contributed household items. These amounts are recorded as contributed nonfinancial assets, which are recorded at their estimated fair value (as determined by management) at the date of contribution. The following represents the Organization's contributed nonfinancial assets recognized within the combined statement of activities for the year ended August 31:

	2023	2022
Household items	$ 3,608	$ 8,063
	$ 3,608	$ 8,063

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 $424,000 and $446,000 for the years ended August 31, 2023 and 2022, respectively, and are included in Outreach and Education on the accompanying combined statements of functional expenses.

Functional Expenses

The costs of providing the Organization's various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's judgment.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries	Time and effort
Employee benefits	Direct usage
Medical services	Direct usage
Office expense	Direct usage
Utilities and ground keeping	Square footage
Leases and rentals	Square footage and direct usage
Insurance expense	Direct usage
Depreciation expense	Direct usage
Professional fees	Direct usage
Other expenses	Direct usage
Outreach and education	Direct usage

Interest expense is allocated 100% to domestic infant adoption program.

B. Summary of Significant Accounting Policies – continued

Comparative Prior Year Information

The combined statements of activities and changes in net assets and functional expenses for the year ended August 31, 2022, include certain summarized financial information in total but not by net asset class or program category for purposes of comparison to 2023 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, 2022, from which the summarized information was derived.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Codification ("ASC") 842, *Leases*, to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization elected the package of practical expedients permitted under the transition guidance, allowing the Organization to carry forward conclusions related to: (a) whether expired or existing contracts contain leases; (b) lease classification; and (c) initial direct costs for existing leases. The Organization has elected not to record operating lease ROU assets or lease liabilities associated with leases with durations of 12 months or less. The Organization elected the practical expedient allowing aggregation of non-lease components with related lease components when evaluating the accounting treatment for all classes of underlying assets.

The discount rate used to determine the commencement date present value of lease payments is the interest rate implicit in the lease, or when that is not readily determinable, the Organization utilizes the risk-free rate in effect at the time of the lease inception. Both ROU assets and lease liabilities exclude variable payments not based on an index or rate, which are treated as period costs. The Organization's lease agreements do not contain significant residual value guarantees, restrictions, or covenants.

The Organization adopted this standard effective September 1, 2022, using the modified retrospective approach. In transitioning to ASC 842, the Organization elected to use the practical expedient package available at the time of implementation and did not elect to use hindsight. These elections have been applied consistently to all leases existing at, or entered into after, September 1, 2022 (the beginning of the period of adoption). As a result of the adoption of the new lease accounting guidance, the Organization recognized on September 1, 2022, an ROU asset and lease liability of approximately $155,000. The standard did not materially impact changes in net assets or cash flows.

C. Availability and Liquidity

The following reflects the Organization's financial assets which are available to meet general expenditures over the next twelve months at August 31:

	2023	2022
Financial assets at year-end:		
Cash and cash equivalents	$ 242,642	$ 265,336
Accounts and contributions receivable, net	1,268,882	180,578
Investments	37,823,797	23,414,554
Total financial assets	39,335,321	23,860,468
Less: Net assets with donor restrictions	34,373,282	19,291,697
Financial assets available to meet general expenditures over the next twelve months	$ 4,962,039	$ 4,568,771

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. At August 31, 2023 and 2022, the Organization had approximately $4,962,000 and $4,569,000, respectively, of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure. The Organization also has an unsecured line of credit with a financial institution with available borrowings of $1,250,000 available (see Note H). This unsecured line of credit matures on August 4, 2024.

D. Investments

The following table presents the fair value hierarchy table for investments measured at fair value, on a recurring basis, as of August 31, 2023 and 2022:

	August 31, 2023		
	Level 1	Level 3	Total
Mutual funds			
Fixed income	$15,080,155	$ -	$15,080,155
International	2,852,974	-	2,852,974
Large cap growth	4,441,975	-	4,441,975
Large cap value	4,478,979	-	4,478,979
Small cap value	1,462,197	-	1,462,197
Money market funds	26,437	-	26,437
Equity securities			
Small/mid cap growth	1,402,526	-	1,402,526
Treasury bond	22,174	-	22,174
Oil and gas investments	-	8,056,380	8,056,380
Total investments in the fair value hierarchy	$29,767,417	$ 8,056,380	37,823,797
Total investments at fair value			$37,823,797

D. Investments – continued

	August 31, 2022		
	Level 1	Level 3	Total
Mutual funds			
Fixed income	$10,287,031	$ -	$10,287,031
International	2,286,354	-	2,286,354
Large cap growth	3,410,435	-	3,410,435
Large cap value	3,431,812	-	3,431,812
Small cap value	1,129,632	-	1,129,632
Exchange traded funds	1,240,847	-	1,240,847
Money market funds	362,531	-	362,531
Equity securities			
Small/mid cap growth	1,180,197	-	1,180,197
Treasury bond	22,971	-	22,971
Total investments in the fair value hierarchy	$23,351,810	$ -	23,351,810
Hedge fund/ investments measured at net asset value [(a)]			62,744
Total investments at fair value			$23,414,554

[(a)] In accordance with GAAP, investments that are measured at net asset value ("NAV") per share (or its equivalent) have not been classified in the fair value hierarchy.

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, 2023 and 2022. 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 Organization's oil and gas investments include well royalties and working interests, all of which are developed and produced by entities independent of the Organization. The fair values of these investments were determined by management using multiples of historical net operating profits of the investments. Because such profits are impacted by commodity pricing and production volumes, any increase or decrease in those variables my result in a higher or lower fair value measurement.

The fair value of the Organization's investment in the hedge fund as of August 31, 2022, is based on the value of the underlying assets as published by the fund managers in the form of a NAV per share or unit or an equivalent. 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. During the year ended August 31, 2023, the hedge fund was fully liquidated.

D. Investments – continued

The table below sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the year ended August 31, 2023. There were no Level 3 investments held during the year ended August 31, 2022.

Balance, beginning of year	$ -
Contributions	10,099,332
Unrealized loss	(2,042,952)
Balance, end of year	$ 8,056,380

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

	2023	2022
Dividends and interest	$ 117,543	$ 689,608
Realized gains from mutual funds	78,250	1,187,676
Unrealized gains (losses) from mutual funds	1,785,912	(5,578,671)
Unrealized loss on oil and gas investments	(2,042,952)	-
Earnings from oil and gas investments	1,771,203	-
Investment gains (losses) before investment fees	1,709,956	(3,701,387)
Less investment fees	66,665	60,827
Less fees from oil and gas investments	48,155	-
Investment income (loss), net	$ 1,595,136	$ (3,762,214)

E. Property and Equipment

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

	2023	2022
Land	$ 1,335,252	$ 1,335,252
Building	15,651,592	15,651,592
Furniture and fixtures	2,781,067	2,633,140
Automobiles	114,369	97,681
Statues	83,185	83,185
Work-in-process	362,706	251,606
Total property and equipment	20,328,171	20,052,456
Less accumulated depreciation	10,549,719	9,983,784
Property and equipment, net	$ 9,778,452	$10,068,672

F. Intangible Assets

During 2020, the Organization acquired intangible assets consisting primarily of key adoption domain names and digital content from a third party. The intangible assets were acquired primarily to broaden the Organization's internet exposure to potential birth parents and adoption parents. Management estimates that the useful life of these intangible assets is 15 years.

The purchase price consisted of an initial cash payment to the seller and an earn-out feature. An earn-out will be paid to the sellers if an agreed-upon number of placements are made in the Organization's *Domestic Infant* program over time. See Note M. Amortization expense related to definite-lived intangibles for both years ended August 31, 2023 and 2022, was approximately $268,000.

Definite-lived intangible assets consist of the following at August 31:

	2023	2022
Intangible assets	$ 4,017,719	$ 4,017,719
Less accumulated amortization	(982,109)	(714,261)
	$ 3,035,610	$ 3,303,458

Based on the current carrying amount of intangible assets subject to amortization, the estimated amortization expense for each of the succeeding five years and thereafter is as follows:

2024	$ 267,848
2025	267,848
2026	267,848
2027	267,848
2028	267,848
Thereafter	1,696,370
	$ 3,035,610

G. Note Payable

The Organization has an unsecured note payable for $4,500,000 with a financial institution, with an interest rate of 3.44%. Interest and principal are payable monthly. The note payable matures on December 3, 2029. Additionally, the note payable agreement requires the Organization to maintain unencumbered liquid assets of not less than $10,000,000 at year-end. The Organization was in compliance with this requirement as of August 31, 2023.

G. Note Payable – continued

Future maturities of the note payable at August 31, 2023, are as follows:

2023	$ 475,146
2024	492,289
2025	509,736
2026	527,801
2027	546,402
Thereafter	875,654
Total future maturities of the note payable	$ 3,427,028

H. Line of Credit

The Organization has an unsecured line of credit with the same financial institution as their note payable to meet short-term borrowing needs. The Organization can borrow up to $1,500,000, with an interest rate of the bank's prime rate plus 1.00%. Interest is payable monthly. On August 24, 2023, the line of credit was amended to extend the maturity date to August 4, 2024, and change the interest rate to the prime rate plus 0.50%. The prime rate at August 31, 2023 and 2022, was 8.50% and 5.50%, respectively. The line of credit has an outstanding balance of $250,000 and $1,150,000 as of August 31, 2023 and 2022, respectively. Borrowings of $1,250,000 were available to the Organization under this line of credit as of August 31, 2023.

I. Net Assets with Donor Restrictions

Net assets with donor restrictions as of August 31, 2023 and 2022, are available for the following purposes or periods:

	2023	2022
Time and purpose restrictions:		
Gladney Fund	$ 6,307,902	$ 6,253,393
Domestic programs	614,753	1,199,328
International programs	88,532	82,895
Birth mom services	856,673	-
International and humanitarian aid	856,672	-
Total time and purpose restrictions	8,724,532	7,535,616
Held in perpetuity:		
Birth mom services	6,946,335	-
International and humanitarian aid	6,946,334	-
Any activities of the Center	5,389,783	5,389,783
Post adoption	3,052,318	3,052,318
ABC Adoption Program	1,221,700	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
Career development	268,818	268,818
China Endowment	246,574	246,574
Intercountry Adoption Program	106,135	106,135
Total held in perpetuity	25,648,750	11,756,081
Total net assets with donor restrictions	$34,373,282	$19,291,697

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature exist in two donor-restricted endowment funds, the Adrienne Suzanne Wynn Beauchamp Charitable Remainder Unitrust endowments for birth mom services and international and humanitarian aid. These endowments have an original gift of $7,967,811 and $7,967,810, respectively, and each have a deficiency of $1,021,476 as of August 31, 2023. These deficiencies resulted from unfavorable market fluctuations in commodity pricing and production volumes related to the underlying oil and gas investments, which occurred after the contribution of the donor-restricted endowment funds; however, income from the endowment funds was $856,673 and $856,672, respectively, for the year ended August 31, 2023, which can be appropriated by the Organization at any time, based on the purpose restriction imposed by the donor.

J. Endowment Funds – continued

The changes in endowment fund net assets for the year ended August 31, 2023, are as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total Net Endowment Assets
Balance – beginning of year	$ 6,253,393	$11,756,081	$18,009,474
Contributions	-	15,935,621	15,935,621
Investment income, net	1,272,115	-	1,272,115
Unrealized loss	-	(2,042,952)	(2,042,952)
Release from restrictions	(1,217,606)	-	(1,217,606)
Balance – end of year	$ 6,307,902	$25,648,750	$31,956,652

The changes in endowment fund net assets for the year ended August 31, 2022, are as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total Net Endowment Assets
Balance – beginning of year	$ 9,593,358	$11,756,081	$21,349,439
Investment loss, net	(2,632,762)	-	(2,632,762)
Release from restrictions	(707,203)	-	(707,203)
Balance – end of year	$ 6,253,393	$11,756,081	$18,009,474

K. Trusts, Legacies, and Bequests

The Organization is the beneficiary under various wills and trust agreements, the total realizable amount of which cannot presently be determined. Such amounts are excluded from the accompanying combined financial statements until clear title is established and the ultimate realizable amount is reasonably determinable.

L. Leases

The Organization has an operating lease for its office equipment. The lease has a remaining lease term of approximately 3 years. The terms used to calculate the ROU asset and lease liability for this lease as of August 31, 2023, did not include a renewal option as a renewal option was not included in the operating lease.

L. Leases – continued

The components of lease expense during the year ended August 31, 2023, are as follows:

Operating lease cost	$	32,400
Short-term lease cost	$	66,348

Weighted average lease term and discount rate as of August 31, 2023, are as follows:

Weighted average remaining lease term (years)	3.42
Weighted average discount rate	3.54%

Cash paid during August 31, 2023, for operating leases are as follows:

Operating cash flows	$	32,400

Maturities of operating lease liabilities as of August 31, 2023, are approximately as follows:

2024	$	32,400
2025		32,400
2026		32,400
2027		13,500
Total lease payments		110,700
Less present value discount		(6,270)
Lease liabilities	$	104,430

Total rental expense for the year ended August 31, 2022, was approximately $108,000, and is allocated across various programs and support within the accompanying combined statements of activities and changes in net assets.

M. Commitments and Contingencies

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.

M. Commitments and Contingencies – continued

Earn-Out

As part of the Organization's purchase of certain intangible assets disclosed in Note F, the seller is eligible for an earn-out each year in the three years subsequent to the closing date if placements in the Organization's *Domestic Infant* program exceed 100 ("placement excess amount") for that respective year. Effective October 31, 2021, the earn-out agreement was amended to lower the placement threshold from 100 to 76. The first year commenced on January 1, 2022. The seller is eligible for an earn-out per placement identified below:

Placement Excess Amount	Earn Out Per Placement
1 to 40	$10,000 per placement over 76
41 to 80	$12,500 per placement over 76
81 or more	$15,000 per placement over 76

Management does not believe it is probable that the Organization will have an excess in placements; therefore, no reserve for potential earn-out placements to be paid to the seller have been accrued as of August 31, 2023.

N. Special Events

The Organization has 17 family associations located throughout the United States that sponsored fundraising special events in 2023 and 2022. These groups of volunteers raised a total of approximately $241,000 and $225,000 with related expenses of approximately $126,000 and $105,000 for the years ended August 31, 2023 and 2022, respectively. Special events unrelated to the family associations raised approximately $307,000 and $60,000 with related expenses of $274,000 and $33,000 for the years ended August 31, 2023 and 2022, respectively.

The Organization celebrated the 2021 Gladney Cup Golf Tournament with multiple events that raised $1,452,000 with related expenses of $698,000 for the year ended August 31, 2022. As this is a biennial event, there was no Gladney Cup Golf Tournament for the year ended August 31, 2023.

O. Retirement Plan

The Organization maintains a 403(b) defined contribution retirement plan (the "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 2023 and 2022. The expense recognized by the Organization totaled approximately $41,000 and $46,000 for the years ended August 31, 2023 and 2022, respectively.

O. Retirement Plan – continued

During 2015, 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, and added a second executive in 2018. The expense recognized by the Organization related to the deferred compensation plans was $35,000 for the year ended August 31, 2023 and 2022, respectively. The Organization has also recognized an additional liability related to the non-elective contribution of $2,500 and $5,500 as of August 31, 2023 and 2022, respectively.

P. Federal Income Taxes

The Center and Fund are generally exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, as organizations other than a private foundation.

GAAP requires management to evaluate tax positions taken by the Center and Fund and recognize a tax liability if the Center or Fund has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Center and Fund and has concluded that, as of August 31, 2023, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the combined financial statements. No tax returns are currently under examination by any tax authorities.

Q. Employee Retention Credit

In March 2020, the Treasury Department and Internal Revenue Service enacted the Employee Retention Credit ("ERC") program, which was a credit designed to encourage businesses to keep employees on their payroll. The Organization filed to receive an ERC of approximately $837,000, and during the year ended August 31, 2023, all payments were received and recognized within the accompanying combined statement of activities and changes in net assets.

R. Subsequent Events

In preparing the accompanying combined financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through February 1, 2024, the date the combined financial statements were available for issuance.