

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

**ADOPTIONS TOGETHER, INC.**

DECEMBER 31, 2009 AND 2008

Adoptions Together, Inc.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Adoptions Together, Inc.

We have audited the accompanying statement of financial position of Adoptions Together, Inc. as of December 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's December 31, 2008 financial statements and, in our report dated July 20, 2009; we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Adoptions Together, Inc. as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Reznick Group, P.C.*

Baltimore, Maryland  
July 20, 2010

Adoptions Together, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31, 2009 and 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Current assets		
Cash and cash equivalents	\$ 417,907	\$ 331,644
Investments	6,836	7,052
Accounts and grants receivable, net of allowance for uncollectible accounts of \$83,180 and \$10,000, respectively	781,009	521,420
Prepays and other	<u>68,573</u>	<u>56,346</u>
Total current assets	<u>1,274,325</u>	<u>916,462</u>
Property and equipment		
Furniture and equipment	418,811	366,088
Leasehold improvements	<u>30,201</u>	<u>30,201</u>
Total property and equipment	449,012	396,289
Less accumulated depreciation and amortization	<u>(346,205)</u>	<u>(303,949)</u>
Net property and equipment	<u>102,807</u>	<u>92,340</u>
Other assets		
Deposits	<u>12,602</u>	<u>14,191</u>
Total assets	<u>\$ 1,389,734</u>	<u>\$ 1,022,993</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 136,893	\$ 72,905
Accrued salaries and related expenses	206,724	140,022
Deferred revenue	601,927	643,483
Capital lease obligations, current portion	25,653	20,116
Deferred rent	<u>20,300</u>	<u>16,096</u>
Total current liabilities	991,497	892,622
Capital lease obligations, noncurrent	<u>76,765</u>	<u>67,374</u>
Total liabilities	<u>1,068,262</u>	<u>959,996</u>
Net assets		
Unrestricted	279,784	9,403
Temporarily restricted	<u>41,688</u>	<u>53,594</u>
Total net assets	<u>321,472</u>	<u>62,997</u>
Total liabilities and net assets	<u>\$ 1,389,734</u>	<u>\$ 1,022,993</u>

See notes to financial statements

Adoptions Together, Inc.

STATEMENTS OF ACTIVITIES

Year ended December 31, 2009  
with comparative totals for the year ended December 31, 2008

	Unrestricted	Temporarily restricted	2009 total	2008 total
<b>Revenue and support</b>				
Domestic adoptions	\$ 1,008,656	\$ -	\$ 1,008,656	\$ 909,024
International adoptions	127,690	-	127,690	175,816
Center for Adoptive Families	1,799,954	-	1,799,954	988,900
Assessment services	1,128,547	-	1,128,547	807,593
Contributions	224,025	16,591	240,616	725,319
Investment and other	(216)	-	(216)	(3,310)
Net assets released from restrictions	28,497	(28,497)	-	-
<b>Total revenue and support</b>	<b>4,317,153</b>	<b>(11,906)</b>	<b>4,305,247</b>	<b>3,603,342</b>
<b>Expenses</b>				
<b>Programs</b>				
Domestic adoptions	755,488	-	755,488	599,284
International adoptions	272,625	-	272,625	425,074
Center for Adoptive Families	1,568,834	-	1,568,834	1,055,739
Assessment services	778,319	-	778,319	780,132
International Orphanage Relief	28,497	-	28,497	61,519
<b>Total programs</b>	<b>3,403,763</b>	<b>-</b>	<b>3,403,763</b>	<b>2,921,748</b>
<b>Support services</b>				
Management and general	581,793	-	581,793	697,070
Fundraising	61,216	-	61,216	146,768
<b>Total expenses</b>	<b>4,046,772</b>	<b>-</b>	<b>4,046,772</b>	<b>3,765,586</b>
<b>Change in net assets</b>	<b>270,381</b>	<b>(11,906)</b>	<b>258,475</b>	<b>(162,244)</b>
<b>Net assets, beginning of year</b>	<b>9,403</b>	<b>53,594</b>	<b>62,997</b>	<b>225,241</b>
<b>Net assets, end of year</b>	<b>\$ 279,784</b>	<b>\$ 41,688</b>	<b>\$ 321,472</b>	<b>\$ 62,997</b>

See notes to financial statements

Adoptions Together, Inc.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Change in net assets	\$ 258,475	\$ (162,244)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	42,256	52,028
Unrealized loss on investments	216	3,310
Bad debt expense	75,568	1,780
Deferred rent	4,204	15,218
(Increase) decrease in assets		
Accounts and grants receivable	(335,157)	(201,231)
Pledges receivable	-	100,000
Prepays and other	(12,227)	(5,249)
Deposits	1,589	-
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	63,988	(75,286)
Accrued salaries and related expenses	66,702	(41,970)
Deferred revenue	(41,556)	26,879
	<u>124,058</u>	<u>(286,765)</u>
Net cash provided by (used in) operating activities		
Cash flows from financing activities		
Payments of capital lease obligations	<u>(37,795)</u>	<u>(16,224)</u>
	<u>(37,795)</u>	<u>(16,224)</u>
Net cash used in financing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	86,263	(302,989)
Cash and cash equivalents, beginning of year	<u>331,644</u>	<u>634,633</u>
Cash and cash equivalents, end of year	<u>\$ 417,907</u>	<u>\$ 331,644</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ 10,184</u>	<u>\$ 5,819</u>
Supplemental disclosures of noncash investing and financing activities		
Purchase of equipment under capital lease obligations	<u>\$ 52,722</u>	<u>\$ 20,946</u>

See notes to financial statements

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 1 - ORGANIZATION

Adoptions Together, Inc. (the Organization) was founded in 1990 as a nonprofit organization to provide adoption and related services. The Organization is licensed as a child placement agency in the State of Maryland, Commonwealth of Virginia and the District of Columbia. The Organization is committed to building healthy permanent families by providing the highest quality child placement services, lifelong support to children and their families and advocacy for continuous improvement of child welfare systems. The Organization receives its revenue and support from program fees and contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States. This requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Demand deposits are maintained with federally insured banks. At times, cash and cash equivalents exceed federally insured limits. Management, however, does not consider this a significant concentration of credit.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$2,500. Property and equipment are stated at cost for purchased assets and at estimated fair value on the contribution date for contributed assets. Property and equipment are being depreciated using the straight-line method over the estimated useful lives of the assets (five to ten years). Leasehold improvements are amortized over the period of the lease or useful life of the improvements, whichever is shorter. Costs of repairs and maintenance of the property and equipment are expensed as incurred.

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

Contributions

Contributions received, including unconditional pledges or “promises-to-give” received from donors, are recorded at fair value as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions, including inherent time restrictions. When a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when time or use restrictions are fully met in the same fiscal year in which the contribution is received, the contribution is reported as unrestricted. Pledges due beyond one year from the fiscal year-end are discounted to their estimated present value of expected future cash flow.

Donated Services

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their estimated fair values in the period received. During the years ended December 31, 2009 and 2008, the Organization recognized no donated services as contributions.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Receivables include an allowance for uncollectible accounts, which was determined based on a review of outstanding balances and the likelihood of collection. Delinquency of receivables is determined based on contractual terms and management’s review of aged balances. Based on management’s assessment of the credit history with customers having outstanding balances, it has concluded that \$83,180 and \$10,000 in allowance for uncollectible accounts is adequate at December 31, 2009 and 2008, respectively.

Investments

Investments are recorded at fair value based on quoted market prices. Realized and unrealized holding gains and losses are included with investment income in the statement of

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

activities. Investment income is reported as an increase in unrestricted net assets unless restricted by donor or law.

Revenue

Revenue is recognized when services are rendered and the Organization has a contractual right to payment. With respect to adoption related services such as home studies and post placement services, the Organization treats payments received as deferred revenue until the services have been rendered. For traditional adoption placements, payments received and billings made are also treated as deferred revenue until the adoption occurs or legal risk has expired. Nonrefundable fees are recognized as income at the time of receipt. Accounts receivable consist of amounts due to the Organization for arranging domestic and international adoptions and adoption-related services.

The Organization collects and records as revenue only the portion of foreign source fees that are payable to it, as adoptive parents are directly responsible for the fees that are payable to the Foreign Service coordinator.

Revenue from cost-reimbursable grants is recognized to the extent of the Organization's corresponding expenditures on the basis of allowable direct and indirect costs. Grants receivable consist of expenditures in excess of cash received for funded grants.

Functional Allocation of Expenses

The costs of providing program and support services have been summarized on a functional basis in the statement of activities. Accordingly, certain overhead costs have been allocated based upon the functions they directly benefit or upon management's estimate of the proportion of these costs applicable to each function.

Income Taxes

The Organization has applied for and received a determination letter from the Internal Revenue Service (IRS) to be treated as a tax exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the year ended December 31, 2009. Due to its tax exempt status, the Organization is not subject to income taxes. The Organization is required to file and does file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements do not reflect a provision for

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

income taxes and the Organization has no other tax positions which must be considered for disclosure.

Comparative Information

The statement of activities includes certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Codification (Codification). Effective July 1, 2009, the Codification is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Codification is intended to reorganize, rather than change, existing GAAP. Accordingly, all references to currently existing GAAP have been removed and have been replaced with plain English explanations of the Organization's accounting policies. The adoption of the Codification did not have a material impact on the Organization's financial position or results of operations.

In May 2009, the FASB issued guidance regarding subsequent events, which was subsequently updated in February 2010. This guidance established general standards of accounting for and disclosure of events that occur after the statement of financial position date but before financial statements are issued or are available to be issued. In particular, this guidance sets forth the period after the statement of financial position date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the statement of financial position date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the statement of financial position date. This guidance was effective for financial statements issued for fiscal years ending after June 15, 2009, and was therefore adopted by the Organization for the year ended December 31, 2009. The adoption did not have a significant impact on the subsequent events that the

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

Organization, either through recognition or disclosure, in its financial statements. In February 2010, the FASB amended its guidance on subsequent events for entities that are not SEC filers to disclose the date that the financial statements were available to be issued. This amendment was effective immediately. See note 10 regarding the date through which subsequent events have been evaluated.

NOTE 3 - DESCRIPTION OF PROGRAM SERVICES

The Domestic Adoption program provides support and preparation services to prospective adoptive and birth parents residing primarily in Maryland, Virginia, and the Washington metropolitan area. The Adoption Works program, included with Domestic Adoption program costs, provides adoption services for children who are growing up in public foster care.

The International Adoption program arranges for families living in the United States to adopt children from orphanages in Eastern Europe, Latin America and Asia. The International Orphanage Relief program supports children in foreign orphanages, primarily Eastern Europe and Asia.

The Center for Adoptive Families (the Center), is a comprehensive pre- and post-adoption education and counseling center in the Baltimore/Washington area, established to support adoptive families and birth parents, educate the community, and provide assistance to anyone needing information about adoption. The Center provides support services to the schools and parents of adopted special-needs children for the purpose of helping children succeed in school and preserving the adoption placement. It also provides clinical services for families and adopted children with special needs, and training for mental health workers and other professionals who come into contact with families who adopt these children.

The Assessment Services program provides home studies and post-placement supervision for foster parents, pre-adoptive parents and families who have received placement of a child and are awaiting completion of the adoption. These services are available to families residing in Maryland, Virginia, and the District of Columbia.

NOTE 4 - FAIR VALUE/INVESTMENTS

The accounting standard for fair value measurement and disclosures defines fair value, establishes a framework for measuring fair value, and provides for expanded disclosure about

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

fair value measurements. The accounting standard was applied to the Organization's financial assets and liabilities effective January 1, 2008, and to certain nonfinancial assets or liabilities effective January 1, 2009. Fair value is defined by the accounting standard for fair value measurement and disclosures as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels. The following summarizes the three levels of inputs and hierarchy of fair value the Organization uses when measuring fair value:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access;
- Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and
- Level 3 inputs are unobservable inputs for the asset or liability that are typically based on an entity's own assumptions as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety.

Investments at December 31, 2009 and 2008, consist of the following items:

Fair Value Measurements at December 31, 2009 Using:			
	Level 1	Level 2	Level 3
Common stock:			
Financial	\$ 1,167	\$ -	\$ -
Energy	2,113	-	-
Telecommunications	162	-	-
Other	3,394	-	-
Total	\$ 6,836	\$ -	\$ -

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

Fair Value Measurements at December 31, 2008 Using:			
	Level 1	Level 2	Level 3
Common stock:			
Financial	\$ 1,020	\$ -	\$ -
Energy	2,474	-	-
Telecommunications	93	-	-
Other	3,465	-	-
Total	\$ 7,052	\$ -	\$ -

Gains and losses (realized and unrealized) included in changes in net assets for the periods above are reported in trading revenue and in other revenue as follows:

	<u>2009</u>	<u>Trading revenue</u>	<u>Other revenue</u>
Total gains (losses) included in change in net assets	\$ 71	\$ -	\$ 71
Change in unrealized gains (losses) related to assets still held at reporting date included in change in net assets	<u>(287)</u>	<u>-</u>	<u>(287)</u>
	<u>\$ (216)</u>	<u>\$ -</u>	<u>\$ (216)</u>
	<u>2008</u>	<u>Trading revenue</u>	<u>Other revenue</u>
Total gains (losses) included in change in net assets	\$ 147	\$ -	\$ 147
Change in unrealized gains (losses) related to assets still held at reporting date included in change in net assets	<u>(3,457)</u>	<u>-</u>	<u>(3,457)</u>
	<u>\$ (3,310)</u>	<u>\$ -</u>	<u>\$ (3,310)</u>

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE 5 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Program restricted		
International Orphanage Relief Program	<u>\$ 41,688</u>	<u>\$ 53,594</u>

Net assets were released from restrictions during the years ended December 31, 2009 and 2008, by incurring expenses satisfying the restrictions or by the occurrence of other events.

NOTE 6 - LEASE AGREEMENTS

Operating Leases

The Organization leases office space in Silver Spring, Maryland and Baltimore, Maryland under two agreements, which expire in February 2013. Both leases include provisions for annual adjustments of 3% over the lease terms. Total rent payments are recognized as expenses on a straight-line basis resulting in a deferred rent liability. Rent expense for the years ended December 31, 2009 and 2008 was \$179,118 and \$177,564, respectively.

The Organization has an office lease for space in Herndon, Virginia. Rent expense for the years ended December 31, 2009 and 2008 was \$15,250 and \$18,524, respectively.

The Organization has an office lease for space in Moscow, Russia. The space is on a month-to-month lease. Rent expense for the years ended December 31, 2009 and 2008 was \$6,000 each year.

The Organization entered into a three-year lease beginning April 2007 for office space located in Washington, D.C. Monthly rental expense is \$3,818. Rent expense for the years ended December 31, 2009 and 2008 was \$45,816 each year.

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

Minimum future rental payments under operating lease agreements as of December 31, 2009, for office and equipment leases are as follows:

Year ending December 31, 2010	\$	184,622
2011		178,362
2012		183,712
2013		<u>30,769</u>
Total minimum future rental payments	\$	<u>577,465</u>

Capital Leases

The Organization leases various office equipment under capital leases. The leases expire at various dates through August, 2013. Capital leases are equipment acquisitions made under lease financing. Future minimum lease obligations under these capital leases as of December 31, 2008, are as follows:

Year ending December 31, 2010	\$	38,742
2011		30,368
2012		30,368
2013		24,156
2014		<u>4,888</u>
Total minimum future rental payments		128,522
Less: Amount representing interest		<u>(26,104)</u>
Present value of capital lease obligation		102,418
Less: Current portion		<u>(25,653)</u>
Long-term portion	\$	<u>76,765</u>

As of December 31, 2009 and 2008, capitalized leased equipment of \$187,507 and \$134,784, respectively, net of accumulated amortization of \$93,206 and \$57,762, respectively, is included with furniture and equipment.

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE 7 - RETIREMENT PLAN

During 2001, the Organization established a 401(k) plan for all employees who have completed one year of service. The plan provides for employee contributions and an employer matching contribution up to 6% of salary, plus an annually determined discretionary contribution to eligible employees. Vesting in the benefits provided through employer contributions to the plan is based on years of service with full vesting after six years. Employer contributions to this plan during the years ended December 31, 2009 and 2008 were \$20,000 and \$7,000, respectively.

NOTE 8 - BANK LINE OF CREDIT

The Organization has a \$100,000 unsecured line of credit agreement with a bank. There was no outstanding balance on the line of credit at December 31, 2009 and 2008.

NOTE 9 - CONCENTRATIONS

Approximately 35% or \$1,412,340 of revenue in 2009 was generated from services performed for state and local government agencies. Receivables at December 31, 2009 from state and local government agencies accounted for approximately 83% or \$651,091 of receivables.

The Organization maintains its cash balances at two banks. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each bank. The Organization has not experienced any losses with respect to bank balances in excess of government provided insurance. Management believes no significant concentration of credit risk exists with respect to the uninsured balances as of December 31, 2009. As of December 31, 2009, the Organization had \$155,289 of uninsured cash at these banks.

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE 10 - SUBSEQUENT EVENTS

Events that occur after the statement of financial position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Organization through July 20, 2010 (the date the financial statements are available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.