

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

**ADOPTIONS TOGETHER, INC.**

DECEMBER 31, 2010 AND 2009

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, 2010, 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, 2009 financial statements and, in our report dated July 20, 2010; 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, 2010, 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 15, 2011

Adoptions Together, Inc.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2010 and 2009

ASSETS

	2010	2009
Current assets		
Cash and cash equivalents	\$ 760,754	\$ 417,907
Investments	6,758	6,836
Accounts and grants receivable, net of allowance for uncollectible accounts of \$83,180, each year	587,119	781,009
Prepays and other	70,399	68,573
Total current assets	1,425,030	1,274,325
Property and equipment		
Furniture and equipment	396,615	418,811
Leasehold improvements	30,201	30,201
Total property and equipment	426,816	449,012
Less accumulated depreciation and amortization	(337,793)	(346,205)
Net property and equipment	89,023	102,807
Other assets		
Deposits	12,602	12,602
Total assets	\$ 1,526,655	\$ 1,389,734

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 78,580	\$ 136,893
Accrued salaries and related expenses	193,423	206,724
Deferred revenue	589,065	601,927
Capital lease obligations, current portion	11,956	25,653
Deferred rent	19,462	20,300
Total current liabilities	892,486	991,497
Capital lease obligations, noncurrent	69,873	76,765
Total liabilities	962,359	1,068,262
Net assets		
Unrestricted	506,418	279,784
Temporarily restricted	57,878	41,688
Total net assets	564,296	321,472
Total liabilities and net assets	\$ 1,526,655	\$ 1,389,734

See notes to financial statements

Adoptions Together, Inc.

STATEMENTS OF ACTIVITIES

Year ended December 31, 2010  
with comparative totals for the year ended December 31, 2009

	Unrestricted	Temporarily restricted	2010 total	2009 total
<b>Revenue and support</b>				
Domestic adoptions	\$ 915,030	\$ -	\$ 915,030	\$ 1,008,656
International adoptions	61,712	-	61,712	127,690
Center for Adoptive Families	1,503,445	-	1,503,445	1,799,954
Assessment services	989,160	-	989,160	1,128,547
Contributions	754,949	21,857	776,806	240,616
Investment and other	(68)	-	(68)	(216)
Net assets released from restrictions	5,667	(5,667)	-	-
<b>Total revenue and support</b>	<b>4,229,895</b>	<b>16,190</b>	<b>4,246,085</b>	<b>4,305,247</b>
<b>Expenses</b>				
<b>Programs</b>				
Domestic adoptions	737,472	-	737,472	755,488
International adoptions	207,465	-	207,465	272,625
Center for Adoptive Families	1,524,339	-	1,524,339	1,568,834
Assessment services	777,934	-	777,934	778,319
International Orphanage Relief	5,667	-	5,667	28,497
<b>Total programs</b>	<b>3,252,877</b>	<b>-</b>	<b>3,252,877</b>	<b>3,403,763</b>
<b>Support services</b>				
Management and general	594,695	-	594,695	581,793
Fundraising	155,689	-	155,689	61,216
<b>Total expenses</b>	<b>4,003,261</b>	<b>-</b>	<b>4,003,261</b>	<b>4,046,772</b>
<b>Change in net assets</b>	<b>226,634</b>	<b>16,190</b>	<b>242,824</b>	<b>258,475</b>
<b>Net assets, beginning of year</b>	<b>279,784</b>	<b>41,688</b>	<b>321,472</b>	<b>62,997</b>
<b>Net assets, end of year</b>	<b>\$ 506,418</b>	<b>\$ 57,878</b>	<b>\$ 564,296</b>	<b>\$ 321,472</b>

See notes to financial statements

Adoptions Together, Inc.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets	\$ 242,824	\$ 258,475
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	32,651	42,256
Unrealized loss on investments	68	216
Bad debt expense	-	75,568
Deferred rent	(838)	4,204
Donated software included in fixed assets	(21,678)	-
Loss on disposition of assets	14,150	-
(Increase) decrease in assets		
Accounts and grants receivable	193,890	(335,157)
Prepays and other	(1,826)	(12,227)
Deposits	-	1,589
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(58,313)	63,988
Accrued salaries and related expenses	(13,301)	66,702
Deferred revenue	(12,862)	(41,556)
Net cash provided by operating activities	<u>374,765</u>	<u>124,058</u>
Cash flows from financing activities		
Payments of capital lease obligations	<u>(31,918)</u>	<u>(37,795)</u>
Net cash used in financing activities	<u>(31,918)</u>	<u>(37,795)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	342,847	86,263
Cash and cash equivalents, beginning of year	<u>417,907</u>	<u>331,644</u>
Cash and cash equivalents, end of year	<u>\$ 760,754</u>	<u>\$ 417,907</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ 9,700</u>	<u>\$ 10,184</u>
Supplemental disclosures of noncash investing and financing activities		
Purchase of equipment under capital lease obligations	<u>\$ 11,328</u>	<u>\$ 52,722</u>

See notes to financial statements

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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.

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.

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

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

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, 2010 and 2009, the Organization recognized \$45,000 and \$-0- in 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 in allowance for uncollectible accounts is adequate at December 31, 2010 and 2009, 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 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

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

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, 2010. 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 income taxes and the Organization has no other tax positions which must be considered for disclosure.

Open tax years for the Organization are 2007, 2008 and 2009.

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

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, 2009, from which the summarized information was derived.

Recent Accounting Pronouncements

In January 2010, the FASB issued guidance that clarifies and requires new disclosures about fair value measurements. The clarifications and requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2, as well as significant transfers in and out of Level 3 of the fair value hierarchy, were adopted by the Organization during 2010. The new guidance also requires that purchases, sales, issuances, and settlements be presented gross in the Level 3 reconciliation and that requirement is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years, with early adoption permitted. Note 4 - Fair Value reflects the amended disclosure requirements. This new guidance only amends the disclosures requirements, and the adoption of this guidance did not have a significant impact on the Organization's financial statements.

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

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

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

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 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

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.

The fair value of investments is classified within level 1 of the fair value hierarchy. No other assets or liabilities are measured at fair value as of December 31, 2010. The following table presents the investments that the Organization measured at fair value on a recurring basis as of December 31, 2010:

Fair Value Measurements at December 31, 2010 Using:			
	Level 1	Level 2	Level 3
Common stock:			
Financial	\$ 1,008	\$ -	\$ -
Energy	2,266	-	-
Telecommunications	190	-	-
Other	3,294	-	-
Total	\$ 6,758	\$ -	\$ -

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, 2010 and 2009

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>2010</u>	<u>Trading revenue</u>	<u>Other revenue</u>
Total gains (losses) included in change in net assets	\$ 62	\$ -	\$ 62
Change in unrealized gains (losses) related to assets still held at reporting date included in change in net assets	<u>(130)</u>	<u>-</u>	<u>(130)</u>
	<u>\$ (68)</u>	<u>\$ -</u>	<u>\$ (68)</u>
	<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>

NOTE 5 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Program restricted		
International Orphanage Relief Program	<u>\$ 57,878</u>	<u>\$ 41,688</u>

Net assets were released from restrictions during the years ended December 31, 2010 and 2009, by incurring expenses satisfying the restrictions or by the occurrence of other events.

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

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, 2010 and 2009 was \$178,531 and \$179,118, respectively.

The Organization has an office lease for space in Herndon, Virginia which expires in April, 2013. Rent expense for the years ended December 31, 2010 and 2009 was \$15,525 and \$15,250, 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, 2010 and 2009 was \$6,000 each year.

The Organization entered into a three-year lease beginning April 2007 for office space located in Washington, D.C. The lease is now on a month to month basis. Monthly rental expense is \$3,818. Rent expense for the years ended December 31, 2010 and 2009 was \$45,816 each year.

Minimum future rental payments under operating lease agreements as of December 31, 2010, for office and equipment leases are as follows:

Year ending December 31, 2011	\$	194,378
2012		200,368
2013		<u>36,393</u>
Total minimum future rental payments	\$	<u><u>431,139</u></u>

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

Capital Leases

The Organization leases various office equipment under capital leases. The leases expire at various dates through March, 2015. Capital leases are equipment acquisitions made under lease financing. Future minimum lease obligations under these capital leases as of December 31, 2010, are as follows:

Year ending December 31, 2011	\$	32,996
2012		32,996
2013		26,784
2014		7,516
2015		<u>657</u>
Total minimum future rental payments		100,949
Less: Amount representing interest		<u>(19,120)</u>
Present value of capital lease obligation		81,829
Less: Current portion		<u>(11,956)</u>
Long-term portion	\$	<u><u>69,873</u></u>

As of December 31, 2010 and 2009, capitalized leased equipment of \$143,633 and \$187,507, respectively, net of accumulated amortization of \$78,312 and \$93,206, respectively, is included with furniture and equipment.

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, 2010 and 2009 were \$20,000 each year.

Adoptions Together, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

NOTE 8 - 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, 2010 and 2009.

NOTE 9 - CONCENTRATIONS

Approximately 31% or \$1,315,397 of revenue in 2010 was generated from services performed for state and local government agencies. Receivables at December 31, 2010 from state and local government agencies accounted for approximately 96% or \$564,541 of receivables.

The Organization maintains its cash and cash equivalents in two banks. At times, these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at December 31, 2010.

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 15, 2011 (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.