

Adoptions Together, Inc.
Financial Statements
and Independent Auditor's Report
December 31, 2012 and 2011

Adoptions Together, Inc.

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Independent Auditor's Report

To the Board of Directors
Adoptions Together, Inc.

We have audited the accompanying statement of financial position of Adoptions Together, Inc. (a nonprofit organization) as of December 31, 2012, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the organization as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Adoptions Together, Inc. as of December 31, 2011, were audited by other auditors whose report dated July 30, 2012, expressed an unmodified opinion on those statements.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Baltimore, Maryland
July 19, 2013

Adoptions Together, Inc.
Statements of Financial Position
December 31, 2012 and 2011

Assets

	2012	2011
Current assets		
Cash and cash equivalents	\$ 925,092	\$ 1,121,123
Investments	3,723	1,376
Accounts and grants receivable, net of allowance for uncollectible accounts of \$37,366 and \$81,704, respectively	364,061	320,438
Prepays and other	68,292	50,665
Total current assets	1,361,168	1,493,602
Property and equipment		
Furniture and equipment	405,728	405,728
Leasehold improvements	30,201	30,201
Total property and equipment	435,929	435,929
Less accumulated depreciation and amortization	(402,467)	(374,488)
Net property and equipment	33,462	61,441
Other assets		
Deposits	56,273	35,957
Total assets	\$ 1,450,903	\$ 1,591,000

Liabilities and Net Assets

Current liabilities		
Accounts payable and accrued expenses	\$ 102,182	\$ 77,927
Accrued salaries and related expenses	246,235	224,610
Deferred revenue	348,484	449,984
Capital lease obligations, current portion	25,459	28,628
Deferred rent	4,222	13,430
Total current liabilities	726,582	794,579
Capital lease obligations, noncurrent	11,704	37,163
Total liabilities	738,286	831,742
Net assets		
Unrestricted	650,180	697,186
Temporarily restricted	62,437	62,072
Total net assets	712,617	759,258
Total liabilities and net assets	\$ 1,450,903	\$ 1,591,000

See notes to financial statements

Adoptions Together, Inc.

Statements of Activities

Year ended December 31, 2012
With comparative totals for the year ended December 31, 2011

	Unrestricted	Temporarily restricted	2012 total	2011 total
Revenue and support				
Domestic adoptions	\$ 1,033,065	\$ -	\$ 1,033,065	\$ 1,134,144
International adoptions	24,517	-	24,517	34,768
Ancillary Permanency Services	2,104,740	-	2,104,740	1,819,208
Assessment services	969,321	-	969,321	1,107,594
Contributions	301,036	915	301,951	265,556
Investment and other	436	-	436	1,146
International Orphanage Relief	550	(550)	-	-
Total revenue and support	4,433,665	365	4,434,030	4,362,416
Expenses				
Programs				
Domestic adoptions	772,498	-	772,498	846,613
International adoptions	53,048	-	53,048	126,598
Ancillary Permanency Services	1,890,859	-	1,890,859	1,507,841
Assessment services	933,356	-	933,356	881,498
International Orphanage Relief	550	-	550	2,000
Total programs	3,650,311	-	3,650,311	3,364,550
Support services				
Management and general	585,416	-	585,416	595,985
Fundraising	244,944	-	244,944	206,919
Total expenses	4,480,671	-	4,480,671	4,167,454
Change in net assets	(47,006)	365	(46,641)	194,962
Net assets, beginning of year	697,186	62,072	759,258	564,296
Net assets, end of year	<u>\$ 650,180</u>	<u>\$ 62,437</u>	<u>\$ 712,617</u>	<u>\$ 759,258</u>

See notes to financial statements

Adoptions Together, Inc.

Statements of Cash Flows

Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	\$ (46,641)	\$ 194,962
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	27,979	36,695
Deferred rent	(9,208)	(6,032)
Gain on sale of investments	-	(1,146)
(Increase) decrease in assets		
Accounts and grants receivable	(43,623)	266,681
Prepays and other	(17,627)	19,734
Deposits	(20,316)	(23,355)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	24,255	(653)
Accrued salaries and related expenses	21,625	31,187
Deferred revenue	(101,500)	(139,081)
Net cash (used in) provided by operating activities	(165,056)	378,992
Cash flows from investing activities		
Purchase of investments	(2,347)	6,528
Net cash (used in) provided by investing activities	(2,347)	6,528
Cash flows from financing activities		
Payments of capital lease obligations	(28,628)	(25,151)
Net cash used in financing activities	(28,628)	(25,151)
Net (decrease) increase in cash and cash equivalents	(196,031)	360,369
Cash and cash equivalents, beginning of year	1,121,123	760,754
Cash and cash equivalents, end of year	\$ 925,092	\$ 1,121,123
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 6,395	\$ 8,014
Supplemental disclosures of noncash investing and financing		
Purchase of equipment under capital lease obligations	\$ -	\$ 9,114

See notes to financial statements

Adoptions Together, Inc.
Notes to Financial Statements
December 31, 2012 and 2011

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 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,

Adoptions Together, Inc.

Notes to Financial Statements - Continued

December 31, 2012 and 2011

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, 2012 and 2011, the Organization recognized \$-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 \$37,366 and \$81,704 as allowance for uncollectible accounts is adequate at December 31, 2012 and 2011, 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 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.

Adoptions Together, Inc.

Notes to Financial Statements - Continued

December 31, 2012 and 2011

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, 2012. 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 subject to IRS review for the Organization are 2009, 2010 and 2011.

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, 2011, from which the summarized information was derived.

Adoptions Together, Inc.

Notes to Financial Statements - Continued

December 31, 2012 and 2011

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 China. The International Orphanage Relief program supports children in foreign orphanages, primarily Eastern Europe and Asia.

Ancillary Permanency Services includes supportive programs related to helping children achieve and maintain permanency with healthy families. Offerings include:

- Counseling;
- Training for parents, child welfare and mental health professional and the community-at-large;
- Identification of permanency resources for older youth in foster care;
- Respite services for foster families; and
- Reunification services for parents who have been separated or are at risk of separation from their children because of abuse or neglect.

In addition, the Post Permanency Family Center offers comprehensive services and activities to support families and children from the District of Columbia brought together through adoption, guardianship and kinship care.

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 Organization establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three

Adoptions Together, Inc.

Notes to Financial Statements - Continued

December 31, 2012 and 2011

broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets that are readily accessible at the measurement date for identical, unrestricted net assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities. Valuations for assets and liabilities traded in less active dealer or broker markets are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

Valuations for assets and liabilities are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The following table presents the Organization's assets and liabilities that are measured and recognized at fair value on a nonrecurring basis classified under the appropriate level of the fair value hierarchy as of December 31, 2012 and 2011:

Fair Value Measurements at December 31, 2012 Using:			
	Level 1	Level 2	Level 3
Common stock:			
Financial	\$ 431	\$ -	\$ -
Energy	-	-	-
Telecommunications	-	-	-
Other	3,292	-	-
Total	\$ 3,723	\$ -	\$ -

Adoptions Together, Inc.

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Fair Value Measurements at December 31, 2011 Using:			
	Level 1	Level 2	Level 3
Common stock:			
Financial	\$ 338	\$ -	\$ -
Energy	-	-	-
Telecommunications	-	-	-
Other	1,038	-	-
Total	\$ 1,376	\$ -	\$ -

Note 5 - Restricted Net assets

Temporarily restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Program restricted		
International Orphanage Relief Program	<u>\$ 62,437</u>	<u>\$ 62,072</u>

Net assets were released from restrictions during the years ended December 31, 2012 and 2011, 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, 2012 and 2011 was \$181,229 and \$186,443, respectively.

The Organization has an office lease for space in Herndon, Virginia, that expires in April 2013. Subsequent to December 31, 2012, the lease was extended through April 2016. Rent expense for the years ended December 31, 2012 and 2011 was \$16,657 and \$21,424, respectively.

The Organization entered into a three-year lease beginning April 2007 for office space located in Washington, D.C. The lease was on a month-to-month basis through June 30, 2012 with a monthly rental expense of \$3,818. The Organization signed a new lease beginning July 1, 2012 which expires in June 2016 and includes provisions for annual adjustments of 3% over the term of the lease. Total rent payments are recognized as expenses on a straight-line basis resulting in a deferred

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Notes to Financial Statements - Continued

December 31, 2012 and 2011

rent liability. Rent expense for the years ended December 31, 2012 and 2011 was \$74,001 and \$45,816, respectively.

Minimum future rental payments under operating lease agreements as of December 31, 2012, for office and equipment leases are as follows:

Year ending December 31, 2013	\$	127,884
2014		99,162
2015		99,162
2016		<u>49,581</u>
Total minimum future rental payments	\$	<u><u>375,789</u></u>

Capital Leases

The Organization leases various office equipments under capital leases. The leases expire at various dates through February 2017. Capital leases are equipment acquisitions made under lease financing. Future minimum lease obligations under these capital leases as of December 31, 2012, are as follows:

Year ending December 31, 2013	\$	28,812
2014		9,544
2015		2,685
2016		2,028
2017		<u>338</u>
Total minimum future rental payments		43,407
Less: Amount representing interest		<u>(6,244)</u>
Present value of capital lease obligation		37,163
Less: Current portion		<u>(25,459)</u>
Long-term portion	\$	<u><u>11,704</u></u>

As of December 31, 2012 and 2011, capitalized leased equipment of \$152,746, net of accumulated amortization of \$122,438 and \$103,616, respectively, is included with furniture and equipment.

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Notes to Financial Statements - Continued

December 31, 2012 and 2011

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, 2012 and 2011 were \$30,000.

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, 2012 and 2011.

Note 9 - Concentrations

Approximately 47% or \$2,094,701 of revenue in 2012 was generated from services performed for state and local government agencies. Receivables at December 31, 2012 from state and local government agencies accounted for approximately 100% of receivables.

Approximately 31% or \$1,363,764 of revenue in 2011 was generated from services performed for state and local government agencies. Receivables at December 31, 2011 from state and local government agencies accounted for approximately 98% or \$390,971 of receivables.

The Organization maintains its cash and cash equivalents in one bank. 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, 2012.

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Notes to Financial Statements - Continued

December 31, 2012 and 2011

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 19, 2013 (the date the financial statements were 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.