

ADOPTIONS TOGETHER, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2022

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Independent Auditor's Report

To the Board of Directors
Adoptions Together, Inc.

Opinion

We have audited the accompanying financial statements of Adoptions Together, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Adoptions Together, Inc. 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.

Correction of Errors

As discussed in Note 12 to the financial statements, certain errors resulted in an understatement of net assets with donor restrictions and net assets without donor restrictions as of January 1, 2022. An adjustment has been made to net assets with donor restrictions and net assets without donor restrictions as of January 1, 2022 to correct these errors. Our opinion is not modified with respect to these matters.

Responsibilities of Management 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, 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Adoptions Together, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Independent Auditor's Report (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted auditing standards 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, 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 Adoptions Together, Inc.'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Adoptions Together, Inc.'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.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
September 22, 2023

ADOPTIONS TOGETHER, INC.
Statement of Financial Position
December 31, 2022

Assets

Current Assets

Cash and cash equivalents	\$ 1,026,077	
Investments	436,717	
Grants and contracts receivable, net	566,535	
Pledges receivable, current	35,000	
Prepaid expenses	12,268	
	<u> </u>	
Total Current Assets		\$ 2,076,597

Property

Furniture and equipment	181,000	
Office equipment, finance lease assets	49,253	
	<u> </u>	
Total Cost	230,253	
Less: Accumulated depreciation and amortization	170,578	
	<u> </u>	
Net Property		59,675

Other Assets

Pledges receivable, non-current	52,100	
Investments held for long-term purposes	239,945	
Operating lease right-of-use assets	223,256	
Deposits	15,983	
	<u> </u>	
Total Other Assets		<u>531,284</u>

Total Assets

\$ 2,667,556

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 134,101	
Accrued expenses	274,693	
Deferred revenue	40,882	
Current maturities of finance lease liabilities	9,867	
Current maturities of operating lease liabilities	<u>119,573</u>	
Total Current Liabilities		\$ 579,116

Non-Current Liabilities

Finance lease liabilities, net of current maturities	21,274	
Operating lease liabilities, net of current maturities	<u>112,533</u>	
Total Non-Current Liabilities		<u>133,807</u>

Total Liabilities

712,923

Commitments and Contingencies (Notes 6, 9 and 13)

Net Assets

Without donor restrictions	1,864,633	
With donor restrictions	<u>90,000</u>	
Total Net Assets		<u>1,954,633</u>

Total Liabilities and Net Assets

\$ 2,667,556

The accompanying notes are an integral part of this financial statement.

ADOPTIONS TOGETHER, INC.
Statement of Activities
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Ancillary permanency services	\$ 2,054,315	\$ -0-	\$ 2,054,315
Placement services	913,457	-0-	913,457
Assessment services	516,459	-0-	516,459
Grants and contributions	451,743	135,000	586,743
Contribution of nonfinancial assets	2,339	-0-	2,339
Special events, net	242,201	-0-	242,201
Other income	38,436	-0-	38,436
Net investment return	(84,370)	-0-	(84,370)
Net assets released from restrictions	101,000	(101,000)	-0-
Total Support and Revenue	4,235,580	34,000	4,269,580
Expenses			
Program services	3,021,026	-0-	3,021,026
Management and general	878,507	-0-	878,507
Fundraising	218,692	-0-	218,692
Total Expenses	4,118,225	-0-	4,118,225
Change in Net Assets	117,355	34,000	151,355
Net Assets at Beginning of Year - Restated (Note 12)	1,747,278	56,000	1,803,278
Net Assets at End of Year	\$ 1,864,633	\$ 90,000	\$ 1,954,633

The accompanying notes are an integral part of this financial statement.

ADOPTIONS TOGETHER, INC.
Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services			Total	Management and General	Fundraising	Total Expenses
	Placement Services	Ancillary Permanency Services	Assessment Services				
Salaries and benefits	\$ 578,006	\$ 1,453,596	\$ 242,224	\$ 2,273,826	\$ 514,581	\$ 178,073	\$ 2,966,480
Operating office expenses	74,559	189,749	34,141	298,449	267,950	36,606	603,005
Contract social workers	13,177	69,929	205,942	289,048	-0-	-0-	289,048
Other office expenses	19,157	2,313	1,522	22,992	92,472	2,870	118,334
Fundraising	-0-	-0-	-0-	-0-	54	85,384	85,438
Adoption-related expenses	63,499	-0-	16	63,515	82	-0-	63,597
Client costs	37,479	889	17,584	55,952	-0-	26	55,978
Depreciation	4,089	11,375	1,780	17,244	3,368	1,117	21,729
Total expenses by function	789,966	1,727,851	503,209	3,021,026	878,507	304,076	4,203,609
Less: Items included with support and revenue							
Special events	-0-	-0-	-0-	-0-	-0-	(85,384)	(85,384)
Total expenses included in the functional categories on the Statement of Activities	<u>\$ 789,966</u>	<u>\$ 1,727,851</u>	<u>\$ 503,209</u>	<u>\$ 3,021,026</u>	<u>\$ 878,507</u>	<u>\$ 218,692</u>	<u>\$ 4,118,225</u>

The accompanying notes are an integral part of this financial statement.

ADOPTIONS TOGETHER, INC.
Statement of Cash Flows
Year Ended December 31, 2022

Cash Flows from Operating Activities

Change in net assets	\$ 151,355	
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt recoveries	(242)	
Unrealized loss on investments	85,186	
Realized loss on investments	10,283	
Depreciation	21,729	
Changes in operating assets and liabilities:		
Grants and contracts receivable	(150,881)	
Pledges receivable	(87,100)	
Prepaid expenses	680	
Operating lease right-of-use assets	153,400	
Deposits	1,417	
Accounts payable	31,470	
Accrued expenses	14,723	
Deferred revenue	10,004	
Operating lease liabilities	<u>(154,522)</u>	
Net Cash Provided by Operating Activities		\$ 87,502

Cash Flows from Investing Activities

Proceeds from sale of investments	250,898	
Purchases of investments	(689,710)	
Purchase of equipment	<u>(12,000)</u>	
Net Cash Used In Investing Activities		(450,812)

Cash Flows from Financing Activities

Payments on finance lease obligations		<u>(9,219)</u>
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Net Decrease in Cash and Cash Equivalents

(372,529)

Cash and Cash Equivalents at Beginning of Year

1,398,606

Cash and Cash Equivalents at End of Year

\$ 1,026,077

Supplemental Disclosure of Cash Flow Information:

Interest paid		<u><u>\$ 2,069</u></u>
Cash paid for operating leases		<u><u>\$ 157,288</u></u>
Noncash contribution of investments		<u><u>\$ 2,339</u></u>
Noncash Operating Activities:		
Right-of-use assets and lease liabilities acquired under operating leases		<u><u>\$ 376,656</u></u>

The accompanying notes are an integral part of this financial statement.

ADOPTIONS TOGETHER, INC.
Notes to Financial Statements
December 31, 2022

Note 1: Nature of Organization and Summary of Significant Accounting Policies

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 a majority of its revenue and support from program fees, grants, and contributions.

The Placement Services program provides support and preparation services to prospective adoptive and birth parents residing primarily in Maryland, Virginia, and the District of Columbia metropolitan area. The Adoption Works program, included with Placement Services program costs, provides adoption services for children who are growing up in public foster care across the United States.

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 professionals and the community-at-large
- Identification of permanency resources for older youth in foster care
- The 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.

The accounting and reporting policies of the Organization conform to accounting principles generally accepted in the United States of America. Following is a description of the most significant of those policies:

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Organization classifies all investments which are readily convertible to cash, and which have a maturity of three months or less when purchased as cash equivalents. Cash and cash equivalents designated and held for investment purposes are included in investments and are not considered cash and cash equivalents for cash flow purposes.

Investments: Investments with readily determinable fair values are reported at fair value in the statement of financial position. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses on investments are reported in the statement of activities as part of net investment return.

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Grants and Contracts Receivable: Grants and accounts receivable arise from services rendered through governmental and private grants and contracts. Management determines the allowance for doubtful accounts by reviewing its outstanding accounts and its historical collection experience. Receivables are written off by management when, in its determination, all collection efforts have been exhausted. Recoveries of receivables previously written off are recorded when collected. As of December 31, 2022, the Organization has recorded an allowance for uncollectible grants and contracts receivable of \$14,826.

Pledges Receivable: Pledges receivable are recorded when the donor makes an unconditional promise to give. Pledges receivable, less an appropriate reserve, are recorded at their estimated fair value. Amounts due more than one year from the statement of financial position date are recorded at the present value of the estimated future cash flows, discounted using an appropriate interest rate. A provision is made for uncollectible pledges based on a review of historical collection experience and a review of outstanding pledges receivable. Pledges receivables are written off by management when, in their determination, all appropriate collection efforts have been taken. As of December 31, 2022, the Organization has not recorded an allowance for uncollectible pledges receivable as it considers all such receivables to be fully collectible.

Property and Depreciation: Property is recorded at cost or if donated, at fair value at the date of gift, less accumulated depreciation. The Organization capitalizes property in excess of \$2,500 having an estimated useful life of more than one year. Expenditures for maintenance and routine repairs are charged to expense as incurred; expenditures for improvements and major repairs that materially extend the useful lives of assets are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of assets, which consist of furniture, equipment and finance lease right-of-use assets, with estimated useful lives of 5 years.

Net Assets: Net assets, revenue, support, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions.

Net Assets with Donor Restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue Recognition: 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, assessment services and post placement services, the Organization treats payments received as revenue. Nonrefundable fees are recognized as income at the time of receipt. Revenue is recognized for ancillary permanency services when services are rendered. 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.

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Contributions: Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires through the passage of time or fulfillment of the purpose of the restriction, donor restricted net assets are reclassified to without donor restricted assets and are reported in the statement of activities as net assets without donor restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as revenue without donor restrictions. An unconditional pledge to give support is recognized as a receivable and contribution in the year the pledge is made. Conditional pledges to give, which depend on the occurrence of a specified future and uncertain event, are not recognized as revenue until the condition has been met.

Income Taxes: The Organization is exempt from federal and state income taxes under Internal Revenue Code §501(c)(3). Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Organization had no unrelated business income for the year ended December 31, 2022. Accordingly, no provision for income taxes is reflected in these financial statements. The Organization's federal exempt tax returns are subject to examination by the Internal Revenue Service, generally for a period of three years after the returns are filed.

Functional Allocation of Expenses: The costs of providing various programs and other support activities have been summarized on a functional basis in the statement of activities and by natural classification in the statement of functional expenses. Costs that can be identified with specific programs or support services are allocated directly. Costs that cannot be specifically identified with a particular function and that benefit more than one functional category are allocated based on estimates of time and effort.

Recently Adopted Accounting Standards: The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASC 842), which was effective for fiscal years beginning after December 15, 2021. The distinction between finance leases and operating leases is substantially similar to the distinction between capital leases and operating leases in the previous guidance for leases. Lessor accounting is also largely unchanged. For lessees, leases under both categories will be reported on the statement of financial position as a depreciable right-of-use asset (ROU) and a related liability to make lease payments. The asset and liability should be initially measured at the present value of the lease payments, including any payments to be made in lease option periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. The ROU assets will be amortized over the term of the lease and the lease liabilities will be reduced by lease payments. The Organization adopted the new lease standard effective as of January 1, 2022.

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

The Organization evaluates each contract and determines if an arrangement contains a lease at the inception of a contract. As permitted under the ASU, the Organization has elected not to record short-term leases with initial contract terms of 12 months or less on the statement of financial position. The Organization accounts for lease components and non-lease components as a single lease component. Variable lease payment amounts that cannot be determined at the commencement of the lease such as increases in lease payments based on changes in index rates or usage are not included in the ROU or lease liabilities. These are expensed as incurred. The Organization has elected to use the risk-free rate to discount the lease payments for all classes of ROU. As part of adoption of the new lease standard, the Organization has elected the following practical expedients: a) The Organization has not reevaluated expiring or existing leases to determine lease classification, b) The Organization has not reevaluated whether expired or existing contracts are or contain a lease, and c) The Organization has not reassessed initial direct costs for an existing lease.

Prior to the adoption of ASU 2016-02, the Organization entered into a lease agreement for office space which provided for a period of rent abatement and contained annual rent escalations. Prior to January 1, 2022, the Organization was recognizing rent expense on a straight-line bases over the term of the lease. Deferred rent represented the difference between rent expense recognized to date and the actual payments made to date. Upon the adoption of ASU 2016-02, deferred rent is included in the calculation of the operating lease right-of-use assets and the operating lease liabilities.

In September 2020, the FASB issued ASU No. 2020-07, Not-for-Profit Entities (Topic 958), Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets which is effective for fiscal years beginning after June 15, 2021. This ASU requires that contributed nonfinancial assets be reported as a separate line item in the statement of activities, as well as disclose the disaggregation of the contributed nonfinancial assets recognized by type, whether they are monetized or utilized during the reporting period, and if utilized, the programs or other activities in which these contributed nonfinancial assets were used. Management has adopted this standard as of January 1, 2022, and accordingly, all gifts-in-kind are separately reported with the required disclosures.

Subsequent Events: In preparing these financial statements, The Organization has evaluated events and transactions for potential recognition or disclosure through September 22, 2023, the date the financial statements were available to be issued. During the period from January 1, 2023 through September 22, 2023, the Organization did not have any material recognizable subsequent events, except as described in Note 6.

ADOPTIONS TOGETHER, INC.
Notes to Financial Statements
December 31, 2022

Note 2: Liquidity and Availability of Funds

A summary of the financial assets available for the general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of the financial position date comprise the following:

Cash and cash equivalents	\$ 1,026,077
Investments	676,662
Grants and contracts receivable	566,535
Pledges receivable	35,000
Less: Financial assets restricted by endowment	(239,945)
Less: Net assets with donor restrictions	<u>(90,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,974,329</u></u>

The Organization receives contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity following two guiding principles: operating within a prudent range of financial soundness and stability and maintaining adequate liquid assets to fund near-term operating needs. In the event of an unanticipated liquidity need, the Organization also could draw upon an operating line of credit (\$200,000 available at December 31, 2022, Note 5).

Note 3: Pledges Receivable

Pledges receivable consisted of the following at December 31, 2022:

Receivable in less than one year	\$ 35,000
Receivable in one to two years	<u>55,000</u>
	90,000
Less: Present value discount at 4.0%	<u>2,900</u>
Total	<u><u>\$ 87,100</u></u>

Note 4: Investments and Fair Value Measurement

Generally accepted accounting principles (GAAP) establish a framework for measuring fair value. The framework 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 are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

ADOPTIONS TOGETHER, INC.
Notes to Financial Statements
December 31, 2022

Note 4: Investments and Fair Value Measurement (Continued)

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The valuation techniques used by the Organization include the following:

Certificates of Deposit: Valued at the closing price at year end as reported on the active market in which the individual certificate is traded.

Common Stocks: Valued at the closing price at year end as reported on the active market in which the stock is traded.

Mutual Funds and Exchange Traded Funds: Valued at the closing price at year end as reported on the active market in which the fund is traded.

The table below presents the balances of investments measured at fair value on a recurring basis by level within the hierarchy as of December 31, 2022:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 80,169	\$ 80,169	\$ -0-	\$ -0-
Certificates of deposit	49,896	49,896	-0-	-0-
Common stock	106,313	106,313	-0-	-0-
Mutual funds	197,589	197,589	-0-	-0-
Exchange traded funds	242,695	242,695	-0-	-0-
Total Investments	\$ 676,662	\$ 676,662	\$ -0-	\$ -0-

Investments have been reflected in the statement of position as of December 31, 2022 as follows:

Investments	\$ 436,717
Investments held for long-term purposes	239,945
Total Investments	\$ 676,662

ADOPTIONS TOGETHER, INC.
Notes to Financial Statements
December 31, 2022

Note 4: Investments and Fair Value Measurement (Continued)

Net investment return for the year ended December 31, 2022 is as follows:

Interest income	\$ 14,293
Realized loss on investment	(10,283)
Unrealized loss on investments	(85,186)
Investment expenses	<u>(3,194)</u>
Net Investment Return	<u><u>\$ (84,370)</u></u>

Note 5: Line of Credit

The Organization has a \$200,000 unsecured line of credit facility with a bank. Borrowings under the facility bear interest at the prime rate (8.50% as of December 31, 2022). There was no outstanding balance as of December 31, 2022.

Note 6: Leases

Financing Leases:

The Organization has a non-cancellable finance lease agreement for office equipment. The office equipment is the Organization's only material underlying asset class under finance lease agreements. The Organization has recorded a right-of-use asset of \$49,253 which is being amortized over the life of the lease and an off-setting finance lease liability. The lease requires monthly principal and interest payments of \$929 through December 2025.

The Organization's total finance lease expense for the year ended December 31, 2022 consists of the following:

Finance lease expense:	
Amortization of finance lease assets	\$ 9,892
Interest expense	<u>1,767</u>
Total Lease Expense	<u><u>\$ 11,659</u></u>

As of December 31, 2022, the right-of-use assets and finance lease liabilities related to finance leases are as follows:

Office equipment, finance lease assets, net	<u><u>\$ 29,674</u></u>
Finance lease liabilities:	
Current portion of finance lease liabilities	\$ 9,867
Finance lease liabilities, net of current portion	<u>21,274</u>
Total Finance Lease Liabilities	<u><u>\$ 31,141</u></u>

ADOPTIONS TOGETHER, INC.
Notes to Financial Statements
December 31, 2022

Note 6: Leases (Continued)

Other finance lease details are as follows:

Weighted average remaining lease term in years	3
Weighted average discount rate	5.00%

As of December 31, 2022, future minimum lease payments under finance leases are as follows:

2023	\$ 11,153
2024	11,153
2025	<u>11,153</u>
Total	33,459
Less: Amount representing interest	<u>2,318</u>
Present value of future minimum lease payments	<u>\$ 31,141</u>

Operating Leases:

The Organization leases office space in Maryland, Virginia, and the District of Columbia under various noncancellable operating leases which expire at various dates through February 2025. Each office space lease includes provisions for annual adjustments of 3% over the term of the lease.

On January 1, 2022, the Organization adopted ASC 842 and recorded a right-of-use asset relative to these leases of \$376,656, which is being expensed over the life of the respective leases and an off-setting lease liability. The right-of-use asset was adjusted by the balance of the deferred rent liability of \$9,972 as of December 31, 2021.

The Organization's total lease expense for the year ended December 31, 2022 was as follows:

Fixed office lease	\$ 156,166
Short-term lease	<u>15,892</u>
	<u>\$ 172,058</u>

As of December 31, 2022, the right-of-use asset and operating lease liabilities related to operating leases were as follows:

Operating lease right-of-use assets	<u>\$ 223,256</u>
Operating lease liabilities:	
Current portion of operating lease liabilities	\$ 119,573
Operating lease liabilities, net of current portion	<u>112,533</u>
Total operating lease liabilities	<u>\$ 232,106</u>

Other operating lease details are as follows:

Weighted average remaining lease term in years	1.98
Weighted average discount rate	0.95%

ADOPTIONS TOGETHER, INC.
Notes to Financial Statements
December 31, 2022

Note 6: Leases (Continued)

As of December 31, 2022, future minimum rental payments due under operating leases, are as follows:

2023	\$ 121,162
2024	97,291
2025	<u>15,838</u>
Total	234,291
Less: Amount representing interest	<u>2,185</u>
Present value of future minimum lease payments	<u>\$ 232,106</u>

In January 2023, the Organization entered into a new office lease which will extend through April 2028 with a 5-year renewal option at the end of the original term.

Note 7: Net Assets with Donor Restrictions

The Organization has several restricted funds, some of which may be expended but only for the purpose established by the respective donors and other which cannot be expended until passage of time. Net assets with donor restrictions were available for the following purposes as of December 31, 2022:

	2021	Current Year Activity		2022
		Contributions	Released from Restrictions	
Subject to expenditure for a specified purpose:				
Counseling	\$ 40,000	\$ -0-	\$ (40,000)	\$ -0-
Mental health training	16,000	-0-	(16,000)	-0-
Adoption works	-0-	10,000	(10,000)	-0-
	<u>56,000</u>	<u>10,000</u>	<u>(66,000)</u>	<u>-0-</u>
Subject to the passage of time:				
Time restrictions	-0-	125,000	(35,000)	90,000
	<u>\$ 56,000</u>	<u>\$ 135,000</u>	<u>\$ (101,000)</u>	<u>\$ 90,000</u>

Note 8: Endowment

In 2021, the Organization established an endowment account which consists of one investment fund. The endowment was created to support the Organization's administrative expenses and programmatic activities and the long-term stability and financial viability of the Organization. The Board of Directors has determined that the endowment should grow to an amount not less than \$500,000 before income from the endowment can be used for such support. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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Note 8: Endowment (Continued)

The Financial Accounting Standards Board (FASB) issued guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of Maryland has enacted UPMIFA. This guidance also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Maryland enacted UPMIFA effective April 14, 2009, the provisions of which apply to endowment funds existing on or established after that date. In accordance with the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA), the Organization preserves the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary (when a donor expresses intent clearly in a written gift instrument, the Act requires that the charity follow the donor's instructions). The Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The Organization considers these net assets with donor restrictions to be endowment funds. In accordance with MUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a weighted index comprised of the S&P 500 index and the Bloomberg indexes while assuming a moderate to aggressive level of investment risk. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

The Organization has a policy of appropriating for distribution each year an amount established by the annual budget; however, no distributions should be made if the principal amount of the fund is less than \$500,000. In establishing this policy, the Organization considered the long term expected return on its endowment.

Endowment net asset composition by type of fund as of December 31, 2022 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Board-designated endowment funds	\$ 239,945	\$ -0-	\$ 239,945

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Note 8: Endowment (Continued)

Changes in endowment net assets for the year ended December 31, 2022 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 152,738	\$ -0-	\$ 152,738
Contributions	114,420	-0-	114,420
Investment income	3,523	-0-	3,523
Fees	(574)	-0-	(574)
Realized loss on investments	(3,951)	-0-	(3,951)
Unrealized loss on investments	(26,211)	-0-	(26,211)
Endowment net assets, end of year	<u>\$ 239,945</u>	<u>\$ -0-</u>	<u>\$ 239,945</u>

Note 9: Retirement Plan

The Organization maintains 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. Vesting in the benefits provided through employer contributions to the plan is based on years of service with full vesting after six years. The Organization contributed \$40,000 to the Plan for the year ended December 31, 2022.

Note 10: Contributions of Nonfinancial Assets

Contributed nonfinancial assets recognized in the statement of activities for the year ended December 31, 2022 included the following:

Common stock	<u>\$ 2,339</u>
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The Organization receives gifts-in-kind (GIK) from donors. GIK are reported as contributions at their estimated fair value on the date of receipt and reported as expense when utilized. Common stock is valued at fair market value based on the receipt date. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions. It is the Organization's policy to liquidate common stock donations when received. The common stock received in 2022 will be liquidated in 2023.

Note 11: Concentrations

Funds received from state and local governments accounted for 43% of the Organization's support and revenue for the year ended December 31, 2022. Grants and contracts receivable due from state and local governments accounted for approximately 92% of total grants and contracts receivable as of December 31, 2022.

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Note 12: Prior Period Adjustment

The net assets as of January 1, 2022 have been restated to reflect corrections of revenue from donor-restricted and unrestricted contributions.

Following is a summary of the prior period adjustment to net assets:

	As Previously Reported	Effect of Restatements and Adjustments	As Restated
Net assets without donor restrictions - beginning of year	\$ 1,689,778	\$ 57,500	\$ 1,747,278
Net assets with donor restrictions - beginning of year	\$ -0-	\$ 56,000	\$ 56,000

Note 13: Other Matters

Conditional Grants: The Organization has received conditional grants totaling \$62,940, which can only be earned by incurring certain qualifying expenditures under the grant program. As of December 31, 2022, the Organization has earned \$22,058 from these grants which has been recognized as revenue. The outstanding balance of these conditional grants was \$40,882 as of December 31, 2022, which will be recognized as revenue when conditions of the grants have been met.

Uninsured Balances: The Organization maintains its cash balances in various financial institutions. Periodically during the year, the Organization's cash balances have exceeded federally insured limits. The Organization has not experienced any losses in such accounts and does not believe it is exposed to significant risk on cash balances.

Investment Risk: The Organization invests primarily in a professionally managed portfolio that may contain common stock, mutual funds, and exchange traded funds. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

