



INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2014 AND 2013



ADOPTION NETWORK CLEVELAND, INC.

SEPTEMBER 30, 2014 AND 2013

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BOARD OF DIRECTORS
ADOPTION NETWORK CLEVELAND, INC.

Independent Auditors' Report

We have audited the accompanying financial statements of Adoption Network Cleveland, Inc. (the Network), which comprise the statement of financial position as of September 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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 audits. We conducted our audits 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 from 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 Network as of September 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 11 to the financial statements, certain errors resulting in the allocation of unrestricted and temporarily restricted net assets in prior years were discovered by management of the Network in the current year. Accordingly, amounts reported for net asset classifications have been restated in the 2013 financial statements now presented, and a reclassification has been made to net assets as of October 1, 2013, to correct the errors. Our opinion is not modified with respect to that matter.

Cohen & Company Ltd.

March 3, 2015
Cleveland, Ohio

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2014 AND 2013

	<u>2014</u>	<u>2013*</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 489,320	\$ 500,149
Grants and annual fund receivables	324,718	392,591
Contributions receivable - Net of allowance for doubtful accounts of \$300 for 2013	4,683	4,460
Accounts receivable	940	1,682
Prepaid expenses	20,688	21,342
	<u>840,349</u>	<u>920,224</u>
PROPERTY AND EQUIPMENT - AT COST		
Furniture and equipment	139,011	135,144
Leasehold improvements	21,669	21,669
Software	27,050	
	<u>187,730</u>	<u>156,813</u>
Less: Accumulated depreciation	151,740	143,977
	<u>35,990</u>	<u>12,836</u>
OTHER ASSETS		
Investments	1,131,159	1,056,797
Deposits	20,227	13,767
	<u>1,151,386</u>	<u>1,070,564</u>
	<u>\$ 2,027,725</u>	<u>\$ 2,003,624</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 10,414	\$ 17,523
Accrued expenses	37,135	51,879
	<u>47,549</u>	<u>69,402</u>
COMMITMENTS		
NET ASSETS		
Unrestricted - board designated	38,219	
Unrestricted	539,674	566,528
	<u>577,893</u>	<u>566,528</u>
Temporarily restricted	609,109	577,625
Permanently restricted	793,174	790,069
	<u>1,980,176</u>	<u>1,934,222</u>
	<u>\$ 2,027,725</u>	<u>\$ 2,003,624</u>

* As restated (Note 11)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Grants and contracts	\$ 353,112			\$ 353,112
Membership dues	14,050			14,050
Contributions	139,625	\$ 369,610	\$ 3,300	512,535
Special events - Gross	83,027			83,027
In-kind revenue	12,440	23,443		35,883
Program revenue	53,932			53,932
Interest income	185	22,248		22,433
Dividend income		16,072		16,072
Realized gain on investments		65,698		65,698
Unrealized loss on investments		(15,607)		(15,607)
Other	819			819
Net assets released from restrictions	<u>450,175</u>	<u>(449,980)</u>	<u>(195)</u>	<u>1,141,954</u>
	<u>1,107,365</u>	<u>31,484</u>	<u>3,105</u>	<u>1,141,954</u>
EXPENSES				
Post adoption services	237,658			237,658
Adopt Cuyahoga's Kids	366,219			366,219
Triad Services	181,153			181,153
Advocacy	<u>66,511</u>			<u>66,511</u>
Total program services	<u>851,541</u>			<u>851,541</u>
General and administrative	98,366			98,366
Development	<u>146,093</u>			<u>146,093</u>
Total supporting services	<u>244,459</u>			<u>244,459</u>
	<u>1,096,000</u>			<u>1,096,000</u>
CHANGE IN NET ASSETS	11,365	31,484	3,105	45,954
NET ASSETS - BEGINNING OF YEAR	<u>566,528</u>	<u>577,625</u>	<u>790,069</u>	<u>1,934,222</u>
NET ASSETS - END OF YEAR	<u>\$ 577,893</u>	<u>\$ 609,109</u>	<u>\$ 793,174</u>	<u>\$ 1,980,176</u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>TOTAL</u>
REVENUE AND SUPPORT				
Grants and contracts	\$ 416,473			\$ 416,473
Membership dues	15,655			15,655
Contributions	227,157	\$ 304,054		531,211
Special events - Gross	129,323			129,323
In-kind revenue	23,760			23,760
Program revenue	49,772			49,772
Interest income	2,442	6,395		8,837
Dividend income		17,351		17,351
Realized gain on investments		17,237		17,237
Unrealized gain on investments		67,170		67,170
Other	3,308			3,308
Net assets released from restrictions	<u>395,473</u>	<u>(389,212)</u>	<u>\$ (6,261)</u>	<u>1,280,097</u>
	<u>1,263,363</u>	<u>22,995</u>	<u>(6,261)</u>	<u>1,280,097</u>
EXPENSES				
Post adoption services	252,629			252,629
Adopt Cuyahoga's Kids	495,087			495,087
Triad Services	230,305			230,305
Advocacy	45,235			45,235
Total program services	<u>1,023,256</u>			<u>1,023,256</u>
General and administrative	101,922			101,922
Development	148,838			148,838
Total supporting services	<u>250,760</u>			<u>250,760</u>
	<u>1,274,016</u>			<u>1,274,016</u>
CHANGE IN NET ASSETS	<u>(10,653)</u>	<u>22,995</u>	<u>(6,261)</u>	<u>6,081</u>
NET ASSETS - BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	637,840	493,971	796,330	1,928,141
PRIOR PERIOD ADJUSTMENT - SEE NOTE 11	<u>(60,659)</u>	<u>60,659</u>		
NET ASSETS - BEGINNING OF YEAR, AS RESTATED	<u>577,181</u>	<u>554,630</u>	<u>796,330</u>	<u>1,928,141</u>
NET ASSETS - END OF YEAR	<u>\$ 566,528</u>	<u>\$ 577,625</u>	<u>\$ 790,069</u>	<u>\$ 1,934,222</u>

* As restated (Note 11)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2014

	Program Services				Total Program Services	Supporting Services		Total Supporting Services	Total
	Post Adoption Services	Adopt Cuyahoga's Kids	Triad Services	Advocacy		General and Administrative	Development		
PERSONNEL COSTS									
Salaries and wages	\$ 151,151	\$ 244,886	\$ 110,403	\$ 32,689	\$ 539,129	\$ 74,362	\$ 87,949	\$ 162,311	\$ 701,440
Employee fringe benefits	21,866	35,172	16,263	3,504	76,805	3,559	9,881	13,440	90,245
Payroll taxes	10,829	17,332	7,788	2,155	38,104	5,477	6,211	11,688	49,792
	<u>183,846</u>	<u>297,390</u>	<u>134,454</u>	<u>38,348</u>	<u>654,038</u>	<u>83,398</u>	<u>104,041</u>	<u>187,439</u>	<u>841,477</u>
OTHER EXPENSES									
Professional fees and consulting	7,910	17,596	9,418	16,317	51,241	4,554	4,056	8,610	59,851
Supplies	12,703	10,018	6,965	4,253	33,939	1,659	5,291	6,950	40,890
Telephone	1,245	1,919	866	262	4,292	541	1,190	1,731	6,023
Postage and shipping	1,163	1,870	965	321	4,319	181	2,061	2,242	6,561
Occupancy	8,754	17,225	16,663	2,713	45,355	3,814	4,404	8,218	53,573
Rental and maintenance of equipment	1,857	3,885	1,282	456	7,480	523	1,720	2,243	9,723
Equipment	1,785	2,794	1,242	233	6,054	827	931	1,758	7,812
Printing and publication	196	392	206	50	844				844
Travel and reimbursable expenses	1,312	3,373	459	1,906	7,050	366	305	671	7,721
Conferences, conventions, meetings	11,676	1,774	3,795	831	18,076	380	844	1,224	19,300
Membership dues	913	1,430	637	117	3,097	399	1,079	1,478	4,575
Expenses - Other	1,410	2,072	1,372	113	4,967	568	812	1,380	6,347
Special events							17,954	17,954	17,954
Insurance	1,435	1,941	863	162	4,401	539	647	1,186	5,586
	<u>52,359</u>	<u>66,289</u>	<u>44,733</u>	<u>27,734</u>	<u>191,115</u>	<u>14,351</u>	<u>41,294</u>	<u>55,645</u>	<u>246,759</u>
Total before depreciation	236,205	363,679	179,187	66,082	845,153	97,749	145,335	243,084	1,088,237
Depreciation	<u>1,453</u>	<u>2,540</u>	<u>1,966</u>	<u>429</u>	<u>6,388</u>	<u>617</u>	<u>758</u>	<u>1,375</u>	<u>7,763</u>
	<u>\$ 237,658</u>	<u>\$ 366,219</u>	<u>\$ 181,153</u>	<u>\$ 66,511</u>	<u>\$ 851,541</u>	<u>\$ 98,366</u>	<u>\$ 146,093</u>	<u>\$ 244,459</u>	<u>\$ 1,096,000</u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2013

	Program Services				Total Program Services	Supporting Services		Total Supporting Services	Total
	Post Adoption Services	Adopt Cuyahoga's Kids	Triad Services	Advocacy		General and Administrative	Development		
PERSONNEL COSTS									
Salaries and wages	\$ 151,220	\$ 286,836	\$ 124,388	\$ 19,965	\$ 582,409	\$ 70,660	\$ 91,019	\$ 161,679	\$ 744,088
Employee fringe benefits	23,451	45,740	16,373	2,758	88,322	9,244	10,426	19,670	107,992
Payroll taxes	11,572	21,371	9,390	1,517	43,850	5,358	6,793	12,151	56,001
	<u>186,243</u>	<u>353,947</u>	<u>150,151</u>	<u>24,240</u>	<u>714,581</u>	<u>85,262</u>	<u>108,238</u>	<u>193,500</u>	<u>908,081</u>
OTHER EXPENSES									
Professional fees and consulting	6,809	37,553	7,890	13,923	66,175	5,075	3,838	8,913	75,088
Supplies	18,142	51,787	36,222	647	106,798	1,885	7,033	8,918	115,716
Telephone	1,014	2,123	872	62	4,071	463	1,010	1,473	5,544
Postage and shipping	2,293	2,402	1,526	100	6,321	238	2,445	2,683	9,004
Occupancy	10,206	20,147	7,358	1,048	38,759	4,913	5,413	10,326	49,085
Rental and maintenance of equipment	2,264	6,163	9,213	205	17,845	612	1,081	1,693	19,538
Equipment	7,762	2,873	1,261	94	11,990	668	887	1,555	13,545
Printing and publication	224	2,474	145	51	2,894	30	12	42	2,936
Travel and reimbursable expenses	1,364	3,978	679	2,667	8,688	401	320	721	9,409
Conferences, conventions, meetings	11,979	2,886	8,292	1,851	25,008	584	1,434	2,018	27,026
Membership dues	721	1,575	540	36	2,872	355	1,333	1,688	4,560
Expenses - Other	1,942	3,656	4,828	234	10,660	601	1,233	1,834	12,494
Special events							13,605	13,605	13,605
Insurance	1,109	2,349	864	49	4,371	555	620	1,175	5,546
	<u>65,829</u>	<u>139,966</u>	<u>79,690</u>	<u>20,967</u>	<u>306,452</u>	<u>16,380</u>	<u>40,264</u>	<u>56,644</u>	<u>363,096</u>
Total before depreciation	252,072	493,913	229,841	45,207	1,021,033	101,642	148,502	250,144	1,271,177
Depreciation	<u>557</u>	<u>1,174</u>	<u>464</u>	<u>28</u>	<u>2,223</u>	<u>280</u>	<u>336</u>	<u>616</u>	<u>2,839</u>
	<u>\$ 252,629</u>	<u>\$ 495,087</u>	<u>\$ 230,305</u>	<u>\$ 45,235</u>	<u>\$ 1,023,256</u>	<u>\$ 101,922</u>	<u>\$ 148,838</u>	<u>\$ 250,760</u>	<u>\$ 1,274,016</u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOW PROVIDED FROM (USED IN) OPERATING ACTIVITIES		
Change in net assets	\$ 45,954	\$ 6,081
Noncash items included in activities:		
Depreciation	7,763	2,839
Realized gain on investments	(65,698)	(17,237)
Unrealized (gain) loss on investments	15,607	(67,170)
In-kind asset donation	(27,050)	
Increase (decrease) in cash caused by changes in current items		
Grants and annual fund receivables	67,873	39,235
Contributions receivable - Net	(223)	3,824
Accounts receivable	742	(1,532)
Prepaid expenses	654	(5,177)
Accounts payable	(7,109)	(11,749)
Accrued expenses	(14,744)	8,535
Permanently restricted contributions	<u>(3,300)</u>	<u> </u>
Net cash flow provided from (used in) operations	<u>20,469</u>	<u>(42,351)</u>
CASH FLOW USED IN INVESTING ACTIVITIES		
Proceeds from sale of investments	222,377	180,338
Purchases of investments	(246,648)	(205,938)
Purchases of property and equipment	(3,867)	
Increase in deposits	<u>(6,460)</u>	<u>(1,566)</u>
	<u>(34,598)</u>	<u>(27,166)</u>
CASH FLOW PROVIDED FROM FINANCING ACTIVITY		
Permanently restricted contributions	<u>3,300</u>	<u> </u>
DECREASE IN CASH AND CASH EQUIVALENTS	(10,829)	(69,517)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>500,149</u>	<u>569,666</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 489,320</u>	<u>\$ 500,149</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ORGANIZATION

Adoption Network Cleveland, Inc. (the Network) was incorporated under the not-for-profit laws of the State of Ohio.

The Network connects and empowers individuals, organizations, and communities impacted by adoption and foster care and provides a source of healing for those in need.

The Network accomplishes this mission by:

- Creating a safe place for those touched by adoption and foster care to pursue personal empowerment. This includes but is not limited to: adoptees, birthparents, adoptive and prospective adoptive parents, youth in foster care, foster parents and siblings.
- Providing opportunities for peer support and education for those touched by adoption and foster care and the professionals who serve them.
- Developing and advocating for best practices in adoption practice, policy, and law.
- Creating and implementing high quality programs and services based on best practices in the field.
- Convening and leading public-private partnerships; promoting progressive system change.
- Promoting public awareness and social change regarding adoption and foster care issues throughout the broader community.
- Creating possibility through promoting openness, cooperation, and collaboration in adoption and foster care.

A description of the Network's program services are as follows:

Post Adoption Services

This program area provides post adoption services to support parents and children after their adoption is finalized. Program components consist of telephone support, networking and community building opportunities, educational and support groups for parents and youth, a family camp, and opportunities for families to socialize with other families throughout the adoption journey. The primary audience for these services is families who have adopted from the public child welfare system. The support and community building programs served 316 adoptive parents, 63 parents were provided assistance with school issues their child was facing and an additional 60 parents and children participated in Weaving Cultures Family Camp.

Adopt Cuyahoga's Kids

This program area is a mix of services for foster youth and prospective adoptive parents of foster youth focused on reducing barriers to adoption from the public child welfare system. These include Child Prep programs which prepare youth for adoptive placements, a mentoring program called Permanency Champions which is designed to find long term mentor relationships for teens in foster care and Adoption Navigators who help to guide prospective adoptive parents through the adoption process. The programs served 66 youth in mentoring, produced 20 Digital Me recruitment videos, served 59 youth in Get Real groups, 12 youth participated in Cooking with Cuyahoga Kids, and 210 prospective parents were assisted in the adoption process by Adoption Navigators.

NOTES TO THE FINANCIAL STATEMENTS

1. ORGANIZATION (Continued)

Triad Services

This program area provides information, support, and education for all members of the adoption triad (adoptees, birthparents, adoptive parents, siblings, and others) and professionals who serve them. These services include a telephone helpline that responds to 3,000 calls annually, support and discussion groups with annual attendance of 559, assistance in over 100 searches this year, as well as educational workshops, lending library, and other support opportunities. In addition, 111 parents and children attended Weaving Cultures Family Camp.

Advocacy

This program includes activities to effectuate changes in public policy governing adoption, foster care, and related child welfare in Ohio. This includes laws, agency practices and societal attitudes. This year the organization had a major success with the passage of SB 23 culminating 24 years of work to allow adult adoptees access to their previously sealed birth records.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Network recognizes grants from governmental agencies as exchange transactions. The grants require the Network to provide services of approximately equal value to the amounts received under the grants.

The Network recognizes funds as support from grants when eligible costs are incurred. A receivable is recorded to the extent grants earned exceed cash advances. Conversely, deferred revenue is recorded when grant or contract cash exceeds support earned. The grantors may, at their discretion, request reimbursement for unallowed expenses as a result of noncompliance by the Network with the terms of a grant. On certain grants, if advances exceed eligible costs, the funds must be returned to the grantor. No funds were returned during 2014 or 2013.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Network, that is, in substance, unconditional. Contributions with donor restrictions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Concentrations

A substantial portion of the Network's revenue is received from Cuyahoga County. Revenue from this source amounted to 31% and 33% of total revenue during 2014 and 2013, respectively. Although there are other funding alternatives available, the loss of this funding would significantly affect the Network's ability to render services.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Credit Policies

Receivables include amounts due for program service fees, contributions, and grants from governmental agencies. These amounts are due under various payment terms and do not accrue interest. Payments of receivables are allocated to the specific invoices identified on the remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of grants, annual fund, and contributions receivable are reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all receivable balances that exceed 90 days from invoice date and estimates the portion, if any, of the balance that will not be collected. Additionally, management estimates an allowance for the aggregate remaining receivables based on historical collectibility. When a balance is deemed to be uncollectible, it is written off against the allowance for doubtful accounts.

Cash and Cash Equivalents

The Network considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash and cash equivalents. The Network maintains its cash and cash equivalents in accounts with various financial institutions, which, at times, may exceed federally insured limits. The Network has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Property and Equipment

Property and equipment are stated at cost when purchased or at fair value at the time of donation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows:

Furniture and equipment	3 - 5 years
Leasehold improvements	5 - 10 years
Software	5 years

Investments

Investments at September 30, 2014 and 2013, are carried at fair value and consist of marketable equity and debt securities. Investments in securities with readily determinable fair values are reported at quoted market values. Realized and unrealized gains or losses are reflected in the accompanying statement of activities.

Donated Materials and Services

There are a substantial number of volunteers who have donated a considerable amount of their time to the Network's programs and activities. No amounts for donated services have been reflected in the statements for these services. Donated goods in the amount of \$35,883 and \$23,760 have been recorded in these financial statements for 2014 and 2013, respectively.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Accounting Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated between program services and supporting services.

Income Taxes

The Network is an Ohio non-profit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The Network accounts for income taxes in accordance with GAAP, which requires recognition of and disclosures related to uncertain tax positions. As of and during the years ended September 30, 2014 and 2013, the Network did not have a liability for unrecognized tax benefits. The Network is no longer subject to examination by federal and state taxing authorities prior to 2011.

Subsequent Events

Management has evaluated subsequent events through March 3, 2015, the date the financial statements were available to be issued.

3. INVESTMENTS

At September 30, 2014, the fair value and cost of investments are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Cash and cash equivalents	\$ 79,482	\$ 79,482	
Stock mutual funds	501,077	656,303	\$ 155,226
Taxable bonds	350,945	359,017	8,072
Endowment held by Cleveland Foundation	<u>28,423</u>	<u>36,357</u>	<u>7,934</u>
	<u>\$ 959,927</u>	<u>\$ 1,131,159</u>	<u>\$ 171,232</u>

NOTES TO THE FINANCIAL STATEMENTS

3. INVESTMENTS (Continued)

At September 30, 2013, the fair value and cost of investments are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Cash and cash equivalents	\$ 58,200	\$ 58,200	
Stock mutual funds	450,081	628,310	\$ 178,229
Taxable bonds	336,287	336,965	678
Endowment held by Cleveland Foundation	<u>25,390</u>	<u>33,322</u>	<u>7,932</u>
	<u>\$ 869,958</u>	<u>\$ 1,056,797</u>	<u>\$ 186,839</u>

Investments that are restricted for endowment purposes are included on the statement of financial position as long-term investments.

4. FAIR VALUE MEASUREMENT

The various inputs that may be used to determine the fair value of the Network's assets are summarized in three broad levels:

Level 1	Quoted prices in active markets for identical securities
Level 2	Other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.)
Level 3	Significant unobservable inputs (including the Network's own assumptions used to determine value)

Assets measured at fair value are comprised of the following at September 30, 2014:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	<u>\$ 79,482</u>	<u>\$</u>	<u>\$</u>
Stock mutual funds	<u>\$ 656,303</u>	<u>\$</u>	<u>\$</u>
Taxable bonds	<u>\$</u>	<u>\$ 359,017</u>	<u>\$</u>
Endowment held by Cleveland Foundation	<u>\$</u>	<u>\$</u>	<u>\$ 36,357</u>

The fair value of taxable bonds is based on quoted market values or provided by a pricing service. The fair value of stock mutual funds is based on the net asset value of shares held at year end.

The activity for Level 3 investments during 2014 is as follows:

Beginning balance	\$ 33,322
Fees	(439)
Change in value of endowment held by Cleveland Foundation	<u>3,474</u>
Ending balance	<u>\$ 36,357</u>

The fair value of the endowment held by the Cleveland Foundation is based on quoted market values of assets held by the Cleveland Foundation and is considered a Level 3 investment as the Network's interest in the Cleveland Foundation's assets does not have a quoted market price.

NOTES TO THE FINANCIAL STATEMENTS

4. FAIR VALUE MEASUREMENT (Continued)

Assets measured at fair value are comprised of the following at September 30, 2013:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	<u>\$ 58,200</u>	<u>\$</u>	<u>\$</u>
Stock mutual funds	<u>\$ 628,310</u>	<u>\$</u>	<u>\$</u>
Taxable bonds	<u>\$</u>	<u>\$ 336,965</u>	<u>\$</u>
Endowment held by Cleveland Foundation	<u>\$</u>	<u>\$</u>	<u>\$ 33,322</u>

The activity for Level 3 investments during 2013 is as follows:

Beginning balance	\$ 30,603
Fees	(419)
Change in value of endowment held by Cleveland Foundation	<u>3,138</u>
Ending balance	<u>\$ 33,322</u>

There were no transfers between levels in 2014 or 2013.

5. CONTRIBUTIONS RECEIVABLE

At September 30, 2014 and 2013, contributions receivable consisted of pledges to support the Network's Creating Futures 20th Anniversary Campaign. Pledges for the Network's endowment campaign through September 30, 2014, total \$177,151, of which \$172,468 and \$150,628 has been collected as of September 30, 2014 and 2013. The Network accounts for the discounting of contributions receivable in accordance with GAAP; however, the discount is not material and therefore is not reflected in the balance of contributions receivable on the statement of financial position. The Network did not have an allowance for doubtful accounts at September 30, 2014.

At September 30, 2014, collections of contributions are expected as follows:

<u>Year ending September 30,</u>	
2015	\$ 4,683

6. RETIREMENT PLAN

The Network maintains a non-contributory 403(b) retirement plan which provides benefits for all employees working 20 hours or more per week. The amount of the contribution was 3% of gross salaries through September 2013 and then reduced to 2% of gross salaries in October 2013. This contribution is made quarterly. Contributions for the years ended September 30, 2014 and 2013, amounted to \$14,116 and \$24,718, respectively.

NOTES TO THE FINANCIAL STATEMENTS

7. LINE OF CREDIT

During 2009, the Network entered into a line of credit arrangement with a bank which provides for maximum borrowings of \$100,000, renewing annually. The line of credit has an interest rate equal to the prime rate (3.25% at September 30, 2014 and 2013) plus 1.75%. Borrowings under the line would be collateralized by cash balances held at the bank and are payable on demand. There were no outstanding borrowings at September 30, 2014 and 2013.

8. COMMITMENTS

Operating Leases

The Network leases equipment and office space under operating leases expiring through December 2019. Minimum annual rentals are as follows:

<u>Year ending September 30,</u>	
2015	\$ 46,861
2016	46,014
2017	47,544
2018	48,397
2019	49,676
Thereafter	<u>15,977</u>
	<u>\$ 254,469</u>

Rent expense amounted to \$54,670 and \$59,110 for the years ended September 30, 2014 and 2013, respectively.

9. ENDOWMENT

The Network's endowment funds consist of contributions received from the Skirball Foundation, the endowment campaign, and other various donor-restricted funds for which the principal remains in perpetuity. Net income of the funds is to be used for innovative programs relating to adoption of children in Ohio, in addition to its support for the Adopt Cuyahoga's Kids Initiative.

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Network classifies as permanently restricted net assets (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 remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Network in a manner consistent with the standard of prudence prescribed by SPMIFA.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. The investment goals of the Board of Directors are principal preservation and enhancing the future purchasing power of the funds. The endowment assets are income producing and are invested in cash equivalents, equity securities, and bonds.

NOTES TO THE FINANCIAL STATEMENTS

9. ENDOWMENT (Continued)

In October 2009, the Network transferred \$25,390 of endowment funds to the Cleveland Foundation (Foundation) and named itself the beneficiary. Under the agreement, annually four percent of the asset value of the funds may be distributed to the Network upon Board approval. The funds held by the Cleveland Foundation are invested in the Foundation's Investment Pool. The Foundation's Investment Pool is invested in large-cap equities, small-cap equities, international equities, fixed income, and alternative investments.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

The endowment by net asset composition by fund at September 30, 2014, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board Designated Endowment Fund \$	35,169			\$ 35,169
Donor Designated Endowment Fund	<u>28,367</u>	<u>\$ 279,132</u>	<u>\$ 793,174</u>	<u>1,100,673</u>
	<u>\$ 63,536</u>	<u>\$ 279,132</u>	<u>\$ 793,174</u>	<u>\$1,135,842</u>

The endowment was all in the Donor Designated Endowment Fund at September 30, 2013.

The changes in endowment net assets for the years ended September 30, 2014 and 2013, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - October 1, 2012		\$ 158,744	\$ 796,330	\$ 955,074
Investment return:				
Investment income		40,983		40,983
Net appreciation		67,170		67,170
Appropriations	\$ 13,822	(13,822)		
Other		4,291		4,291
Transfer of net assets			<u>(6,261)</u>	<u>(6,261)</u>
Endowment net assets - September 30, 2013	13,822	257,366	790,069	1,061,257
Investment return:				
Investment income		104,018		104,018
Net depreciation		(15,607)		(15,607)
Withdrawals	(52,100)			(52,100)
Appropriations	66,645	(66,645)		
Contributions	35,169		3,300	38,469
Transfers of net assets			<u>(195)</u>	<u>(195)</u>
Endowment net assets - September 30, 2014	<u>\$ 63,536</u>	<u>\$ 279,132</u>	<u>\$ 793,174</u>	<u>\$ 1,135,842</u>

NOTES TO THE FINANCIAL STATEMENTS

10. TEMPORARILY RESTRICTED NET ASSETS

At September 30, 2014 and 2013, temporarily restricted net assets were restricted for the following purposes:

	<u>2014</u>	<u>2013</u>
Post Adoption Services	\$ 41,425	\$ 156,033
Adopt Cuyahoga's Kids Program (restricted for future periods)		331,238
Child Preparation/Get Real	12,207	
Restriction due to time	<u>555,477</u>	<u>90,354</u>
	<u>\$ 609,109</u>	<u>\$ 577,625</u>

11. PRIOR PERIOD ADJUSTMENT

Net assets at October 1, 2013, have been adjusted to correct a past error. The effect of this adjustment was to increase temporarily restricted net assets and decrease unrestricted net assets by \$60,659. In prior years, the Network had released funds from temporarily restricted to unrestricted before the restriction was satisfied.