



Financial Statements
September 30, 2019 and 2018

Cohen & Co

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ADOPTION NETWORK CLEVELAND, INC.

SEPTEMBER 30, 2019 AND 2018

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Independent Auditors' Report

Board of Directors
Adoption Network Cleveland, Inc.

We have audited the accompanying financial statements of Adoption Network Cleveland, Inc., which comprise the statement of financial position as of September 30, 2019 and 2018, 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 Adoption Network Cleveland, Inc. as of September 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note 2, the Network adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the years ended September 30, 2019 and September 30, 2018. The requirements of this ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Correction of Error

As discussed in Note 10 to the financial statements, an error resulting in the understatement of net assets without donor restrictions and an overstatement of net assets without donor restrictions as of September 30, 2018, was discovered by management during the year ended September 30, 2019. Accordingly, net asset classifications have been adjusted to correct the error. Our opinion is not modified with respect to this matter.

Cohen & Company Ltd.

Cleveland, Ohio
March 3, 2020

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018*</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 724,482	\$ 699,197
Grants, contributions, and accounts receivable	165,712	248,911
Prepaid expenses and other current assets	23,976	18,615
	<u>914,170</u>	<u>966,723</u>
PROPERTY AND EQUIPMENT - AT COST		
Furniture and equipment	205,757	205,757
Leasehold improvements	21,669	21,669
Software	37,439	37,439
	<u>264,865</u>	<u>264,865</u>
Less: Accumulated depreciation and amortization	<u>221,081</u>	<u>202,547</u>
	<u>43,784</u>	<u>62,318</u>
OTHER ASSETS		
Investments at fair value		1,102,112
Funds held by others	1,164,514	45,832
Deposits	24,564	26,236
	<u>1,189,078</u>	<u>1,174,180</u>
	<u>\$ 2,147,032</u>	<u>\$ 2,203,221</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 7,196	\$ 3,862
Accrued expenses	58,243	57,427
	<u>65,439</u>	<u>61,289</u>
COMMITMENTS		
NET ASSETS		
Without donor restrictions	670,292	802,830
With donor restrictions	1,411,301	1,339,102
	<u>2,081,593</u>	<u>2,141,932</u>
	<u>\$ 2,147,032</u>	<u>\$ 2,203,221</u>

* Restated See Note 10

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

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total 2019
REVENUE AND SUPPORT			
Grants	\$ 395,002		\$ 395,002
Membership dues	9,138		9,138
Contributions	161,228	\$ 246,780	408,008
Special events	100,828		100,828
In-kind revenue	18,433		18,433
Program revenue	7,025		7,025
Interest income	1,522		1,522
Change in fair value of funds held by others - Net		16,570	16,570
Other	8,427		8,427
Net assets released from restrictions	191,151	(191,151)	
	<u>892,754</u>	<u>72,199</u>	<u>964,953</u>
EXPENSES			
Family Hub	433,976		433,976
Foster Youth & Alumni Hub	101,122		101,122
Adult Adoptee & Birthparent Hub	113,886		113,886
Professional & Stakeholder Hub	55,189		55,189
Advocacy	43,858		43,858
Total program services	<u>748,031</u>		<u>748,031</u>
General and administrative	124,994		124,994
Development	152,267		152,267
Total supporting services	<u>277,261</u>		<u>277,261</u>
	<u>1,025,292</u>		<u>1,025,292</u>
CHANGE IN NET ASSETS	(132,538)	72,199	(60,339)
NET ASSETS - BEGINNING OF YEAR	<u>802,830</u>	<u>1,339,102</u>	<u>2,141,932</u>
NET ASSETS - END OF YEAR	<u>\$ 670,292</u>	<u>\$ 1,411,301</u>	<u>\$ 2,081,593</u>

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

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2018

	Without Donor Restrictions*	With Donor Restrictions*	Total 2018
REVENUE AND SUPPORT			
Grants	\$ 386,039		\$ 386,039
Membership dues	10,516		10,516
Contributions	161,835	\$ 324,448	486,283
Special events	95,911		95,911
In-kind revenue	52,559		52,559
Program revenue	10,955		10,955
Interest income	623	747	1,370
Investment income		97,239	97,239
Change in fair value of funds held by others		3,133	3,133
Other	5,656		5,656
Net assets released from restrictions	468,776	(468,776)	
	<u>1,192,870</u>	<u>(43,209)</u>	<u>1,149,661</u>
EXPENSES			
Family Hub	416,846		416,846
Foster Youth & Alumni Hub	88,080		88,080
Adult Adoptee & Birthparent Hub	103,908		103,908
Professional & Stakeholder Hub	52,291		52,291
Advocacy	42,136		42,136
Total program services	<u>703,261</u>		<u>703,261</u>
General and administrative	102,339		102,339
Development	125,681		125,681
Total supporting services	<u>228,020</u>		<u>228,020</u>
	<u>931,281</u>		<u>931,281</u>
CHANGE IN NET ASSETS	261,589	(43,209)	218,380
NET ASSETS - BEGINNING OF YEAR	<u>541,241</u>	<u>1,382,311</u>	<u>1,923,552</u>
NET ASSETS - END OF YEAR	<u>\$ 802,830</u>	<u>\$ 1,339,102</u>	<u>\$ 2,141,932</u>

* Restated See Note 10

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

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2019

	Program Services					Total Program Services	Supporting Services		Total Supporting Services	Total
	Family Hub	Foster Youth & Alumni Hub	Adult Adoptee & Birthparent Hub	Professional & Stakeholder Hub	Advocacy		General and Administrative	Development		
PERSONNEL COSTS										
Salaries and wages	\$ 304,936	\$ 62,108	\$ 78,615	\$ 25,911	\$ 23,749	\$ 495,319	\$ 75,245	\$ 73,288	\$ 148,533	\$ 643,852
Employee fringe benefits	30,144	6,947	6,187	1,138	2,723	47,139	14,075	6,238	20,313	67,452
Payroll taxes	22,421	4,553	5,854	1,947	1,727	36,502	5,477	5,378	10,855	47,357
	<u>357,501</u>	<u>73,608</u>	<u>90,656</u>	<u>28,996</u>	<u>28,199</u>	<u>578,960</u>	<u>94,797</u>	<u>84,904</u>	<u>179,701</u>	<u>758,661</u>
OTHER EXPENSES										
Conferences, conventions, meetings	4,400	275	1,956	169	59	6,859	346	481	827	7,686
Equipment	4,361	1,299	1,646	1,071	115	8,492	982	1,887	2,869	11,361
Other	1,941	554	406	615	54	3,570	256	3,162	3,418	6,988
Insurance	2,820	858	762	1,129	102	5,671	485	548	1,033	6,704
Membership dues	1,527	465	1,016	611	55	3,674	262	902	1,164	4,838
Miscellaneous	64	12	11	16	1	104	7	8	15	119
Occupancy	23,162	7,051	6,257	9,276	836	46,582	3,981	4,502	8,483	55,065
Postage and shipping	407	121	202	144	15	889	238	1,656	1,894	2,783
Printing and publication	4,438	2,706	1,041	1,542	139	9,866	28	805	833	10,699
Professional fees and consulting	12,164	4,101	3,726	4,871	12,439	37,301	18,998	2,365	21,363	58,664
Rental and maintenance of equipment	2,358	634	480	976	92	4,540	256	974	1,230	5,770
Special events								44,003	44,003	44,003
Supplies	5,198	2,773	2,222	879	1,111	12,183	2,208	3,235	5,443	17,626
Telephone	3,690	1,123	997	1,477	133	7,420	634	717	1,351	8,771
Travel and reimbursable expenses	2,163	3,174	369	302	227	6,235	179	606	785	7,020
	<u>68,693</u>	<u>25,146</u>	<u>21,091</u>	<u>23,078</u>	<u>15,378</u>	<u>153,386</u>	<u>28,860</u>	<u>65,851</u>	<u>94,711</u>	<u>248,097</u>
Total before depreciation and amortization	426,194	98,754	111,747	52,074	43,577	732,346	123,657	150,755	274,412	1,006,758
Depreciation and amortization	<u>7,782</u>	<u>2,368</u>	<u>2,139</u>	<u>3,115</u>	<u>281</u>	<u>15,685</u>	<u>1,337</u>	<u>1,512</u>	<u>2,849</u>	<u>18,534</u>
	<u>\$ 433,976</u>	<u>\$ 101,122</u>	<u>\$ 113,886</u>	<u>\$ 55,189</u>	<u>\$ 43,858</u>	<u>\$ 748,031</u>	<u>\$ 124,994</u>	<u>\$ 152,267</u>	<u>\$ 277,261</u>	<u>\$ 1,025,292</u>

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

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2018

	Program Services					Total Program Services	Supporting Services		Total Supporting Services	Total
	Family Hub	Foster Youth & Alumni Hub	Adult Adoptee & Birthparent Hub	Professional & Stakeholder Hub	Advocacy		General and Administrative	Development		
PERSONNEL COSTS										
Salaries and wages	\$ 288,293	\$ 52,904	\$ 72,042	\$ 23,798	\$ 22,280	\$ 459,317	\$ 67,511	\$ 67,593	\$ 135,104	\$ 594,421
Employee fringe benefits	37,967	5,317	5,171	967	2,352	51,774	10,891	7,680	18,571	70,345
Payroll taxes	20,548	3,868	5,301	1,804	1,611	33,132	4,932	4,805	9,737	42,869
	<u>346,808</u>	<u>62,089</u>	<u>82,514</u>	<u>26,569</u>	<u>26,243</u>	<u>544,223</u>	<u>83,334</u>	<u>80,078</u>	<u>163,412</u>	<u>707,635</u>
OTHER EXPENSES										
Conferences, conventions, meetings	4,135	2,456	1,467	140	101	8,299	199	203	402	8,701
Equipment	4,214	1,139	1,068	1,727	302	8,450	259	602	861	9,311
Other	2,067	627	566	768	154	4,182	343	637	980	5,162
Insurance	2,234	718	708	972	172	4,804	437	493	930	5,734
Membership dues	1,073	381	932	497	131	3,014	220	855	1,075	4,089
Miscellaneous	658	227	225	280	113	1,503	129	140	269	1,772
Occupancy	21,289	6,254	6,160	8,776	839	43,318	3,910	4,464	8,374	51,692
Postage and shipping	740	271	393	332	119	1,855	282	1,775	2,057	3,912
Printing and publication	1,227	1,132	188	229	108	2,884	46	4,097	4,143	7,027
Professional fees and consulting	9,159	2,729	2,689	3,808	12,414	30,799	10,022	5,134	15,156	45,955
Rental and maintenance of equipment	2,087	652	626	1,234	151	4,750	343	941	1,284	6,034
Special events							47	21,006	21,053	21,053
Supplies	6,710	883	2,358	1,474	223	11,648	310	1,960	2,270	13,918
Telephone	5,263	1,597	1,564	2,212	277	10,913	923	1,469	2,392	13,305
Travel and reimbursable expenses	1,605	4,723	238	170	524	7,260	153	247	400	7,660
	<u>62,461</u>	<u>23,789</u>	<u>19,182</u>	<u>22,619</u>	<u>15,628</u>	<u>143,679</u>	<u>17,623</u>	<u>44,023</u>	<u>61,646</u>	<u>205,325</u>
Total before depreciation and amortization	409,269	85,878	101,696	49,188	41,871	687,902	100,957	124,101	225,058	912,960
Depreciation and amortization	<u>7,577</u>	<u>2,202</u>	<u>2,212</u>	<u>3,103</u>	<u>265</u>	<u>15,359</u>	<u>1,382</u>	<u>1,580</u>	<u>2,962</u>	<u>18,321</u>
	<u>\$ 416,846</u>	<u>\$ 88,080</u>	<u>\$ 103,908</u>	<u>\$ 52,291</u>	<u>\$ 42,136</u>	<u>\$ 703,261</u>	<u>\$ 102,339</u>	<u>\$ 125,681</u>	<u>\$ 228,020</u>	<u>\$ 931,281</u>

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

STATEMENT OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018*</u>
CASH FLOW PROVIDED FROM OPERATING ACTIVITIES		
Change in net assets	\$ (60,339)	\$ 218,380
Noncash items included in activities:		
Depreciation and amortization	18,534	18,321
Realized gain on investments		(69,371)
Change in fair value of funds held by others - Net	(16,570)	(3,133)
In-kind asset donation of property and equipment		(44,532)
Increase (decrease) in cash and cash equivalents caused by changes in current items:		
Grants, contributions, and accounts receivable	83,199	(104,369)
Prepaid expenses and other current assets	(5,361)	9,602
Accounts payable	3,334	(12,405)
Accrued expenses	816	4,440
Net cash flow provided from operations	<u>23,613</u>	<u>16,933</u>
CASH FLOW PROVIDED FROM INVESTING ACTIVITIES		
Proceeds from sale of investments		1,347,318
Purchases of investments		(1,286,107)
Purchases of property and equipment		(1,433)
Decrease (increase) in deposits	1,672	(5,464)
	<u>1,672</u>	<u>54,314</u>
INCREASE IN CASH AND CASH EQUIVALENTS	25,285	71,247
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>699,197</u>	<u>627,950</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 724,482</u>	<u>\$ 699,197</u>
NONCASH INVESTING ACTIVITY		
Transfer of funds from investments to funds held by others	<u>\$ 1,102,112</u>	

* Restated See Note 10

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 and 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:

The Family Hub program provides services to support current and prospective families connected to adoption and foster care, including adoptive, kinship, foster and birth families to help them address the unique challenges they may face. Among the services within the Family Hub are telephone and in-person support from the program staff, as well as monthly gatherings and workshops, and overall family support for transracial adoption, educational guidance, mentorship programs, and permanency navigation.

Foster Youth & Alumni Hub is a mix of services for foster youth focused on support and reducing barriers to adoption/permanency from the public child welfare system. Among services in this Hub is a mediation program to help families reach agreements on child placement and programs which prepare youth for adoptive/permanent placements.

Adult Adoptee & Birthparent Hub provides information, support, and education for all members of the adoption triad (adoptees, birthparents, adoptive parents, siblings, and others). These services include a telephone helpline, support and discussion groups across the state of Ohio, assistance in hundreds of adoptee-birth family searches, a ceremony honoring birthmothers on Mother's Day weekend, a private Facebook group, lending library, and other support opportunities.

NOTES TO THE FINANCIAL STATEMENTS

1. ORGANIZATION (Continued)

Professional & Stakeholder Hub creates a community for professional training, development, and collaboration for all of those who work with and for the adoption and foster care population.

The Advocacy 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of New Accounting Pronouncement

As of and for the years ended September 30, 2019 and September 30, 2018, the Network adopted the Financial Accounting Standard Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit-Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required have been applied retrospectively for all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

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 2019 or 2018.

Program service fees are recognized when the services are provided.

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 net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations

For the year ending September 30, 2019, revenue from the Office for Victims of Crime and the Victims of Crime Act (VOCA) amounted to 38% of total revenue and support and the related receivable due at September 30, 2019 amounted to 35% of the Network's total receivables. For the year ending September 30, 2018, revenue from VOCA amounted to 31% of total revenue and support and the related receivable due at September 30, 2018 amounted to 36% of the Network's total receivables.

Subsequent to year end, the Network was notified that they would not receive VOCA funding for the year ended September 30, 2020. As a response, the Network implemented several cost cutting measures and obtained new funding sources to offset the lost funding. In addition, management noted that the Network has ample liquidity (see Note 3) to allow the Network to meet its obligations as they become due.

Receivables and Credit Policies

Receivables include amounts due for program service fees, grants and contributions. These amounts are due under various payment terms and do not accrue interest.

The carrying amount of grants, contributions, and accounts 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 collectability. When a balance is deemed to be uncollectible, it is written off against the allowance for doubtful accounts. At September 30, 2019 and 2018, all receivables were considered collectible and no allowance was necessary.

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	Term of lease
Software	5 years

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments at Fair Value

Investments at September 30, 2018 are carried at fair value and consist of cash and cash equivalents. 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. These investments were transferred to the Cleveland Foundation on October 1, 2018.

Funds Held by Others

Funds held by others are reported at net asset value based on statements provided by the Cleveland Foundation (the Foundation), which is the custodian of these funds. Realized and unrealized gains and losses and net investment income are reported in the statement of activities as the change in fair value of funds held by others. Interest and dividends are recognized as revenue in the period they are earned, and gains and losses are recognized as changes in net assets in the accounting periods in which they occur. The change in fair value of the funds held by others are reported as increases or decreases in net assets with donor restrictions, as the original gift from which the fund was created was part of the Network's endowment.

Donated Materials and Services

During 2019 and 2018, the Network received \$40,537 and \$52,559, respectively, of donated goods and services with respect to its programs. These in-kind goods and services have been recorded at fair value on the dates of contribution and are included in the statement of activities.

Functional Allocation of Expenses

The statements of activities and functional expenses report certain categories of expenses that are attributable to more than one program or supporting function. Therefore these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include rent and utilities, which are allocated on a square footage basis. All other expenses, except those relating to special events, are allocated on the basis of estimates of time and effort.

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 accounting principles generally accepted in the United States of America (GAAP), which require recognition of and disclosures related to uncertain tax positions. As of and during the years ended September 30, 2019 and 2018, the Network did not have a liability for unrecognized tax benefits.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

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 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.

Subsequent Events

Management has evaluated subsequent events through March 3, 2020, the date the financial statements were available to be issued.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of the Network's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Network invests cash in excess of daily requirements in cash equivalents. To help manage unanticipated liquidity needs, the Board of Directors is able to appropriate funds from the donor restricted funds held by others, if deemed necessary.

The Network's financial assets available to meet cash needs for general expenditures within one year were as follows at September 30, 2019:

Cash and cash equivalents	\$ 724,482
Grants, contributions and accounts receivable	165,712
Fund held by others	<u>1,164,514</u>
Total financial assets, at year end	2,054,708
Less: Amounts unavailable for general expenditures within one year, due to:	
Contractual or donor imposed restrictions:	
Investments in perpetuity (including amounts above gift amounts of \$790,509) which, once appropriated, are expendable to support:	(1,164,514)
Add back amount appropriated for following year	<u>40,227</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 930,421</u>

4. FUNDS HELD BY OTHERS

The Network established an endowment known as the Adoption Network Cleveland Endowment Fund (the Fund) and is part of the Network's donor restricted endowment (see Note 8).

NOTES TO THE FINANCIAL STATEMENTS

4. FUNDS HELD BY OTHERS (Continued)

The assets in the Fund are to be invested at the discretion of the Foundation. The Foundation invests the funds in equities, fixed income, and cash equivalents. Annual distributions from the Fund will be based on the fair value of the Fund. Amounts are calculated on January 1 each year. The Network can make requests to draw funds in addition to the annual distributions from the unrestricted net assets in the Fund. Such requests for additional distributions are subject to approval by a voting majority of the members of the executive committee of the Network's Board of Directors.

The Fund is valued at net asset value as a practical expedient in accordance with GAAP. These investments had a net asset value of \$1,164,514 and \$45,832 at September 30, 2019 and 2018, respectively.

5. 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, 2018:

Description	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	<u>\$ 1,102,112</u>	<u>\$ _____</u>	<u>\$ _____</u>

There was a transfer from a level 2 investment, taxable bonds, to a level 1 investment, cash and cash equivalents in 2018 for the full investment amount.

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 is 2% of gross salaries. This contribution is made quarterly. Contributions for the years ended September 30, 2019 and 2018 amounted to \$12,743 and \$11,805, respectively.

NOTES TO THE FINANCIAL STATEMENTS

7. COMMITMENTS

Operating Leases

The Network leases equipment and office space under operating leases expiring through 2025. Minimum annual rentals are as follows:

<u>Year ending September 30,</u>	
2020	\$ 49,796
2021	50,892
2022	52,310
2023	52,667
2024	51,964
Thereafter	<u>17,479</u>
	<u>\$ 275,108</u>

Rent expense amounted to \$49,444 and \$47,863 for the years ended September 30, 2019 and 2018, respectively.

8. 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 and programs originating from 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 net assets with donor restrictions not subject to appropriation or expenditure (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 classified as net assets with donor restrictions will be released from restrictions when those amounts are appropriated for expenditure by the Network in a manner consistent with the standard of prudence prescribed by SPMIFA.

The endowment funds are operating under the investment policy of the Network. That policy's objective is the preservation of capital and appreciation of principal on an inflation-adjusted basis, while supporting the Network's activities. The assets in the Fund are to be invested at the discretion of the Foundation. The Foundation invests the funds in equities, fixed income, and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS

8. ENDOWMENT (Continued)

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or the SPMIFA requires the Network to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occur and appropriation for certain programs deemed prudent by the Board of Directors. The Network has a policy that permits spending from underwater endowments depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. Underwater endowments are included in net assets with donor restrictions.

The endowment by net asset composition by fund at September 30, 2019, is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor Designated Endowment Fund	\$ _____	\$ <u>1,164,514</u>	\$ <u>1,164,514</u>

The endowment by net asset composition by fund at September 30, 2018, is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor Designated Endowment Fund	\$ _____	\$ <u>1,150,444</u>	\$ <u>1,150,444</u>

The changes in endowment net assets for the year ended September 30, 2019, are as follows:

	<u>With Donor Restrictions</u>
Endowment net assets - September 30, 2018	\$ 1,150,444
Investment return:	
Change in value of funds held by others - Net	16,570
Bad debt expense	<u>(2,500)</u>
Endowment net assets - September 30, 2019	<u>\$ 1,164,514</u>

NOTES TO THE FINANCIAL STATEMENTS

8. ENDOWMENT (Continued)

The changes in endowment net assets for the year ended September 30, 2018, are as follows:

	<u>With Donor Restrictions</u>
Endowment net assets - October 1, 2017	\$ 1,139,151
Investment return:	
Investment income	170,911
Net depreciation	(72,925)
Change in value of funds held by others	3,133
Asset based fees	(5,274)
Appropriations	<u>(84,552)</u>
Endowment net assets - September 30, 2018	<u>\$ 1,150,444</u>

9. NET ASSETS

Net Assets with Donor Restrictions

The Network's net assets with donor restrictions are restricted for the following purposes or periods at September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to expenditure or appropriation for specified purpose:		
Family Hub	\$ 70,586	\$ 7,481
Foster Youth & Alumni Hub	45,466	14,469
Adult Adoptee and Birthparent Hub		10,000
Professional & Stakeholder Hub	<u>29,485</u>	
	<u>145,537</u>	<u>31,950</u>
Subject to the passage of time	<u>101,250</u>	<u>156,708</u>
Subject to Network spending policy and appropriation:		
Investments in perpetuity (including amounts above gift amounts of \$790,509 - 2019 and \$793,009 - 2018) which, once appropriated, are expendable to support:	<u>1,164,514</u>	<u>1,150,444</u>
Total net assets with donor restrictions	<u>\$ 1,411,301</u>	<u>\$ 1,339,102</u>

Net Assets without Donor Restrictions

The Network's net assets without donor restrictions is comprised of undesignated net assets of \$670,292 and \$802,830 at September 30, 2019 and 2018, respectively.

NOTES TO THE FINANCIAL STATEMENTS

10. CORRECTION OF PRIOR YEAR MISCLASSIFICATION

The accompanying financial statements for 2018 have been restated to correct an error discovered by management. During 2019, the Network identified transactions which were misclassified between without donor restrictions and with donor restrictions; total net assets were not adjusted. The following is a summary of the resulting changes to the financial statement line items as of and for the year ended September 30, 2018:

	As Reported		Adjustment		As Restated	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
Revenue – Investment and Other	\$ 2,389	\$ 105,008	\$ 3,890	\$ (3,890)	\$ 6,279	\$ 101,118
Net assets released from restrictions	409,438	(409,438)	59,338	(59,338)	468,776	(468,776)
Net Assets – October 1, 2017	584,997	1,338,555	(43,756)	43,756	541,241	1,382,311