



INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2012 AND 2011

ADOPTION NETWORK CLEVELAND, INC.

SEPTEMBER 30, 2012 AND 2011

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BOARD OF DIRECTORS
ADOPTION NETWORK CLEVELAND, INC.

Independent Auditors' Report

We have audited the accompanying statement of financial position of Adoption Network Cleveland, Inc. (the Network) as of September 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Network's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Network as of September 30, 2012 and 2011, 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.

Cohen & Company Ltd.

February 8, 2013
Cleveland, Ohio

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 569,666 | \$ 771,829 |
| Grants and annual fund receivables | 431,826 | 238,180 |
| Contributions receivable - Net of allowance for doubtful accounts of \$300 and \$2,200 for 2012 and 2011, respectively | 8,284 | 15,731 |
| Accounts receivable | 150 | 2,476 |
| Prepaid expenses | 16,165 | 19,510 |
| | <u>1,026,091</u> | <u>1,047,726</u> |
| PROPERTY AND EQUIPMENT - AT COST | | |
| Furniture and equipment | 135,144 | 125,650 |
| Leasehold improvements | 21,669 | 21,669 |
| | <u>156,813</u> | <u>147,319</u> |
| Less: Accumulated depreciation | 141,138 | 137,797 |
| | <u>15,675</u> | <u>9,522</u> |
| OTHER ASSETS | | |
| Investments restricted for endowment | 946,790 | 790,967 |
| Deposits | 12,201 | 5,942 |
| | <u>958,991</u> | <u>796,909</u> |
| | <u>\$ 2,000,757</u> | <u>\$ 1,854,157</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 29,272 | \$ 19,356 |
| Accrued expenses | 43,344 | 36,671 |
| | <u>72,616</u> | <u>56,027</u> |
| COMMITMENTS | | |
| NET ASSETS | | |
| Unrestricted | 637,840 | 727,657 |
| Temporarily restricted | 493,971 | 277,547 |
| Permanently restricted | 796,330 | 792,926 |
| | <u>1,928,141</u> | <u>1,798,130</u> |
| | <u>\$ 2,000,757</u> | <u>\$ 1,854,157</u> |

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

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2012

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| REVENUE AND SUPPORT | | | | |
| Grants and contracts | \$ 453,557 | | | \$ 453,557 |
| Membership dues | 14,696 | | | 14,696 |
| Contributions | 116,820 | \$ 393,769 | \$ 6,713 | 517,302 |
| Special events - Net | 49,982 | | | 49,982 |
| In-kind revenue | 26,654 | | | 26,654 |
| Program revenue | 52,381 | | | 52,381 |
| Interest income | 685 | 15,160 | | 15,845 |
| Dividend income | | 19,786 | | 19,786 |
| Realized gain on investments | | 2,686 | | 2,686 |
| Unrealized gain on investments | | 107,340 | | 107,340 |
| Other | 4,405 | | | 4,405 |
| Net assets released from restrictions | <u>325,626</u> | <u>(322,317)</u> | <u>(3,309)</u> | |
| | <u>1,044,806</u> | <u>216,424</u> | <u>3,404</u> | <u>1,264,634</u> |
| EXPENSES | | | | |
| Post adoption services | 234,077 | | | 234,077 |
| Adopt Cuyahoga's Kids | 437,217 | | | 437,217 |
| Triad Services | 156,512 | | | 156,512 |
| Advocacy | 24,948 | | | 24,948 |
| Total program services | <u>852,754</u> | | | <u>852,754</u> |
| General and administrative | 133,064 | | | 133,064 |
| Development | 148,805 | | | 148,805 |
| Total supporting services | <u>281,869</u> | | | <u>281,869</u> |
| | <u>1,134,623</u> | | | <u>1,134,623</u> |
| CHANGE IN NET ASSETS | (89,817) | 216,424 | 3,404 | 130,011 |
| NET ASSETS - BEGINNING OF YEAR | <u>727,657</u> | <u>277,547</u> | <u>792,926</u> | <u>1,798,130</u> |
| NET ASSETS - END OF YEAR | <u>\$ 637,840</u> | <u>\$ 493,971</u> | <u>\$ 796,330</u> | <u>\$ 1,928,141</u> |

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

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2011

| | Unrestricted | Temporarily Restricted | Permanently Restricted | TOTAL |
|---------------------------------------|-------------------|---------------------------|---------------------------|---------------------|
| REVENUE AND SUPPORT | | | | |
| Grants and contracts | \$ 469,636 | | | \$ 469,636 |
| Membership dues | 14,090 | | | 14,090 |
| Contributions | 255,249 | \$ 322,188 | \$ 2,711 | 580,148 |
| Special events - Net | 41,814 | | | 41,814 |
| In-kind revenue | 29,199 | | | 29,199 |
| Program revenue | 47,180 | | | 47,180 |
| Interest income | 149 | 2,133 | | 2,282 |
| Dividend income | | 9,243 | | 9,243 |
| Realized gain on investments | | 6,286 | | 6,286 |
| Unrealized loss on investments | | (44,331) | | (44,331) |
| Other | 1,857 | | | 1,857 |
| Net assets released from restrictions | 377,410 | (362,235) | (15,175) | |
| | <u>1,236,584</u> | <u>(66,716)</u> | <u>(12,464)</u> | <u>1,157,404</u> |
| EXPENSES | | | | |
| Post adoption services | 203,292 | | | 203,292 |
| Adopt Cuyahoga's Kids | 506,631 | | | 506,631 |
| Triad Services | 139,911 | | | 139,911 |
| Advocacy | 31,592 | | | 31,592 |
| Total program services | <u>881,426</u> | | | <u>881,426</u> |
| General and administrative | 141,884 | | | 141,884 |
| Development | 134,754 | | | 134,754 |
| Total supporting services | <u>276,638</u> | | | <u>276,638</u> |
| | <u>1,158,064</u> | | | <u>1,158,064</u> |
| CHANGE IN NET ASSETS | 78,520 | (66,716) | (12,464) | (660) |
| NET ASSETS - BEGINNING OF YEAR | <u>649,137</u> | <u>344,263</u> | <u>805,390</u> | <u>1,798,790</u> |
| NET ASSETS - END OF YEAR | <u>\$ 727,657</u> | <u>\$ 277,547</u> | <u>\$ 792,926</u> | <u>\$ 1,798,130</u> |

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

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2012

| | 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 | \$ 135,039 | \$ 271,718 | \$ 104,149 | \$ 6,256 | \$ 517,162 | \$ 92,671 | \$ 102,008 | \$ 194,679 | \$ 711,841 |
| Employee fringe benefits | 18,897 | 43,044 | 13,136 | 1,230 | 76,307 | 12,966 | 11,214 | 24,180 | 100,487 |
| Payroll taxes | 11,131 | 21,692 | 8,520 | 789 | 42,132 | 6,537 | 8,251 | 14,788 | 56,920 |
| | <u>165,067</u> | <u>336,454</u> | <u>125,805</u> | <u>8,275</u> | <u>635,601</u> | <u>112,174</u> | <u>121,473</u> | <u>233,647</u> | <u>869,248</u> |
| OTHER EXPENSES | | | | | | | | | |
| Professional fees and consulting | 6,102 | 25,787 | 5,008 | 12,093 | 48,990 | 3,341 | 3,721 | 7,062 | 56,052 |
| Supplies | 28,936 | 22,205 | 6,569 | 1,375 | 59,085 | 4,367 | 5,310 | 9,677 | 68,762 |
| Telephone | 994 | 1,998 | 740 | 64 | 3,796 | 567 | 1,180 | 1,747 | 5,543 |
| Postage and shipping | 1,151 | 1,902 | 822 | 70 | 3,945 | 76 | 1,448 | 1,524 | 5,469 |
| Occupancy | 9,460 | 19,298 | 7,131 | 683 | 36,572 | 5,471 | 6,167 | 11,638 | 48,210 |
| Rental and maintenance of equipment | 1,787 | 3,598 | 1,269 | 153 | 6,807 | 670 | 1,083 | 1,753 | 8,560 |
| Equipment | 4,215 | 6,254 | 1,716 | 90 | 12,275 | 1,861 | 1,500 | 3,361 | 15,636 |
| Printing and publication | 3,668 | 5,755 | 2,515 | 92 | 12,030 | 926 | 1,607 | 2,533 | 14,563 |
| Travel and reimbursable expenses | 1,154 | 3,234 | 559 | 1,633 | 6,580 | 426 | 220 | 646 | 7,226 |
| Conferences, conventions, meetings | 7,629 | 2,687 | 1,646 | 242 | 12,204 | 1,145 | 1,606 | 2,751 | 14,955 |
| Membership dues | 843 | 1,805 | 596 | 40 | 3,284 | 437 | 1,791 | 2,228 | 5,512 |
| Expenses - Other | 1,501 | 2,312 | 1,006 | 40 | 4,859 | 560 | 841 | 1,401 | 6,260 |
| Insurance | 974 | 2,707 | 636 | 53 | 4,370 | 446 | 470 | 916 | 5,286 |
| | <u>68,414</u> | <u>99,542</u> | <u>30,213</u> | <u>16,628</u> | <u>214,797</u> | <u>20,293</u> | <u>26,944</u> | <u>47,237</u> | <u>262,034</u> |
| Total before depreciation | 233,481 | 435,996 | 156,018 | 24,903 | 850,398 | 132,467 | 148,417 | 280,884 | 1,131,282 |
| Depreciation | <u>596</u> | <u>1,221</u> | <u>494</u> | <u>45</u> | <u>2,356</u> | <u>597</u> | <u>388</u> | <u>985</u> | <u>3,341</u> |
| | <u>\$ 234,077</u> | <u>\$ 437,217</u> | <u>\$ 156,512</u> | <u>\$ 24,948</u> | <u>\$ 852,754</u> | <u>\$ 133,064</u> | <u>\$ 148,805</u> | <u>\$ 281,869</u> | <u>\$ 1,134,623</u> |

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

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2011

| | 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 | \$ 132,047 | \$ 294,379 | \$ 92,514 | \$ 11,898 | \$ 530,838 | \$ 94,072 | \$ 90,882 | \$ 184,954 | \$ 715,792 |
| Employee fringe benefits | 18,239 | 38,972 | 11,106 | 1,315 | 69,632 | 10,798 | 10,413 | 21,211 | 90,843 |
| Payroll taxes | 11,743 | 37,777 | 8,449 | 968 | 58,937 | 7,787 | 8,418 | 16,205 | 75,142 |
| | <u>162,029</u> | <u>371,128</u> | <u>112,069</u> | <u>14,181</u> | <u>659,407</u> | <u>112,657</u> | <u>109,713</u> | <u>222,370</u> | <u>881,777</u> |
| OTHER EXPENSES | | | | | | | | | |
| Contract services for child centered recruitment | | 14,000 | | | 14,000 | | | | 14,000 |
| Professional fees and consulting | 6,546 | 41,146 | 4,815 | 12,594 | 65,101 | 3,763 | 4,382 | 8,145 | 73,246 |
| Supplies | 7,749 | 23,909 | 4,738 | 1,949 | 38,345 | 5,876 | 3,667 | 9,543 | 47,888 |
| Telephone | 913 | 1,965 | 628 | 47 | 3,553 | 818 | 583 | 1,401 | 4,954 |
| Postage and shipping | 1,040 | 1,941 | 836 | 71 | 3,888 | 1,373 | 356 | 1,729 | 5,617 |
| Occupancy | 9,414 | 20,345 | 6,468 | 483 | 36,710 | 5,649 | 5,944 | 11,593 | 48,303 |
| Rental and maintenance of equipment | 1,753 | 3,918 | 793 | 168 | 6,632 | 1,736 | 659 | 2,395 | 9,027 |
| Equipment | 1,377 | 1,757 | 393 | 3 | 3,530 | 725 | 608 | 1,333 | 4,863 |
| Printing and publication | 3,439 | 9,045 | 2,329 | 516 | 15,329 | 2,085 | 1,992 | 4,077 | 19,406 |
| Travel and reimbursable expenses | 1,209 | 1,008 | 691 | 1,190 | 4,098 | 316 | 327 | 643 | 4,741 |
| Conferences, conventions, meetings | 868 | 1,250 | 751 | 8 | 2,877 | 636 | 2,459 | 3,095 | 5,972 |
| Membership dues | 795 | 1,571 | 473 | 82 | 2,921 | 1,616 | 540 | 2,156 | 5,077 |
| Expenses - Other | 2,850 | 6,484 | 2,884 | 114 | 12,332 | 3,071 | 2,000 | 5,071 | 17,403 |
| Insurance | 1,340 | 3,699 | 844 | 80 | 5,963 | 654 | 646 | 1,300 | 7,263 |
| | <u>39,293</u> | <u>132,038</u> | <u>26,643</u> | <u>17,305</u> | <u>215,279</u> | <u>28,318</u> | <u>24,163</u> | <u>52,481</u> | <u>267,760</u> |
| Total before depreciation | 201,322 | 503,166 | 138,712 | 31,486 | 874,686 | 140,975 | 133,876 | 274,851 | 1,149,537 |
| Depreciation | <u>1,970</u> | <u>3,465</u> | <u>1,199</u> | <u>106</u> | <u>6,740</u> | <u>909</u> | <u>878</u> | <u>1,787</u> | <u>8,527</u> |
| | <u>\$ 203,292</u> | <u>\$ 506,631</u> | <u>\$ 139,911</u> | <u>\$ 31,592</u> | <u>\$ 881,426</u> | <u>\$ 141,884</u> | <u>\$ 134,754</u> | <u>\$ 276,638</u> | <u>\$ 1,158,064</u> |

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

STATEMENT OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| CASH FLOW (USED IN) PROVIDED FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 130,011 | \$ (660) |
| Noncash items included in activities: | | |
| Depreciation | 3,341 | 8,527 |
| Realized gain on investments | (2,686) | (6,286) |
| Unrealized (gain) loss on investments | (107,340) | 44,331 |
| Increase (decrease) in cash caused by changes in current items | | |
| Grants and annual fund receivables | (193,646) | 77,080 |
| Contributions receivable | 7,447 | 21,411 |
| Accounts receivable | 2,326 | (2,476) |
| Inventory | | 1,938 |
| Prepaid expenses | 3,345 | 23,117 |
| Accounts payable | 9,916 | (48,954) |
| Accrued expenses | 6,673 | (48,161) |
| Permanently restricted contributions | <u>(6,713)</u> | <u>(2,711)</u> |
| Net cash flow (used in) provided from operations | <u>(147,326)</u> | <u>67,156</u> |
| CASH FLOW USED IN INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 60,632 | 92,752 |
| Purchases of investments | (106,429) | (110,914) |
| Purchases of property and equipment | (9,494) | (1,230) |
| Increase in deposits | <u>(6,259)</u> | <u>(2,096)</u> |
| | <u>(61,550)</u> | <u>(21,488)</u> |
| CASH FLOW PROVIDED FROM FINANCING ACTIVITY | | |
| Permanently restricted contributions | <u>6,713</u> | <u>2,711</u> |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (202,163) | 48,379 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>771,829</u> | <u>723,450</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 569,666</u> | <u>\$ 771,829</u> |

The accompanying notes are an integral part of these 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 provides post adoption services to support parents and children throughout the years after their adoption is finalized. Program components consist of telephone support, networking and community building opportunities, educational and support groups, and opportunities for families to socialize with other families throughout adoption placement and finalization. The primary audience for these services is families who have adopted from the public child welfare system.

Adopt Cuyahoga's Kids

This program is a mix of programs for foster youth, prospective adoptive parents of foster youth, and families focused on reducing barriers to adoption from the public child welfare system. These include recruiting and supporting prospective adoptive families, preparing youth for adoption, a mentoring program for teens most likely to "age out" of foster care, groups for youth, and supporting Cuyahoga County Children and Family Services in child centered recruitment activities.

NOTES TO THE FINANCIAL STATEMENTS

1. ORGANIZATION (Continued)

Triad Services

This program 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 discussion groups, educational workshops, technical services, telephone helpline, lending library, and support opportunities.

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.

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 2012 or 2011.

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 that are restricted by the donor are reported as increases in unrestricted net assets if all the restrictions are met in the fiscal year in which the contributions are recognized. All other donor-restricted contributions 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 35% and 41% of total revenue during 2012 and 2011, 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.

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 |

Investments

Investments at September 30, 2012 and 2011, 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 \$26,654 and \$29,199 have been recorded in these financial statements for 2012 and 2011, 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, 2012 and 2011, 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 2009.

Subsequent Events

Management has evaluated subsequent events through February 8, 2013, the date the financial statements were available to be issued.

3. INVESTMENTS RESTRICTED FOR ENDOWMENT

At September 30, 2012, 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 | \$ 57,874 | \$ 57,874 | |
| Stock mutual funds | 459,446 | 561,213 | \$ 101,767 |
| Taxable bonds | 280,165 | 297,100 | 16,935 |
| Endowment held by Cleveland Foundation | 29,636 | 30,603 | 967 |
| | <u>\$ 827,121</u> | <u>\$ 946,790</u> | <u>\$ 119,669</u> |

NOTES TO THE FINANCIAL STATEMENTS

3. INVESTMENTS RESTRICTED FOR ENDOWMENT (Continued)

At September 30, 2011, the fair value and cost of investments are as follows:

| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Gain (Loss)</u> |
|--|-------------------|-------------------|-------------------------------|
| Cash and cash equivalents | \$ 449 | \$ 449 | |
| Stock mutual funds | 459,355 | 458,375 | \$ (980) |
| Taxable bonds | 292,662 | 304,902 | 12,240 |
| Endowment held by Cleveland Foundation | <u>26,172</u> | <u>27,241</u> | <u>1,069</u> |
| | <u>\$ 778,638</u> | <u>\$ 790,967</u> | <u>\$ 12,329</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, 2012:

| <u>Description</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--|-------------------|-------------------|------------------|
| Cash and cash equivalents | <u>\$ 57,874</u> | <u>\$</u> | <u>\$</u> |
| Stock mutual funds | <u>\$ 561,213</u> | <u>\$</u> | <u>\$</u> |
| Taxable bonds | <u>\$</u> | <u>\$ 297,100</u> | <u>\$</u> |
| Endowment held by Cleveland Foundation | <u>\$</u> | <u>\$</u> | <u>\$ 30,603</u> |

The fair value of taxable bonds is based on quoted market values or provided by a pricing service.

The activity for Level 3 investments during 2012 is as follows:

| | |
|---|------------------|
| Beginning balance | \$ 27,241 |
| Fees | (410) |
| Change in value of endowment held by Cleveland Foundation | <u>3,772</u> |
| Ending balance | <u>\$ 30,603</u> |

NOTES TO THE FINANCIAL STATEMENTS

4. FAIR VALUE MEASUREMENT (Continued)

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.

Assets measured at fair value are comprised of the following at September 30, 2011:

| <u>Description</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--|----------------|----------------|----------------|
| Cash and cash equivalents | \$ 449 | \$ | \$ |
| Stock mutual funds | \$ 458,375 | \$ | \$ |
| Taxable bonds | \$ | \$ 304,902 | \$ |
| Endowment held by Cleveland Foundation | \$ | \$ | \$ 27,241 |

The activity for Level 3 investments during 2011 is as follows:

| | |
|---|------------------|
| Beginning balance | \$ 27,415 |
| Fees | (421) |
| Change in value of endowment held by Cleveland Foundation | 247 |
| Ending balance | <u>\$ 27,241</u> |

There were no transfers between levels in 2012 or 2011.

5. CONTRIBUTIONS RECEIVABLE

At September 30, 2012 and 2011, 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, 2012, total \$155,388, of which \$146,804 has been collected as of September 30, 2012. The Network accounts for the discounting of contributions receivable in accordance with GAAP; however, the discount is not material.

At September 30, 2012, collections of contributions are expected as follows:

| | |
|---------------------------------------|-----------------|
| <u>Year ending September 30,</u> | |
| 2013 | \$ 8,584 |
| Less: Allowance for doubtful accounts | 300 |
| | <u>\$ 8,284</u> |

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 3% of gross salaries, which is expensed quarterly. Contributions for the years ended September 30, 2012 and 2011, amounted to \$12,419 and \$15,804, 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. The line of credit has an interest rate equal to the prime rate (3.25% at September 30, 2012 and 2011) 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 balances at September 30, 2012 and 2011.

8. COMMITMENTS

Operating Leases

The Network leases equipment and office space under operating leases expiring through July 2015. Minimum annual rentals are as follows:

| <u>Year ending September 30,</u> | |
|----------------------------------|-------------------|
| 2013 | \$ 46,096 |
| 2014 | 45,807 |
| 2015 | <u>13,762</u> |
| | <u>\$ 105,665</u> |

Rent expense amounted to \$48,797 and \$48,599 for the years ended September 30, 2012 and 2011, 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.

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 six 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.

The changes in endowment net assets for the years ended September 30, 2012 and 2011, are as follows:

| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------|-----------------------------------|-----------------------------------|-------------------|
| Endowment net assets | | | |
| - October 1, 2010 | \$ 69,231 | \$ 805,390 | \$ 874,621 |
| Investment return: | | | |
| Investment income | 17,662 | | 17,662 |
| Net depreciation | (44,331) | | (44,331) |
| Appropriations | (28,790) | | (28,790) |
| Contributions | | 2,711 | 2,711 |
| Transfer of net assets | <u> </u> | <u>(15,175)</u> | <u>(15,175)</u> |
| Endowment net assets | | | |
| - September 30, 2011 | 13,772 | 792,926 | 806,698 |
| Investment return: | | | |
| Investment income | 37,632 | | 37,632 |
| Net appreciation | 107,340 | | 107,340 |
| Appropriations | | | |
| Contributions | | 6,713 | 6,713 |
| Transfers of net assets | <u> </u> | <u>(3,309)</u> | <u>(3,309)</u> |
| Endowment net assets | | | |
| - September 30, 2012 | <u>\$ 158,744</u> | <u>\$ 796,330</u> | <u>\$ 955,074</u> |

NOTES TO THE FINANCIAL STATEMENTS

10. TEMPORARILY RESTRICTED NET ASSETS

At September 30, 2012 and 2011, temporarily restricted net assets were restricted for the following purposes:

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|
| Post Adoption Services | \$ 183,896 | \$ 158,715 |
| Adopt Cuyahoga's Kids Program (restricted for future periods) | 185,075 | 95,278 |
| Restriction due to time | <u>125,000</u> | <u>23,554</u> |
| | <u>\$ 493,971</u> | <u>\$ 277,547</u> |

11. SPECIAL EVENTS

Special events are recorded net of expenses in the financial statements. The breakdown of revenues and expenses is as follows:

| | <u>2012</u> | <u>2011</u> |
|----------|------------------|------------------|
| Revenues | \$ 64,151 | \$ 51,273 |
| Expenses | <u>14,169</u> | <u>9,459</u> |
| | <u>\$ 49,982</u> | <u>\$ 41,814</u> |