

Cradle Adoption Partners, NFP

Consolidated Financial Report
September 30, 2018

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
The Cradle, The Cradle Foundation and Cradle Adoption Partners, NFP

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Cradle, The Cradle Foundation and Cradle Adoption Partners, NFP, which comprise the consolidated statement of financial position as of September 30, 2018, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Cradle, The Cradle Foundation and Cradle Adoption Partners, NFP as of September 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Cradle, The Cradle Foundation and Cradle Adoption Partners, NFP's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 7, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, changes in net assets and cash flows of the individual organizations and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Chicago, Illinois
December 7, 2018

Cradle Adoption Partners, NFP

Consolidated Statements of Financial Position
September 30, 2018 and 2017

	2018			Total	2017 Summarized Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Assets					
Current assets:					
Cash	\$ 270,431	\$ -	\$ -	\$ 270,431	\$ 768,244
Investments, at fair value	10,896,260	452,104	4,041,688	15,390,052	14,887,445
Receivables	124,302	-	-	124,302	157,025
Short-term pledges receivable, net	-	125,000	-	125,000	40,000
Prepaid expenses	64,334	-	-	64,334	62,313
Total current assets	11,355,327	577,104	4,041,688	15,974,119	15,915,027
Non-current assets:					
Long-term pledges receivable	-	162,928	-	162,928	36,281
Assets held in remainder trusts	-	40,382	-	40,382	41,707
Beneficial interest in perpetual trusts	-	-	3,364,956	3,364,956	3,302,805
Property and equipment, net of accumulated depreciation	3,015,630	-	-	3,015,630	3,215,467
Total non-current assets	3,015,630	203,310	3,364,956	6,583,896	6,596,260
	\$ 14,370,957	\$ 780,414	\$ 7,406,644	\$ 22,558,015	\$ 22,511,287
Liabilities and Net Assets					
Current liabilities:					
Line of credit	\$ 4,200,000	\$ -	\$ -	\$ 4,200,000	\$ 4,600,000
Accounts payable	99,419	-	-	99,419	34,543
Accrued payroll and benefits	61,435	-	-	61,435	63,455
Accrued vacation	119,485	-	-	119,485	116,604
Other accrued expenses	47,214	-	-	47,214	35,337
Current obligation under capital lease	23,971	-	-	23,971	23,206
Deferred revenue	113,127	-	-	113,127	136,650
Total current liabilities	4,664,651	-	-	4,664,651	5,009,795
Long-term liabilities:					
Obligations under capital lease, less current portion	24,762	-	-	24,762	48,733
Total long-term liabilities	24,762	-	-	24,762	48,733
Total liabilities	4,689,413	-	-	4,689,413	5,058,528
Net assets:					
Unrestricted	9,681,544	-	-	9,681,544	9,697,858
Temporarily restricted	-	780,414	-	780,414	439,954
Permanently restricted	-	-	7,406,644	7,406,644	7,314,947
Total net assets	9,681,544	780,414	7,406,644	17,868,602	17,452,759
	\$ 14,370,957	\$ 780,414	\$ 7,406,644	\$ 22,558,015	\$ 22,511,287

See notes to financial statements.

Cradle Adoption Partners, NFP

**Consolidated Statements of Activities
Years Ended September 30, 2018 and 2017**

	2018			Total	2017
	Unrestricted	Temporarily Restricted	Permanently Restricted		Summarized Total
Revenues:					
Public support:					
Contributions:					
Individuals and others	\$ 1,018,127	\$ 343,647	\$ -	\$ 1,361,774	\$ 1,138,611
Special event income	663,495	-	-	663,495	603,214
Trusts	153,478	-	-	153,478	136,384
Bequests	1,174	-	-	1,174	36,667
Donated goods and services	400,443	-	-	400,443	168,314
	<u>2,236,717</u>	<u>343,647</u>	<u>-</u>	<u>2,580,364</u>	<u>2,083,190</u>
Program revenue:					
Fee income	<u>2,605,150</u>	<u>-</u>	<u>-</u>	<u>2,605,150</u>	<u>3,016,500</u>
Other revenues, net:					
Interest and dividends	239,025	87,812	-	326,837	309,768
Realized/unrealized net gains on investments	1,336,256	18,130	29,546	1,383,932	1,741,868
Changes in value of split interest agreements and trusts	-	3,379	62,151	65,530	268,406
Miscellaneous revenue	4,598	-	-	4,598	3,046
	<u>1,579,879</u>	<u>109,321</u>	<u>91,697</u>	<u>1,780,897</u>	<u>2,323,088</u>
Net assets released from restriction	<u>112,508</u>	<u>(112,508)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>6,534,254</u>	<u>340,460</u>	<u>91,697</u>	<u>6,966,411</u>	<u>7,422,778</u>

(Continued)

Cradle Adoption Partners, NFP

Consolidated Statements of Activities (Continued)
Years Ended September 30, 2018 and 2017

	2018			Total	2017
	Unrestricted	Temporarily Restricted	Permanently Restricted		Summarized Total
Expenses:					
Program services:					
Social service	\$ 2,205,412	\$ -	\$ -	\$ 2,205,412	\$ 2,258,917
Nursery	889,572	-	-	889,572	955,707
Outreach and communications	1,305,161	-	-	1,305,161	1,080,444
Our Children	239,448	-	-	239,448	161,288
Adoption Learning Partners	674,023	-	-	674,023	638,007
	<u>5,313,616</u>	-	-	<u>5,313,616</u>	5,094,363
Supporting services:					
Management and general	623,686	-	-	623,686	778,743
Fundraising - other	409,200	-	-	409,200	373,623
Fundraising - special events	204,066	-	-	204,066	178,068
	<u>1,236,952</u>	-	-	<u>1,236,952</u>	1,330,434
Total expenses	<u>6,550,568</u>	-	-	<u>6,550,568</u>	6,424,797
Change in net assets	(16,314)	340,460	91,697	415,843	997,981
Net assets, beginning of year	<u>9,697,858</u>	<u>439,954</u>	<u>7,314,947</u>	<u>17,452,759</u>	16,454,778
Net assets, end of year	<u>\$ 9,681,544</u>	<u>\$ 780,414</u>	<u>\$ 7,406,644</u>	<u>\$ 17,868,602</u>	<u>\$ 17,452,759</u>

See notes to financial statements.

Cradle Adoption Partners, NFP

Consolidated Statements of Functional Expenses
Years Ended September 30, 2018 and 2017

	Program Services					Supporting Services			2018 Total Expenses	2017 Summarized Total
	Social Service	Nursery	Outreach and Communications	Our Children	Adoption Learning Partners	Management and General	Fundraising			
							Other	Special Events		
Payroll	\$ 1,413,460	\$ 565,797	\$ 226,211	\$ 169,882	\$ 336,575	\$ 168,593	\$ 207,549	\$ -	\$ 3,088,067	\$ 3,245,345
Payroll taxes and fringe benefits	333,067	133,911	52,416	39,135	79,227	39,287	48,673	-	725,716	734,653
Medical, prenatal and other living expenses	24,486	2,572	-	-	-	-	-	-	27,058	90,908
Occupancy	84,074	28,728	6,526	3,314	5,974	36,572	-	1,715	166,903	173,568
Insurance	43,533	19,899	5,409	2,750	5,807	36,294	-	-	113,692	71,634
Telephone	21,390	8,391	2,555	917	2,493	6,362	-	-	42,108	42,870
Supplies	7,608	37,153	1,075	702	1,310	2,533	3,508	1,603	55,492	177,237
Postage and shipping	1,727	172	3,650	68	76	166	6,395	619	12,873	22,402
Travel	27,012	149	11,401	1,407	14,349	4,759	1,523	714	61,314	70,798
Equipment repairs and maintenance	36,246	14,895	4,190	2,237	4,680	31,708	4,263	-	98,219	82,547
Professional service fees	107,246	38,177	343,078	11,463	47,344	68,863	101,894	-	718,065	238,156
Temporary help	1,240	504	2,957	20	40	115	-	-	4,876	-
Education and research	6,121	1,303	1,288	234	5,853	4,106	871	-	19,776	17,038
Meeting expense	11,676	563	2,720	297	1,679	2,552	5,397	582	25,466	29,096
Other event expenses	-	-	-	-	-	-	2,193	185,217	187,410	170,861
Communications	5,711	1,799	630,752	1,294	36,453	3,086	14,153	5,612	698,860	750,137
Depreciation and amortization	58,544	26,773	7,558	2,632	108,222	45,205	-	-	248,934	262,368
Investment and banking fees	18,267	7,312	2,923	2,291	23,111	21,793	10,695	-	86,392	77,996
Interest expense and debt service	932	434	111	51	109	148,580	-	-	150,217	121,589
Miscellaneous	3,072	1,040	341	754	721	3,112	2,086	8,004	19,130	45,594
	<u>\$ 2,205,412</u>	<u>\$ 889,572</u>	<u>\$ 1,305,161</u>	<u>\$ 239,448</u>	<u>\$ 674,023</u>	<u>\$ 623,686</u>	<u>\$ 409,200</u>	<u>\$ 204,066</u>	<u>\$ 6,550,568</u>	<u>\$ 6,424,797</u>

See notes to financial statements.

Cradle Adoption Partners, NFP

Consolidated Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 415,843	\$ 997,981
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	248,934	246,761
Amortization of other assets	-	15,607
Realized/unrealized net gains on investments and trusts	(1,446,083)	(2,004,451)
Changes in value of split interest agreements	(3,379)	(5,823)
Changes in operating assets and liabilities:		
Prepaid expenses	(2,021)	30,658
Receivables	32,723	(9,481)
Pledges receivable	(211,647)	34,554
Accounts payable	64,876	(91,797)
Accrued expenses	12,738	(11,074)
Deferred revenue	(23,523)	(47,968)
Net cash used in operating activities	(911,539)	(845,033)
Cash flows from investing activities:		
Purchases of investments	(598,656)	(5,259,454)
Proceeds from sales of investments	1,479,981	6,778,472
Receipt of assets held in remainder trust	4,704	223,902
Purchases of property and equipment	(49,097)	(201,202)
Net cash provided by investing activities	836,932	1,541,718
Cash flows from financing activities:		
Decrease in capital lease liability	(23,206)	(22,465)
Repayment of line of credit	(400,000)	(600,477)
Net cash used in financing activities	(423,206)	(622,942)
Net (decrease) increase in cash	(497,813)	73,743
Cash, beginning of year	768,244	694,501
Cash, end of year	\$ 270,431	\$ 768,244
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 148,342	\$ 117,447

See notes to financial statements.

Cradle Adoption Partners, NFP

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Organization activities: The accompanying financial statements include the financial information of The Cradle and The Cradle Foundation (the Foundation) (collectively, the Organizations). Cradle Adoption Partners, NFP (CAP), which serves as the sole voting member of The Cradle, had no assets, liabilities or financial activity for the year ended September 30, 2018.

Founded in 1923 and located in Evanston, Illinois, The Cradle has placed more than 15,000 children. The Cradle is committed to working with clients of every race, religion and ethnic background. It is the only adoption agency in the country to operate a 24-hour nursery on premises. This nursery plays a critical role in The Cradle's ability to care for infants while their parents continue to receive decision-making counseling services and to place infants born with special needs with loving and caring families.

Through the Center for Lifelong Adoption Support (CLAS), certified adoption-competent therapists provide a continuum of support to birth and adoptive parents, adopted persons and families as they live, learn and grow. Another program of The Cradle – Adoption Learning Partners (ALP) – provides adoption preparation and education through online courses and webinars for adoptive parents and adoption professionals throughout the world. Since 2002, more than 100,000 individuals have enrolled in over 300,000 courses through ALP (www.adoptionlearningpartners.org).

The Cradle is licensed by the Illinois Department of Children and Family Services to provide infant adoption services and to provide infant care in its on-site nurser, and is fully accredited to provide adoption services for Hague Convention Countries for the U.S. State Department. It is a member of the National Council for Adoption (NCFA) and other adoption and child-welfare-focused advocacy groups.

The Foundation was formed in January 2003 as an Illinois public not-for-profit corporation and commenced operations in January 2004. The Foundation was organized to provide support to The Cradle. Support distributions of \$2,475,000 for the year ended September 30, 2018, were made by the Foundation to The Cradle. These transactions have been eliminated in consolidation. A majority of the consolidated assets are investments and pledges receivable held by the Foundation.

Prior-year summarized information: The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles (GAAP). Accordingly, such information should be read in conjunction with the Organizations' financial statements for the year ended September 30, 2017, from which the summarized information was derived.

Principles of consolidation: The financial statements of The Cradle and the Foundation have been consolidated in accordance with the standards for consolidation under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). All related-party balances and transactions between The Cradle and the Foundation have been eliminated in consolidation.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Cradle Adoption Partners, NFP

Notes to Financial Statements

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

Investments: Investments consist of marketable securities that are stated at fair value based on quoted market prices. Unrealized gains or losses on such securities are based on the change in market value of the assets from the beginning to the end of the fiscal year. Realized gains or losses are based on the change in market value of the assets from the beginning of the fiscal year to the date of sale. Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect The Cradle and the Foundation and the amounts reported in the consolidated statements of activities. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the consolidated statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Receivables: Receivables consist primarily of adoption fees and are reported at net realizable value, which is the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history of individuals having outstanding receivable balances and taking into consideration the age of past due accounts, an assessment of the ability to pay, as well as current relationships, management considers receivables to be fully collectible at September 30, 2018. Accordingly, no allowance for doubtful accounts is required. Individual accounts are written off when collection appears doubtful.

Assets held in remainder trusts: The Cradle has been designated as the remainderman of two charitable remainder unitrusts. The assets of these trusts are held by outside trustees who distribute annuity payments to the donors. Each of these trusts will be transferred to The Cradle for general operating purposes upon the deaths of the donors. These trusts are reflected as temporarily restricted assets on the consolidated statements of financial position. Changes in the fair value of charitable remainder unitrusts are reflected as changes in value of split-interest agreements in temporarily restricted net assets on the consolidated statements of activities.

Beneficial interests in perpetual trusts: The Cradle has a beneficial interest in the income of three perpetual trusts held by third parties. These trusts are reflected as permanently restricted assets on the consolidated statements of financial position. Changes in the fair value of The Cradle's interest in the trust assets are reflected as permanently restricted unrealized gains or losses on the consolidated statements of activities. Annual distributions from the trust are reported as investment returns in the consolidated statements of activities.

Property and equipment: Property and equipment purchases of \$2,500 or more are recorded at cost and depreciated over their estimated useful lives on a straight-line basis. Major renewals and betterments, which extend the useful life of an asset, are capitalized while routine maintenance and repairs are expensed as incurred. The estimated useful lives for determining depreciation of the various classes of assets are as follows:

<u>Asset</u>	<u>Useful Life</u>
Land improvements and parking lot	15 years
Building and building improvements	10 - 50 years
Furnishings, equipment and software	3 - 10 years

Cradle Adoption Partners, NFP

Notes to Financial Statements

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

Unrestricted net assets: Unrestricted net assets represent assets that are not subject to donor-imposed stipulations. Contributions received with donor-imposed restrictions that are met in the same year as the contributions are received are reported as unrestricted revenues. A similar policy exists for investment income earned and expended on temporarily restricted net assets.

Temporarily restricted net assets: Temporarily restricted net assets represent assets subject to donor-imposed stipulations of both time and purpose which are to be satisfied by The Cradle and the Foundation's actions or satisfaction of time restrictions. Contributions are reported as temporarily restricted if they are received with donor stipulations that limit their use through either purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Pledges receivable are reported as temporarily restricted based on implied time restrictions.

Permanently restricted net assets: Permanently restricted net assets are subject to donor-imposed stipulations which require that the principal be maintained in perpetuity by The Cradle, the Foundation or outside trustees and that only the investment earnings can be expended, unless otherwise stated by the donor. If there are no donor specifications for use of the earnings on related investments, they can be used for general operating purposes.

Public support: Public support consists of cash and securities received from donors. Contributions, including unconditional pledges, are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value at date of gift. All gifts of publicly-traded securities are sold upon receipt in accordance with the Organizations' gift acceptance policy. Long-term pledges receivable are stated at the present value of the expected future cash flows; discounts are amortized to contribution revenue consistent with donor restrictions. No allowance for pledges receivable is provided based upon management's judgment, including such factors as collection history, type of contribution and nature of the fundraising activity.

A substantial number of unpaid volunteers and members of the Boards of Directors and Committees of The Cradle and the Foundation have made significant contributions of their time to various activities of the Organizations. The Organizations recognize as contributions the fair value only of those contributed services that either create or enhance non-financial assets or require specialized skills and that would otherwise have been purchased in the period received. Donated goods are recorded at the fair value of the items donated. Donated goods and services included as support in the consolidated statements of activities include donated legal services, employee training, nursery supplies, medical services, marketing/advertising services and building materials totaling \$400,443 for the year ended September 30, 2018.

Fee income: Fee income consists of adoption services fees, counseling fees, and Adoption Learning Partners product revenue, and is recognized as the services are provided.

Deferred revenue: Deferred revenue consists of funds received for programs and events occurring, or to be completed, after September 30, 2018.

Cradle Adoption Partners, NFP

Notes to Financial Statements

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

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Expenses are charged directly to program services or supporting services categories based upon specific identification where possible. Expenses which are not directly identifiable by program or supporting services are allocated among the programs and supporting services benefited based on appropriate methods determined by management, including space occupied, actual time spent and management's estimate.

Tax status: The Cradle, the Foundation and CAP have received determination letters from the Internal Revenue Service indicating they are tax-exempt organizations as provided in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on income related to their exempt purpose.

The Organizations follow the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organizations may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organizations and various positions related to the potential sources of unrelated business taxable income. There were no unrecognized tax benefits identified or recorded as liabilities as of and for the year ended September 30, 2018.

The Organizations file Forms 990 in the U.S. federal jurisdiction and in the State of Illinois.

Recent accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance when it becomes effective. The standard will be effective for the 2020 financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the 2021 financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses) and new required disclosures communicating information useful in assessing liquidity. The new standard will be effective for the 2019 financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides guidance surrounding the categorization of certain transactions as contributions or exchange transactions. It further clarifies when contributions should be deemed conditional. The new standard will be effective for the 2020 financial statements.

The Cradle is currently evaluating the impact of the adoption of these standards on its financial statements.

Cradle Adoption Partners, NFP

Notes to Financial Statements

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

Subsequent events: The Cradle has evaluated subsequent events for potential recognition and/or disclosure through December 7, 2018, the date the financial statements were available to be issued.

Note 2. Concentration of Credit Risk

The Cradle and the Foundation maintain cash in bank deposit accounts which, at times, may exceed federally insured limits. The Cradle and the Foundation have not experienced any losses in such accounts. The Cradle and the Foundation management believe they are not exposed to any significant credit risk on cash.

Note 3. Investments

At September 30, 2018, investments consist of the following:

Money market funds	\$ 41,638
Fixed income funds	3,137,389
Common stock funds	10,717,915
Balanced funds	1,493,110
	<u>\$ 15,390,052</u>

Components of investment income are as follows:

Realized gain	\$ 605,259
Unrealized gain	778,673
Total realized/unrealized net gains on investments	<u>1,383,932</u>
Interest and dividends	326,837
	<u>\$ 1,710,769</u>

The investments above serve as collateral to The Cradle's line of credit (see Note 9).

Note 4. Fair Value Measurements

The *Fair Value Measurements and Disclosures* topic of the ASC establishes a framework for measuring fair value. As defined in the topic, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets, such as the New York Stock Exchange, for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies.

Cradle Adoption Partners, NFP

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgement or estimation.

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

In determining the appropriate levels, the Organizations performed a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Fair values of assets measured on a recurring basis at September 30, 2018, are as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities:				
Money market funds	\$ 41,638	\$ 41,638	\$ -	\$ -
Fixed income funds	3,137,389	3,137,389	-	-
Common stock funds	10,717,915	10,717,915	-	-
Balanced funds	1,493,110	1,493,110	-	-
Total investments	\$ 15,390,052	\$ 15,390,052	\$ -	\$ -
Assets held in remainder trusts	\$ 40,382	\$ -	\$ -	\$ 40,382
Beneficial interest in perpetual trusts	\$ 3,364,956	\$ -	\$ -	\$ 3,364,956

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2018.

Investment securities: The fair values of common stock funds, fixed income funds, money market funds and balanced funds are based on quoted market prices.

Assets held in remainder trusts and beneficial interest in perpetual trusts: Fair value for the assets held in charitable remainder unitrusts is determined by subtracting the present value of the future distributions expected to be paid to the beneficiary, calculated using published life expectancy tables and a 3 percent discount rate, from the fair value of the trust assets provided by the trustee. The fair value for the beneficial interest in perpetual trusts is determined based on the fair value of the investments held in the trusts, as provided by the trustees.

Cradle Adoption Partners, NFP

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while The Cradle and the Foundation believe the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organizations assess the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Organizations' accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no such transfers for the year ended September 30, 2018.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Assets Held in Remainder Trusts	Beneficial Interest in Perpetual Trusts	Total
Balance, October 1, 2017	\$ 41,707	\$ 3,302,805	\$ 3,344,512
Distribution	(4,704)	-	(4,704)
Change in value in split-interest agreements	3,379	62,151	65,530
Balance, September 30, 2018	<u>\$ 40,382</u>	<u>\$ 3,364,956</u>	<u>\$ 3,405,338</u>

The change in values of assets held in remainder trusts and the beneficial interest in perpetual trusts is included in other revenues in the consolidated statements of activities and is related to assets still held at the consolidated statement of financial position date.

Note 5. Pledges Receivable

Pledges receivable at September 30, 2018, represent unconditional promises to give.

Pledges consist of items receivable in:

Less than one year	\$ 125,000
One to five years	170,000
	<u>295,000</u>
Less: discount to net present value	<u>(7,072)</u>
Net pledges receivable	287,928
Less: current portion	<u>(125,000)</u>
Long-term portion	<u>\$ 162,928</u>

The discount rate (3-year U.S. Treasury rate of 2.88 percent) used in determining the net present value of unconditional promises to give is based on a risk-adjusted rate of return.

Cradle Adoption Partners, NFP

Notes to Financial Statements

Note 6. Property and Equipment

At September 30, 2018, property and equipment consist of the following:

Land	\$ 20,300
Land improvements and parking lot	332,690
Building and building improvements	5,526,388
Furnishings, equipment and software	1,290,692
Equipment under capital lease	116,150
	<u>7,286,220</u>
Less accumulated depreciation	<u>(4,270,590)</u>
	<u>\$ 3,015,630</u>
Depreciation and amortization expense	<u>\$ 248,934</u>

Note 7. Special Events

The Foundation sponsored the following fundraising events for the year ended September 30, 2018:

	Revenue	Expense	Net Income
Cradle Ball	\$ 323,902	\$ 109,899	\$ 214,003
Auto show	156,447	39,351	117,096
Golf outing	161,706	45,676	116,030
Sayers Soiree	9,385	8,217	1,168
Miscellaneous events	12,055	923	11,132
	<u>\$ 663,495</u>	<u>\$ 204,066</u>	<u>\$ 459,429</u>

Note 8. Retirement Plans

Effective January 1, 1996, The Cradle's Board of Directors approved a 403(b) plan for eligible employees. The Cradle and the Foundation may make, at their discretion, a contribution at a rate to be determined annually by the Boards of Directors of The Cradle and the Foundation. Retirement plan expense for these organizations was \$64,498 for the year ended September 30, 2018.

Note 9. Line of Credit

On October 29, 2015, a revolving line of credit was issued by Bank of America in the amount of \$5,200,477; the outstanding balance as of September 30, 2018, was \$4,200,000. The line bears interest at 1.5 percent plus the weekly London Interbank Offered Rate (LIBOR) (2.171 percent at September 30, 2018). The revolving line of credit is payable upon demand. As security for the obligation under the revolving letter of credit, the Foundation has granted a first-priority lien and security interest in its unrestricted investments.

Cradle Adoption Partners, NFP

Notes to Financial Statements

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of September 30, 2018:

Daniel Corbett Memorial Fund	\$	12,645
Building related		25,000
Assets held in remainder trusts		40,382
Earnings on Schreyer Family Leadership and Mary Ann Jergens Hays Funds		414,459
Pledges receivable		287,928
	\$	<u>780,414</u>

Net assets of \$107,804 were released from donor restrictions by incurring expenses satisfying the restricted program purposes or by satisfaction of the implied time restrictions during 2018.

Note 11. Permanently Restricted Net Assets

Permanently restricted net assets consist of the following as of September 30, 2018:

Nursery endowment	\$	500,000
Post-adoption counselor endowment		1,063,333
General endowment		1,250,003
Mary Ann Jergens Hays Fund		135,139
Schreyer Family Leadership Fund		850,000
Alexander Bond Memorial Trust		243,213
Beneficial interest in perpetual trusts		3,364,956
	\$	<u>7,406,644</u>

Note 12. Endowment

The Cradle and the Foundation's endowments consist of six donor-restricted funds established to support the nursery, a post-adoption counselor position and general operations. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Boards of Directors of The Cradle and the Foundation have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as sustaining the preservation 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 Cradle and the Foundation classify as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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.

Cradle Adoption Partners, NFP

Notes to Financial Statements

Note 12. Endowment (Continued)

Endowment net asset composition by type of fund as of September 30, 2018, is as follows:

	Temporarily Restricted	Permanently Restricted	Endowment Assets
Donor-restricted endowment funds	\$ 414,459	\$ 4,041,688	\$ 4,456,147

Changes in endowment net assets as of September 30, 2018, are as follows:

	Temporarily Restricted	Permanently Restricted	Endowment Assets
Endowment net assets, beginning of year	\$ 308,517	\$ 4,012,142	\$ 4,320,659
Contributions	-	-	-
Investment income	87,812	-	87,812
Net appreciation	112,690	29,546	142,236
Amounts appropriated for expenditures	(94,560)	-	(94,560)
Endowment net assets, end of year	\$ 414,459	\$ 4,041,688	\$ 4,456,147

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires The Cradle or the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, there were no deficiencies of this nature as of September 30, 2018.

The Foundation has established an investment policy to guide the management of all investment assets of the Foundation, including all endowment assets. The goals for the investment fund are to (1) provide a source of funds to support annual operations, and (2) increase the overall purchasing power of the investments through asset growth and income returns. These results will be sought while incurring an acceptable rate of return volatility and, if not attainable in any given year, should be achieved or surpassed over time to the extent of returns in the broad markets. The investments are to be broadly diversified so as to limit the impact of possible losses in individual investments in the total portfolio.

The Cradle and the Foundation have a policy of appropriating for distribution the investment earnings (interest and appreciation) on these funds absent any donor specifications to the contrary. The spending appropriation on certain donor-restricted funds is limited to 5 percent of the specific fund's average fair value over three years, unless extraordinary circumstances apply.

Note 13. Leases

Capital lease: The Cradle is the lessee of copier equipment under a capital lease expiring in 2020. The assets and liabilities under capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of their related lease term or their estimated productive lives. Depreciation of assets under capital lease is included in depreciation expense for the year ended September 30, 2018.

Cradle Adoption Partners, NFP

Notes to Financial Statements

Note 13. Leases (Continued)

Following is a summary of property held under capital leases:

Equipment	\$	116,150
Less accumulated depreciation		<u>(69,690)</u>
	\$	<u><u>46,460</u></u>

Future lease payments under capital lease are as follows:

2019	\$	25,200
2020		<u>25,200</u>
		50,400
Less amount representing interest		<u>(1,667)</u>
Present value of net minimum lease payments	\$	<u><u>48,733</u></u>

The interest rate on the capital lease is 3.25 percent annually and was imputed based on the lower of The Cradle's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return.

Operating leases: The Cradle maintains operating leases for office space, a vehicle and certain office equipment. The leases have various expiration dates through September 2020. Rental expense for operating leases was \$35,129 in 2018. Future minimum rental payments are as follows:

2019	\$	24,059
2020		<u>2,568</u>
	\$	<u><u>26,627</u></u>

Supplementary Information

Cradle Adoption Partners, NFP

**Consolidating Schedule of Financial Position
September 30, 2018**

	The Cradle	The Cradle Foundation	Eliminations	Consolidated
Assets				
Current assets:				
Cash	\$ 177,285	\$ 93,146	\$ -	\$ 270,431
Investments, at fair value	-	15,390,052	-	15,390,052
Receivables	332,614	33,601	(241,913)	124,302
Short-term pledges receivable, net	-	125,000	-	125,000
Prepaid expenses	21,685	42,649	-	64,334
Due to/from affiliate	1,190,345	(1,190,345)	-	-
Total current assets	1,721,929	14,494,103	(241,913)	15,974,119
Non-current assets:				
Long-term pledges receivable	-	162,928	-	162,928
Assets held in remainder trusts	40,382	-	-	40,382
Beneficial interest in perpetual trusts	3,364,956	-	-	3,364,956
Beneficial interest in net assets of the Foundation	10,074,712	-	(10,074,712)	-
Property and equipment, net of accumulated depreciation	3,013,478	2,152	-	3,015,630
Total non-current assets	16,493,528	165,080	(10,074,712)	6,583,896
	\$ 18,215,457	\$ 14,659,183	\$ (10,316,625)	\$ 22,558,015
Liabilities and Net Assets				
Current liabilities:				
Line of credit	\$ -	\$ 4,200,000	\$ -	\$ 4,200,000
Accounts payable	92,210	249,122	(241,913)	99,419
Accrued payroll and benefits	58,064	3,371	-	61,435
Accrued vacation	112,596	6,889	-	119,485
Other accrued expenses	32,414	14,800	-	47,214
Current obligation under capital lease	23,971	-	-	23,971
Deferred revenue	2,838	110,289	-	113,127
Total current liabilities	322,093	4,584,471	(241,913)	4,664,651
Long-term liabilities:				
Obligations under capital lease, less current portion	24,762	-	-	24,762
Total long-term liabilities	24,762	-	-	24,762
Total liabilities	346,855	4,584,471	(241,913)	4,689,413
Net assets:				
Unrestricted	9,681,544	5,292,991	(5,292,991)	9,681,544
Temporarily restricted	780,414	740,033	(740,033)	780,414
Permanently restricted	7,406,644	4,041,688	(4,041,688)	7,406,644
Total net assets	17,868,602	10,074,712	(10,074,712)	17,868,602
	\$ 18,215,457	\$ 14,659,183	\$ (10,316,625)	\$ 22,558,015

Cradle Adoption Partners, NFP

**Consolidating Schedule of Activities
Year Ended September 30, 2018**

	Unrestricted				Temporarily Restricted				Permanently Restricted				Consolidated
	The Cradle	The Cradle Foundation	Eliminations	Total	The Cradle	The Cradle Foundation	Eliminations	Total	The Cradle	The Cradle Foundation	Eliminations	Total	
Revenues:													
Public support:													
Contributions:													
Individuals and others	\$ 790	\$ 1,017,337	\$ -	\$ 1,018,127	\$ -	\$ 343,647	\$ -	\$ 343,647	\$ -	\$ -	\$ -	\$ -	\$ 1,361,774
Special event income	7,000	656,495	-	663,495	-	-	-	-	-	-	-	-	663,495
Trusts	153,478	-	-	153,478	-	-	-	-	-	-	-	-	153,478
Bequests	-	1,174	-	1,174	-	-	-	-	-	-	-	-	1,174
Donated goods and services	400,443	-	-	400,443	-	-	-	-	-	-	-	-	400,443
	<u>561,711</u>	<u>1,675,006</u>	<u>-</u>	<u>2,236,717</u>	<u>-</u>	<u>343,647</u>	<u>-</u>	<u>343,647</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,580,364</u>
Program revenue:													
Fee income	2,605,150	-	-	2,605,150	-	-	-	-	-	-	-	-	2,605,150
Other revenues (expenses), net:													
Interest and dividends	1,013	238,012	-	239,025	-	87,812	-	87,812	-	-	-	-	326,837
Realized/unrealized net gains on investments	-	1,336,256	-	1,336,256	-	18,130	-	18,130	-	29,546	-	29,546	1,383,932
Changes in value of split-interest agreements and trusts	-	-	-	-	3,379	-	-	3,379	62,151	-	-	62,151	65,530
Administration fee	241,913	-	(241,913)	-	-	-	-	-	-	-	-	-	-
Miscellaneous revenue	4,597	1	-	4,598	-	-	-	-	-	-	-	-	4,598
	<u>247,523</u>	<u>1,574,269</u>	<u>(241,913)</u>	<u>1,579,879</u>	<u>3,379</u>	<u>105,942</u>	<u>-</u>	<u>109,321</u>	<u>62,151</u>	<u>29,546</u>	<u>-</u>	<u>91,697</u>	<u>1,780,897</u>
Net assets released from restriction	4,704	107,804	-	112,508	(4,704)	(107,804)	-	(112,508)	-	-	-	-	-
Total revenues	<u>3,419,088</u>	<u>3,357,079</u>	<u>(241,913)</u>	<u>6,534,254</u>	<u>(1,325)</u>	<u>341,785</u>	<u>-</u>	<u>340,460</u>	<u>62,151</u>	<u>29,546</u>	<u>-</u>	<u>91,697</u>	<u>6,966,411</u>

(Continued)

Cradle Adoption Partners, NFP

Consolidating Schedule of Activities (Continued)

Year Ended September 30, 2018

	Unrestricted				Temporarily Restricted				Permanently Restricted				Consolidated
	The Cradle	The Cradle Foundation	Eliminations	Total	The Cradle	The Cradle Foundation	Eliminations	Total	The Cradle	The Cradle Foundation	Eliminations	Total	
Expenses:													
Program services:													
Social Service	\$ 2,205,412	\$ -	\$ -	\$ 2,205,412	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,205,412
Nursery	889,572	-	-	889,572	-	-	-	-	-	-	-	-	889,572
Outreach and Communications	1,305,161	-	-	1,305,161	-	-	-	-	-	-	-	-	1,305,161
Our Children	239,448	-	-	239,448	-	-	-	-	-	-	-	-	239,448
Adoption Learning Partners	674,023	-	-	674,023	-	-	-	-	-	-	-	-	674,023
	<u>5,313,616</u>	<u>-</u>	<u>-</u>	<u>5,313,616</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,313,616</u>
Supporting services:													
Management and general	436,321	429,278	(241,913)	623,686	-	-	-	-	-	-	-	-	623,686
Fundraising	-	409,200	-	409,200	-	-	-	-	-	-	-	-	409,200
Special events	-	204,066	-	204,066	-	-	-	-	-	-	-	-	204,066
	<u>436,321</u>	<u>1,042,544</u>	<u>(241,913)</u>	<u>1,236,952</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,236,952</u>
Total expenses	<u>5,749,937</u>	<u>1,042,544</u>	<u>(241,913)</u>	<u>6,550,568</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,550,568</u>
Change in net assets	<u>(2,330,849)</u>	<u>2,314,535</u>	<u>-</u>	<u>(16,314)</u>	<u>(1,325)</u>	<u>341,785</u>	<u>-</u>	<u>340,460</u>	<u>62,151</u>	<u>29,546</u>	<u>-</u>	<u>91,697</u>	<u>415,843</u>
Beginning of year	9,697,858	5,453,456	(5,453,456)	9,697,858	439,954	398,248	(398,248)	439,954	7,314,947	4,012,142	(4,012,142)	7,314,947	17,452,759
Distributions	-	(2,475,000)	2,475,000	-	-	-	-	-	-	-	-	-	-
Change in beneficial interest in net assets of the Foundation	2,314,535	-	(2,314,535)	-	341,785	-	(341,785)	-	29,546	-	(29,546)	-	-
End of year	<u>\$ 9,681,544</u>	<u>\$ 5,292,991</u>	<u>\$ (5,292,991)</u>	<u>\$ 9,681,544</u>	<u>\$ 780,414</u>	<u>\$ 740,033</u>	<u>\$ (740,033)</u>	<u>\$ 780,414</u>	<u>\$ 7,406,644</u>	<u>\$ 4,041,688</u>	<u>\$ (4,041,688)</u>	<u>\$ 7,406,644</u>	<u>\$ 17,868,602</u>