Cradle Adoption Partners, NFP

Consolidated Financial Report
September 30, 2017

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Independent Auditor's Report

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

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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 30, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter
Our audit was conducted for the purpose of forming an opinion on the consolidated 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 companies and is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

RSM US LLP

Chicago, Illinois
March 7, 2018

Cradle Adoption Partners, NFP

Consolidated Statements of Financial Position
September 30, 2017 and 2016

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Summarized Total
Assets					
Current assets:					
Cash	$ 768,244	$ -	$ -	$ 768,244	$ 694,501
Investments, at fair value	10,553,337	321,966	4,012,142	14,887,445	14,664,595
Receivables	157,025	-	-	157,025	147,544
Short-term pledges receivable, net	-	40,000	-	40,000	40,000
Prepaid expenses	62,313	-	-	62,313	92,971
Total current assets	11,540,919	361,966	4,012,142	15,915,027	15,639,611
Non-current assets:					
Long-term pledges receivable	-	36,281	-	36,281	70,835
Assets held in remainder trusts	-	41,707	-	41,707	259,786
Beneficial interest in perpetual trusts	-	-	3,302,805	3,302,805	3,040,222
Other assets, net of accumulated amortization	-	-	-	-	15,607
Property and equipment, net of accumulated depreciation	3,215,467	-	-	3,215,467	3,261,026
Total non-current assets	3,215,467	77,988	3,302,805	6,596,260	6,647,476
	$ 14,756,386	$ 439,954	$ 7,314,947	$ 22,511,287	$ 22,287,087
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	$ 34,543	$ -	$ -	$ 34,543	$ 126,340
Accrued payroll and benefits	63,455	-	-	63,455	69,188
Accrued vacation	116,604	-	-	116,604	139,309
Other accrued expenses	35,337	-	-	35,337	17,973
Current obligation under capital lease	23,206	-	-	23,206	22,465
Deferred revenue	136,650	-	-	136,650	184,618
Line of credit	4,600,000	-	-	4,600,000	5,200,477
Total current liabilities	5,009,795	-	-	5,009,795	5,760,370
Long-term liabilities:					
Obligations under capital lease, less current portion	48,733	-	-	48,733	71,939
Total long-term liabilities	48,733	-	-	48,733	71,939
Total liabilities	5,058,528	-	-	5,058,528	5,832,309
Net assets:					
Unrestricted	9,697,858	-	-	9,697,858	8,924,266
Temporarily restricted	-	439,954	-	439,954	494,574
Permanently restricted	-	-	7,314,947	7,314,947	7,035,938
Total net assets	9,697,858	439,954	7,314,947	17,452,759	16,454,778
	$ 14,756,386	$ 439,954	$ 7,314,947	$ 22,511,287	$ 22,287,087

See notes to consolidated financial statements.

Cradle Adoption Partners, NFP

Consolidated Statements of Activities
Years Ended September 30, 2017 and 2016

	2017				2016
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Summarized Total
Revenues:					
Public support:					
Contributions:					
Individuals and others	**$ 1,129,164**	**$ 6,447**	**$ 3,000**	**$ 1,138,611**	$ 1,614,513
Special event income	**603,214**	**-**	**-**	**603,214**	648,919
Trusts	**136,384**	**-**	**-**	**136,384**	192,245
Bequests	**36,667**	**-**	**-**	**36,667**	462,876
Donated goods and services	**168,314**	**-**	**-**	**168,314**	90,642
	2,073,743	**6,447**	**3,000**	**2,083,190**	3,009,195
Program revenue:					
Fee income	**3,016,500**	**-**	**-**	**3,016,500**	2,786,980
Other revenues, net:					
Interest and dividends	**220,880**	**88,888**	**-**	**309,768**	334,620
Realized/unrealized net gains on investments	**1,508,813**	**219,629**	**13,426**	**1,741,868**	1,241,717
Changes in value of split interest agreements and trusts	**-**	**5,823**	**262,583**	**268,406**	89,993
Miscellaneous revenue	**3,046**	**-**	**-**	**3,046**	1,908
	1,732,739	**314,340**	**276,009**	**2,323,088**	1,668,238
Net assets released from restriction	**375,407**	**(375,407)**	**-**	**-**	-
Total revenues	**7,198,389**	**(54,620)**	**279,009**	**7,422,778**	7,464,413

(Continued)

Cradle Adoption Partners, NFP

Consolidated Statements of Activities (Continued)
Years Ended September 30, 2017 and 2016

	2017				2016
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Summarized Total
Expenses:					
Program services:					
Social service	**$ 2,258,917**	**$ -**	**$ -**	**$ 2,258,917**	$ 2,348,484
Nursery	**955,707**	**-**	**-**	**955,707**	1,045,999
Outreach and communications	**1,080,444**	**-**	**-**	**1,080,444**	1,079,689
Our Children	**161,288**	**-**	**-**	**161,288**	132,163
Adoption Learning Partners	**638,007**	**-**	**-**	**638,007**	714,261
	5,094,363	**-**	**-**	**5,094,363**	5,320,596
Supporting services:					
Management and general	**778,743**	**-**	**-**	**778,743**	799,356
Fundraising	**373,623**	**-**	**-**	**373,623**	736,739
Special events	**178,068**	**-**	**-**	**178,068**	215,471
	1,330,434	**-**	**-**	**1,330,434**	1,751,566
Bad debt expense	**-**	**-**	**-**	**-**	127,605
Total expenses	**6,424,797**	**-**	**-**	**6,424,797**	7,199,767
Change in net assets	**773,592**	**(54,620)**	**279,009**	**997,981**	264,646
Net assets, beginning	**8,924,266**	**494,574**	**7,035,938**	**16,454,778**	16,190,132
Net assets, ending	**$ 9,697,858**	**$ 439,954**	**$ 7,314,947**	**$ 17,452,759**	$ 16,454,778

See notes to consolidated financial statements.

Cradle Adoption Partners, NFP

Consolidated Statements of Functional Expenses
Years Ended September 30, 2017 and 2016

	Program Services					Supporting Services				
					Adoption	Management	Fundraising		2017	2016
	Social Service	Nursery	Outreach and Communications	Our Children	Learning Partners	and General	Other	Special Events	Total Expenses	Summarized Total
Payroll	$ 1,471,711	$ 604,565	$ 207,218	$ 104,962	$ 334,619	$ 286,241	$ 236,029	$ -	$ 3,245,345	$ 3,601,762
Payroll taxes and fringe benefits	336,147	137,384	46,252	23,553	77,413	61,015	52,889	-	734,653	798,836
Medical, prenatal and other living expenses	67,664	23,244	-	-	-	-	-	-	90,908	91,960
Occupancy	87,917	28,175	6,800	3,807	6,189	40,680	-	-	173,568	171,879
Insurance	30,176	14,276	3,445	1,422	3,136	19,179	-	-	71,634	101,414
Telephone	19,775	6,823	2,317	936	4,577	8,442	-	-	42,870	34,293
Supplies	29,042	81,648	54,332	1,210	2,904	6,536	1,560	5	177,237	105,134
Postage and shipping	1,737	40	8,036	-	15	1,240	10,802	532	22,402	32,436
Travel	33,402	493	10,934	821	18,410	1,733	4,390	615	70,798	111,572
Equipment repairs and maintenance	25,591	11,660	3,113	1,380	3,546	35,840	1,417	-	82,547	99,111
Professional service fees	32,244	-	25,334	14,669	9,900	118,221	37,788	-	238,156	406,048
Temporary help	-	-	-	-	-	-	-	-	-	24,335
Education and research	6,001	1,112	1,634	106	4,304	2,400	1,481	-	17,038	30,761
Special assistance	-	-	-	-	-	-	-	-	-	-
Other event expenses	-	-	-	-	-	-	2,938	167,923	170,861	202,629
Communications	7,139	1,953	671,330	1,229	46,656	3,111	14,034	4,685	750,137	772,618
Depreciation and amortization	60,434	27,265	30,847	2,678	94,235	46,909	-	-	262,368	238,576
Investment and banking fees	20,288	8,334	2,857	1,447	24,239	20,831	-	-	77,996	72,314
Interest expense and debt service	1,282	598	150	64	149	119,346	-	-	121,589	113,443
Miscellaneous	13,507	7,499	3,582	1,044	3,510	5,077	7,239	4,136	45,594	26,983
Bad debt expense	-	-	-	-	-	-	-	-	-	127,605
	$ 2,258,917	$ 955,707	$ 1,080,444	$ 161,288	$ 638,007	$ 778,743	$ 373,623	$ 178,068	$ 6,424,797	$ 7,199,767

See notes to consolidated financial statements.

Cradle Adoption Partners, NFP

Consolidated Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	**$ 997,981**	$ 264,646
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Loss on disposal of equipment	**-**	43,648
Depreciation	**246,761**	207,579
Amortization of other assets	**15,607**	30,997
Amortization of bond issuance costs	**-**	12,040
Donated property and equipment	**-**	(3,938)
Realized/unrealized net gains on investments and trusts	**(2,004,451)**	(1,314,857)
Changes in value of split interest agreements	**(5,823)**	(16,853)
Changes in operating assets and liabilities:		
Decrease (increase) in prepaid expenses	**30,658**	(19,673)
Increase in receivables	**(9,481)**	(71,542)
Decrease in pledges receivable	**34,554**	703,159
(Decrease) increase in accounts payable	**(91,797)**	39,813
Decrease in accrued expenses	**(11,074)**	(149,211)
(Decrease) increase in deferred revenue	**(47,968)**	71,382
Net cash used in operating activities	**(845,033)**	(202,810)
Cash flows from investing activities:		
Purchases of investments	**(5,214,699)**	(1,836,295)
Reinvested income and capital gain distributions	**(44,755)**	(162,498)
Proceeds from sales of investments	**6,778,472**	2,227,870
Receipt of assets held in perpetual trust	**-**	188,970
Receipt of assets held in remainder trust	**223,902**	-
Purchases of property and equipment	**(201,202)**	(117,746)
Net cash provided by investing activities	**1,541,718**	300,301
Cash flows from financing activities:		
Decrease in capital lease liability	**(22,465)**	(69,667)
Bonds payable redemption	**-**	(5,200,000)
(Repayment of) proceeds from line of credit	**(600,477)**	5,200,477
Net cash used in financing activities	**(622,942)**	(69,190)
Net increase in cash	**73,743**	28,301
Cash at beginning of year	**694,501**	666,200
Cash at end of year	**$ 768,244**	$ 694,501
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 162,481**	$ 86,028
Supplemental schedule of noncash operating and financing activities:		
Equipment obtained through capital lease	**$ -**	$ 116,150
Donated goods and services	**$ 168,314**	$ 90,642

See notes to consolidated 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 (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, 2017.

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. The Cradle's website, www.adoptionlearningpartners.org (ALP), provides adoption preparation and education through online courses and webinars for adoptive parents and adoption professionals throughout the world. Over the past fourteen years, nearly 100,000 individuals have enrolled in a total of 300,000 courses through ALP.

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 nursery; and is fully accredited to provide adoption services for Hague Convention Countries for the U.S. State Department by the Council on Accreditation for Children and Family Services (COA). It is a member of the National Council for Adoption (NCFA).

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 $2,250,518 for the year ended September 30, 2017, 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, 2016, 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) Codification. 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.

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, 2017. 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 death 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.

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:

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

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.

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

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 Organization’s 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 statement of activities include donated legal services, nursery supplies, medical services and computer equipment totaling $168,314 for the year ended September 30, 2017.

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, 2017.

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.

Other assets: Other assets consist of production costs for television advertising. The costs are being amortized over three years, which is the period during which future benefits are expected to be received. Amortization expense in 2017 was $15,607.

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

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, 2017.

The Organizations file Form 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 in U.S. GAAP when it becomes effective. Early adoption is permitted. 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.

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

Subsequent events: The Cradle has evaluated subsequent events for potential recognition and/or disclosure through March 7, 2018, the date the consolidated 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, 2017, investments consist of the following:

Money market funds	$ 110,963
Common stock funds	3,450,767
Bond funds	9,926,406
Balanced funds	1,399,309
	$ 14,887,445

Components of investment income are as follows:

Realized gain	$ 561,111
Unrealized gain	1,180,757
Total realized/unrealized net gains on investments	$ 1,741,868
Interest and dividends	309,768
	$ 2,051,636

Note 4. Fair Value Measurements

The *Fair Value Measurements and Disclosures* topic of the FASB Codification 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: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that The Cradle and the Foundation have the ability to access.

Level 2: Observable market inputs or unobservable inputs that are corroborated by market data.

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

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

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

Note 4. Fair Value Measurements (Continued)

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, 2017, are as follows:

		Fair Value Measurements at Reporting Date Using:	
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Investment securities:			
Money market funds	$ 110,963	$ 110,963	$ -
Common stock funds	3,450,767	3,450,767	-
Bond funds	9,926,406	9,926,406	-
Balanced funds	1,399,309	1,399,309	-
Assets held in remainder trusts	41,707	-	41,707
Beneficial interest in perpetual trusts	3,302,805	-	3,302,805
	$ 18,231,957	$ 14,887,445	$ 3,344,512

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, 2017.

Investment securities: The fair value of common stock funds, bond 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.

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.

Note 4. Fair Value Measurements (Continued)

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, 2017.

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, 2016	$ 259,786	$ 3,040,222	$ 3,300,008
Distribution	(223,902)	-	(223,902)
Change in value in split-interest agreements	5,823	262,583	268,406
Balance, September 30, 2017	$ 41,707	$ 3,302,805	$ 3,344,512

The change in values of assets held in remainder trusts and the beneficial interest in perpetual trusts is included in other revenues (expenses) in the consolidated statement 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, 2017, represent unconditional promises to give.

Pledges consist of items receivable in:

Less than one year	$ 40,000
One to five years	40,000
	80,000
Less: Discount to net present value	(3,719)
Net pledges receivable	76,281
Less: current portion	(40,000)
Long-term portion	$ 36,281

The discount rate (5 percent) used in determining the net present value of unconditional promises to give is based on an adjusted risk free rate of return.

Note 6. Property and Equipment

At September 30, 2017, 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		1,241,593
Equipment under capital lease		116,150
		7,237,121
Less accumulated depreciation		(4,021,654)
	$	3,215,467
Depreciation and amortization expense	$	262,368

Note 7. Special Events

The Foundation sponsored the following fundraising events for the year ended September 30, 2017:

	Revenue	Expense	Net Income
Cradle Ball	$ 289,078	$ 88,804	$ 200,274
Auto show	137,269	28,159	109,110
Golf outing	120,095	37,973	82,122
Sayers Soiree	20,922	6,758	14,164
Miscellaneous events	35,850	16,374	19,476
	$ 603,214	$ 178,068	$ 425,146

Note 8. Retirement Plans

Effective January 1, 1996, The Cradle's Board of Directors approved a 403(b) plan for eligible employees. Effective with the transfer of certain employees from The Cradle to the Foundation, the Foundation's eligible employees may also participate in the 403(b) plan. 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 $79,308 for the year ended September 30, 2017.

Note 9. Bonds Payable and Line of Credit

In May 1998, The Cradle borrowed $5,300,000 under a loan agreement with the Illinois Health Facilities Authority (IHFA). A restricted gift of $100,000 was applied against the principal balance in 1999, reducing the bonds payable to $5,200,000. Pursuant to the loan agreement The Cradle maintained an irrevocable standby letter of credit agreement with a bank, which provided approximately $5,271,000 as collateral for bond principal and interest.

On October 29, 2015, the outstanding bonds payable of $5,200,000 were retired and the irrevocable standby letter of credit was terminated. Financing for the repayment of the bonds was secured through a revolving line of credit issued by Bank of America in the amount of $5,200,477, the outstanding balance as of September 30, 2017 was $4,600,000. The line bears interest at 1.5 percent plus the weekly London Interbank Offered Rate (LIBOR) rate (1.118 percent at September 30, 2017). 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.

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of September 30, 2017:

Siragusa Special Needs Fund	$ 804
Daniel Corbett Memorial Fund	12,645
Assets Held in Remainder Trusts	41,707
Earnings on Schreyer Family Leadership and Mary Ann Jergens Hays Funds	308,517
Pledges Receivable	76,281
	$ 439,954

Net assets of $375,407 were released from donor restrictions by incurring expenses satisfying the restricted program purposes or by satisfaction of the implied time restrictions during 2017.

Note 11. Permanently Restricted Net Assets

Permanently restricted net assets consist of the following as of September 30, 2017:

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	213,667
Beneficial interest in perpetual trusts	3,302,805
	$ 7,314,947

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.

Note 12. Endowment (Continued)

Endowment net asset composition by type of fund as of September 30, 2017, is as follows:

	Temporarily Restricted	Permanently Restricted	Endowment Assets
Donor-restricted endowment funds	$ 308,517	$ 4,012,142	$ 4,320,659

Changes in endowment net assets as of September 30, 2017, are as follows:

	Temporarily Restricted	Permanently Restricted	Endowment Assets
Endowment net assets, beginning of year	$ 214,014	$ 3,995,716	$ 4,209,730
Contributions	-	3,000	3,000
Investment income	88,888	-	88,888
Net appreciation	120,590	13,426	134,016
Amounts appropriated for expenditures	(114,975)	-	(114,975)
Endowment net assets, end of year	$ 308,517	$ 4,012,142	$ 4,320,659

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, 2017.

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, 2017.

Following is a summary of property held under capital leases:

Equipment	$	116,150
Less accumulated depreciation		(46,460)
	$	69,690

Future lease payments under capital lease are as follows:

2018	$	25,200
2019		25,200
2020		25,200
		75,600
Less amount representing interest		(3,661)
Present value of net minimum lease payments	$	71,939

The interest rate on the capital lease is 3.25 percent annually and is 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 $39,699 in 2017. Future minimum rental payments are as follows:

2018	$	9,536
2019		5,136
2020		2,140
	$	16,812

Supplementary Information

Cradle Adoption Partners, NFP

Consolidating Schedule of Financial Position
September 30, 2017

	The Cradle	The Cradle Foundation	Eliminations	Consolidated
Assets				
Current assets:				
Cash	$ 267,907	$ 500,337	$ -	$ 768,244
Investments, at fair value	-	14,887,445	-	14,887,445
Receivables	358,496	30,876	(232,347)	157,025
Short-term pledges receivable, net	-	40,000	-	40,000
Prepaid expenses	25,421	36,892	-	62,313
Due to/from affiliate	676,923	(676,923)	-	-
Total current assets	1,328,747	14,818,627	(232,347)	15,915,027
Non-current assets:				
Long-term pledges receivable	-	36,281	-	36,281
Assets held in remainder trusts	41,707	-	-	41,707
Beneficial interest in perpetual trusts	3,302,805	-	-	3,302,805
Beneficial interest in net assets of Foundation	9,863,846	-	(9,863,846)	-
Property and equipment, net of accumulated depreciation	3,211,820	3,647	-	3,215,467
Total non-current assets	16,420,178	39,928	(9,863,846)	6,596,260
	$ 17,748,925	$ 14,858,555	$ (10,096,193)	$ 22,511,287
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	$ 34,543	$ 232,347	$ (232,347)	$ 34,543
Accrued payroll and benefits	58,662	4,793	-	63,455
Accrued vacation	102,710	13,894	-	116,604
Other accrued expenses	22,412	12,925	-	35,337
Current obligation under capital lease	23,206	-	-	23,206
Deferred revenue	5,900	130,750	-	136,650
Line of credit	-	4,600,000	-	4,600,000
Total current liabilities	247,433	4,994,709	(232,347)	5,009,795
Long-term liabilities:				
Obligations under capital lease, less current portion	48,733	-	-	48,733
Total long-term liabilities	48,733	-	-	48,733
Total liabilities	296,166	4,994,709	(232,347)	5,058,528
Net assets:				
Unrestricted	9,697,858	5,453,456	(5,453,456)	9,697,858
Temporarily restricted	439,954	398,248	(398,248)	439,954
Permanently restricted	7,314,947	4,012,142	(4,012,142)	7,314,947
Total net assets	17,452,759	9,863,846	(9,863,846)	17,452,759
	$ 17,748,925	$ 14,858,555	$ (10,096,193)	$ 22,511,287

Cradle Adoption Partners, NFP

Consolidating Schedule of Activities
Year Ended September 30, 2017

	Unrestricted				Temporarily Restricted				Permanently Restricted				
	The Cradle	The Cradle Foundation	Eliminations	Total	The Cradle	The Cradle Foundation	Eliminations	Total	The Cradle	The Cradle Foundation	Eliminations	Total	Consolidated
Revenues:													
Public support:													
Contributions:													
Individuals and others	$ 5,037	$ 1,124,127	$ -	$ 1,129,164	$ -	$ 6,447	$ -	$ 6,447	$ -	$ 3,000	$ -	$ 3,000	$ 1,138,611
Special event income	500	602,714	-	603,214	-	-	-	-	-	-	-	-	603,214
Trusts	136,384	-	-	136,384	-	-	-	-	-	-	-	-	136,384
Bequests	20,498	16,169	-	36,667	-	-	-	-	-	-	-	-	36,667
Donated goods and services	168,314	-	-	168,314	-	-	-	-	-	-	-	-	168,314
	330,733	1,743,010	-	2,073,743	-	6,447	-	6,447	-	3,000	-	3,000	2,083,190
Program revenue:													
Fee income	3,016,500	-	-	3,016,500	-	-	-	-	-	-	-	-	3,016,500
Other revenues (expenses), net:													
Interest and dividends	-	220,880	-	220,880	-	88,888	-	88,888	-	-	-	-	309,768
Realized/unrealized net gains on investments	-	1,508,813	-	1,508,813	-	219,629	-	219,629	-	13,426	-	13,426	1,741,868
Changes in value of split interest agreements and trusts	-	-	-	-	5,823	-	-	5,823	262,583	-	-	262,583	268,406
Administration fee	232,347	-	(232,347)	-	-	-	-	-	-	-	-	-	-
Miscellaneous revenue	3,046	-	-	3,046	-	-	-	-	-	-	-	-	3,046
	235,393	1,729,693	(232,347)	1,732,739	5,823	308,517	-	314,340	262,583	13,426	-	276,009	2,323,088
Net assets released from restriction	223,903	151,504	-	375,407	(223,903)	(151,504)	-	(375,407)	-	-	-	-	-
Total revenues	3,806,529	3,624,207	(232,347)	7,198,389	(218,080)	163,460	-	(54,620)	262,583	16,426	-	279,009	7,422,778

(Continued)

Cradle Adoption Partners, NFP

Consolidating Schedule of Activities (Continued)
Year Ended September 30, 2017

	Unrestricted				Temporarily Restricted				Permanently Restricted				
	The Cradle	The Cradle Foundation	Eliminations	Total	The Cradle	The Cradle Foundation	Eliminations	Total	The Cradle	The Cradle Foundation	Eliminations	Total	Consolidated
Expenses:													
Program services:													
Social Service	$ 2,258,917	$ -	$ -	$ 2,258,917	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,258,917
Nursery	955,707	-	-	955,707	-	-	-	-	-	-	-	-	955,707
Outreach and Communications	1,080,444	-	-	1,080,444	-	-	-	-	-	-	-	-	1,080,444
Our Children	161,288	-	-	161,288	-	-	-	-	-	-	-	-	161,288
Adoption Learning Partners	638,007	-	-	638,007	-	-	-	-	-	-	-	-	638,007
	5,094,363	-	-	5,094,363	-	-	-	-	-	-	-	-	5,094,363
Supporting services:													
Management and general	487,256	523,834	(232,347)	778,743	-	-	-	-	-	-	-	-	778,743
Fundraising	-	373,623	-	373,623	-	-	-	-	-	-	-	-	373,623
Special events	-	178,068	-	178,068	-	-	-	-	-	-	-	-	178,068
	487,256	1,075,525	(232,347)	1,330,434	-	-	-	-	-	-	-	-	1,330,434
Bad debt expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenses	5,581,619	1,075,525	(232,347)	6,424,797	-	-	-	-	-	-	-	-	6,424,797
Change in net assets	(1,775,090)	2,548,682	-	773,592	(218,080)	163,460	-	(54,620)	262,583	16,426	-	279,009	997,981
Net assets, beginning	8,924,266	5,155,292	(5,155,292)	8,924,266	494,574	234,788	(234,788)	494,574	7,035,938	3,995,716	(3,995,716)	7,035,938	16,454,778
Distributions	-	(2,250,518)	2,250,518	-	-	-	-	-	-	-	-	-	-
Change in beneficial interest in net assets of Foundation	2,548,682	-	(2,548,682)	-	163,460	-	(163,460)	-	16,426	-	(16,426)	-	-
Net assets, ending	$ 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