

Cradle Adoption Partners, NFP

Consolidated Financial Report
September 30, 2011

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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

We have audited the accompanying consolidated statement of financial position of The Cradle, The Cradle Foundation and Cradle Adoption Partners, NFP (Illinois not-for-profit corporations) as of September 30, 2011, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of The Cradle, The Cradle Foundation and Cradle Adoption Partners, NFP. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from The Cradle, The Cradle Foundation and Cradle Adoption Partners, NFP's 2010 consolidated financial statements, and, in our report dated December 3, 2010, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated 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, 2011, and the changes in their net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

Chicago, Illinois
December 20, 2011

Cradle Adoption Partners, NFP

**Consolidated Statements of Financial Position
As of September 30, 2011 and 2010**

	2011			Total	2010
	Unrestricted	Temporarily Restricted	Permanently Restricted		Summarized Total
Assets					
Current Assets					
Cash	\$ 342,355	\$ -	\$ -	\$ 342,355	\$ 496,369
Investments, at fair value	12,930,477	298,549	3,235,336	16,464,362	17,274,259
Receivables	51,981	-	-	51,981	214,575
Bequest receivable	-	-	-	-	956,321
Short-term pledges receivable, net	-	264,537	-	264,537	362,022
Prepaid expenses	211,451	-	-	211,451	189,771
Total current assets	13,536,264	563,086	3,235,336	17,334,686	19,493,317
Noncurrent Assets					
Long-term pledges receivable	-	2,269	547,126	549,395	604,126
Bond issuance costs, net of accumulated amortization	101,132	-	-	101,132	105,948
Assets held in remainder trusts	-	382,224	-	382,224	529,866
Beneficial interest in perpetual trusts	-	-	2,652,957	2,652,957	2,857,716
Other assets, net of accumulated amortization	71,730	-	-	71,730	-
Property and equipment, net of accumulated depreciation	3,617,289	-	-	3,617,289	3,756,161
Total noncurrent assets	3,790,151	384,493	3,200,083	7,374,727	7,853,817
	\$ 17,326,415	\$ 947,579	\$ 6,435,419	\$ 24,709,413	\$ 27,347,134
Liabilities and Net Assets					
Current Liabilities					
Accounts payable	\$ 118,496	\$ -	\$ -	\$ 118,496	\$ 110,017
Accrued payroll and benefits	149,731	-	-	149,731	135,743
Accrued vacation	153,356	-	-	153,356	164,666
Other accrued expenses	15,031	-	-	15,031	18,959
Deferred revenue	28,838	-	-	28,838	79,826
Total current liabilities	465,452	-	-	465,452	509,211
Long-Term Liabilities					
Bonds payable	5,200,000	-	-	5,200,000	5,200,000
Total long-term liabilities	5,200,000	-	-	5,200,000	5,200,000
Total liabilities	5,665,452	-	-	5,665,452	5,709,211
Net Assets					
Unrestricted					
Board designated	2,417,390	-	-	2,417,390	2,439,012
Other	9,243,573	-	-	9,243,573	11,278,952
Temporarily restricted	-	947,579	-	947,579	1,252,424
Permanently restricted	-	-	6,435,419	6,435,419	6,667,535
Total net assets	11,660,963	947,579	6,435,419	19,043,961	21,637,923
	\$ 17,326,415	\$ 947,579	\$ 6,435,419	\$ 24,709,413	\$ 27,347,134

See Notes to Consolidated Financial Statements.

Cradle Adoption Partners, NFP

**Consolidated Statements of Activities
For the Years Ended September 30, 2011 and 2010**

	2011			Total	2010 Summarized Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues					
Public support					
Contributions					
Individuals and others	\$ 902,454	\$ 4,925	\$ (27,357)	\$ 880,022	\$ 2,004,756
Grants	219,802	-	-	219,802	298,472
Special event income	582,005	-	-	582,005	473,387
Trusts	67,521	-	-	67,521	72,531
Bequests	99,479	-	-	99,479	1,058,864
Donated goods and services	53,383	-	-	53,383	222,948
	<u>1,924,644</u>	<u>4,925</u>	<u>(27,357)</u>	<u>1,902,212</u>	<u>4,130,958</u>
Program revenue					
Fee income	2,790,481	-	-	2,790,481	2,917,430
Other revenues (expenses), net					
Interest and dividends	343,466	-	-	343,466	348,592
Realized/unrealized net gains (losses) on investments	(491,194)	-	-	(491,194)	1,048,384
Changes in value of split interest agreements and trusts	-	(47,642)	(204,759)	(252,401)	189,311
Miscellaneous revenue	2,825	-	-	2,825	6,459
	<u>(144,903)</u>	<u>(47,642)</u>	<u>(204,759)</u>	<u>(397,304)</u>	<u>1,592,746</u>
Net assets released from restriction	262,128	(262,128)	-	-	-
Total revenue	<u>4,832,350</u>	<u>(304,845)</u>	<u>(232,116)</u>	<u>4,295,389</u>	<u>8,641,134</u>

Cradle Adoption Partners, NFP

**Consolidated Statements of Activities (Continued)
For the Years Ended September 30, 2011 and 2010**

	2011			Total	2010
	Unrestricted	Temporarily Restricted	Permanently Restricted		Summarized Total
Expenses					
Program services					
Social Service	\$ 2,656,091	\$ -	\$ -	\$ 2,656,091	\$ 2,643,879
Nursery	791,354	-	-	791,354	851,221
Outreach and Communications	872,356	-	-	872,356	799,577
Adoption Learning Partners	938,752	-	-	938,752	806,907
	<u>5,258,553</u>	<u>-</u>	<u>-</u>	<u>5,258,553</u>	<u>5,101,584</u>
Supporting services					
Management and general	438,442	-	-	438,442	416,657
Fundraising	973,856	-	-	973,856	960,526
Special events	218,500	-	-	218,500	164,398
	<u>1,630,798</u>	<u>-</u>	<u>-</u>	<u>1,630,798</u>	<u>1,541,581</u>
Total expenses	<u>6,889,351</u>	<u>-</u>	<u>-</u>	<u>6,889,351</u>	<u>6,643,165</u>
Change in net assets	(2,057,001)	(304,845)	(232,116)	(2,593,962)	1,997,969
Net assets, beginning	<u>13,717,964</u>	<u>1,252,424</u>	<u>6,667,535</u>	<u>21,637,923</u>	<u>19,639,954</u>
Net assets, ending	<u>\$ 11,660,963</u>	<u>\$ 947,579</u>	<u>\$ 6,435,419</u>	<u>\$ 19,043,961</u>	<u>\$ 21,637,923</u>

See Notes to Consolidated Financial Statements.

Cradle Adoption Partners, NFP

Consolidated Statements of Functional Expenses
For the Years Ended September 30, 2011 and 2010

	Program Services					Supporting Services			Total Expenses	2010 Summarized Total
	Social Service		Nursery	Outreach and Communications	Adoption Learning Partners	Management and General	Fundraising			
	DCFS	Other					Other	Special Events		
Payroll	\$ 142,079	\$ 1,439,307	\$ 487,839	\$ 197,290	\$ 576,463	\$ 166,348	\$ 627,526	\$ -	\$ 3,636,852	\$ 3,470,789
Payroll taxes and fringe benefits	35,520	398,333	133,920	54,159	158,249	47,617	171,965	-	999,763	814,235
Medical, prenatal and other living expenses	-	106,781	16,018	-	-	-	-	-	122,799	75,773
Occupancy	-	97,610	20,338	11,940	7,549	40,189	619	-	178,245	198,285
Insurance	-	41,752	12,014	6,368	7,499	23,753	-	-	91,386	95,616
Telephone	2,162	21,630	4,446	3,814	3,938	6,320	-	-	42,310	44,623
Supplies	2,776	13,634	41,323	2,095	3,371	5,530	3,877	147	72,753	119,185
Postage and shipping	1,111	6,698	318	7,987	146	3,938	21,370	11,453	53,021	56,798
Travel	4,136	41,109	189	12,868	29,066	2,418	25,359	724	115,869	98,357
Equipment repairs and maintenance	248	52,238	14,621	8,094	7,600	18,873	27,023	675	129,372	125,635
Professional service fees	-	65,816	16,691	18,106	58,324	50,926	18,510	-	228,373	473,557
Temporary help	-	3,915	4,937	1,475	54	1,913	3,408	-	15,702	10,642
Education and research	-	8,288	1,488	14,184	5,856	1,073	2,166	-	33,055	73,021
Humanitarian aid and special assistance	-	2,225	-	-	-	-	28,600	-	30,825	35,888
Meeting expense	-	10,526	496	778	2,463	1,456	3,015	-	18,734	17,850
Other event expenses	-	-	-	-	-	-	4,741	187,968	192,709	163,305
Communications	-	5,570	1,882	475,815	36,455	4,243	35,292	14,211	573,468	448,061
Depreciation and amortization	-	68,982	17,639	49,688	7,412	56,516	-	-	200,237	162,784
Investment and banking fees	-	7,111	2,414	976	27,520	15,406	-	-	53,427	56,636
Interest expense and debt service	-	37,205	10,012	5,878	3,716	19,495	-	-	76,306	53,851
Administration allocation	31,536	-	-	-	-	(31,536)	-	-	-	-
Miscellaneous	234	7,559	4,769	841	3,071	3,964	385	3,322	24,145	23,274
Bad debt	-	-	-	-	-	-	-	-	-	25,000
	<u>\$ 219,802</u>	<u>\$ 2,436,289</u>	<u>\$ 791,354</u>	<u>\$ 872,356</u>	<u>\$ 938,752</u>	<u>\$ 438,442</u>	<u>\$ 973,856</u>	<u>\$ 218,500</u>	<u>\$ 6,889,351</u>	<u>\$ 6,643,165</u>

See Notes to Consolidated Financial Statements.

Cradle Adoption Partners, NFP

**Consolidated Statement of Cash Flows
For the Years Ended September 30, 2011 and 2010**

	2011	2010
Cash Flows from Operating Activities		
Change in net assets	\$ (2,593,962)	\$ 1,997,969
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	185,891	162,784
Amortization of other assets	14,346	-
Amortization of bond issuance costs	4,816	4,816
Donated property and equipment	-	(25,855)
Realized/unrealized net (gains) losses on investments and trusts	695,953	(1,204,540)
Changes in value of split interest agreements	47,642	(33,155)
(Decrease) in pledges receivable allowance	-	(25,000)
(Increase) decrease in prepaid expenses	(21,680)	25,454
(Increase) decrease in receivables	1,118,915	(204,735)
Decrease in pledges receivable	152,216	4,991
(Increase) in other assets	(86,076)	-
Increase (decrease) in accounts payable	8,479	(81,333)
Increase (decrease) in accrued expenses	(1,250)	(70,367)
Decrease in deferred revenue	(50,988)	(6,334)
(Decrease) in charitable gift annuity liability	-	(132,565)
Net cash provided by (used in) operating activities	(525,698)	412,130
Cash Flows from Investing Activities		
Purchases of investments	(1,663,250)	(3,870,920)
Reinvested income and capital gain distributions	(493,432)	(363,523)
Proceeds from sales of investments	2,475,385	3,864,382
Receipt of assets held in remainder trust	100,000	-
Purchases of property and equipment	(47,019)	(64,801)
Net cash provided by (used in) investing activities	371,684	(434,862)
Net decrease in cash	(154,014)	(22,732)
Cash at beginning of year	496,369	519,101
Cash at end of year	\$ 342,355	\$ 496,369
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	\$ 16,101	\$ 14,646
Supplemental Schedule of Noncash Investing and Financing Activities		
Donated goods and services	\$ 53,383	\$ 222,948

See Notes to Consolidated Financial Statements.

Cradle Adoption Partners, NFP

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, 2011.

The Cradle, established in 1923 and located in Evanston, Illinois, 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") and 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.

Since 1923, The Cradle has placed more than 14,000 children. The Cradle is committed to working with clients of every race, religion and ethnic background. The Cradle 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 and ultimately place infants, including those with special needs, in loving and caring homes.

The Cradle offers domestic and international adoption programs and lifelong education, support and counseling to adoptive parents and adoptees and is a member of Joint Council on International Children's Services ("JCICS"). The Cradle is committed to undertaking research in adoption and advocacy on behalf of the adoption circle. The Cradle's Adoption Learning Partners internet site is providing adoption education through on-line courses to people around the world. Through a contract with the Illinois Department of Children and Family Services, which terminated June 30, 2011, the Cradle served 35 former wards of the State to achieve adoption or guardianship by new families necessitated by the death or incapacitation of their adoptive parent(s).

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 \$1,894,107 for the year ended September 30, 2011 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 GAAP. Accordingly, such information should be read in conjunction with the Organizations' consolidated financial statements for the year ended September 30, 2010, 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.

Cradle Adoption Partners, NFP

Notes to Consolidated 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 statements of activities. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement 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 grants receivable 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, 2011. Accordingly, no allowance for doubtful accounts is required. Individual accounts are written off when collection appears doubtful.

Bequests receivable: Unconditional bequests are recorded as being receivable at the time the Organizations receive notification that the bequests have cleared probate.

Bond issuance costs: Bond issuance costs represent the unamortized balance of legal, underwriting and closing costs associated with the issuance of the variable rate demand bonds. These costs are amortized over 35 years through 2033, which is the life of the related bonds. Accumulated amortization at September 30, 2011, was \$75,481. Amortization expense for each of the next five years is expected to be \$4,816.

Assets held in remainder trusts: The Cradle has been designated as the remainderman of five charitable remainder unitrusts. The assets of these trusts are held by outside trustees who distribute quarterly interest 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 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 statements of activities.

Beneficial interests in perpetual trusts: The Cradle has a beneficial interest in the income of four perpetual trusts held by third parties. These trusts are reflected as permanently restricted assets on the 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 statements of activities.

Cradle Adoption Partners, NFP

Notes to Consolidated Financial Statements

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

Property and equipment: Property and equipment purchases of \$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

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. Temporarily restricted net assets are reclassified to unrestricted net assets when the restrictions have been met. Contributions restricted as to time or purpose are recorded as temporarily restricted revenue.

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. An allowance for receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fundraising activity. 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 statement of activities as net assets released from restrictions. Pledges receivable are reported as temporarily restricted based on implied time restrictions.

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 statement of activities include donated legal services, nursery supplies, and medical services totaling \$53,383 for the year ended September 30, 2011.

Cradle Adoption Partners, NFP

Notes to Consolidated Financial Statements

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

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

Deferred revenue: Deferred revenue consists of deposits paid by certain families for post placement services.

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the 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 will be amortized over three years, which is the period during which future benefits are expected to be received. Amortization expense in 2011 was \$14,346.

Subsequent events: The Organizations have evaluated subsequent events for potential recognition and/or disclosure through December 20, 2011, the date the financial statements were available to be issued.

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 its exempt purpose.

The Organizations have adopted 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 (UBIT). There were no unrecognized tax benefits identified or recorded as liabilities as of and for the year ended September 30, 2011.

The Organizations file Form 990 in the U.S. federal jurisdiction and in the State of Illinois. The Organizations are generally no longer subject to examination by the Internal Revenue Service for years before 2008.

Reclassification: Certain prior year amounts have been reclassified to conform to the current year presentation without affecting previously reported classes of net assets or change in net assets.

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.

Cradle Adoption Partners, NFP

Notes to Consolidated Financial Statements

Note 3. Investments

At September 30, 2011, investments consist of the following:

Common Stock Funds	\$ 10,174,763
Bond Funds	4,448,672
Money Market Funds	1,353,535
Balanced Funds	487,392
	<u>\$ 16,464,362</u>

Components of investment income are as follows:

Realized gain	\$ 135,603
Unrealized loss	<u>(626,797)</u>
Total realized/unrealized net losses on investments	(491,194)
Interest and dividends	<u>343,466</u>
	<u>\$ (147,728)</u>

The investments are within the guidelines of the Investment Committee's policy to invest the funds within the following permissible ranges:

U.S. Equity	45% - 60%
Non-U.S. Equity	10% - 25%
Total Equity	55% - 85%
Fixed Income	20% - 35%
Cash Equivalents	0% - 15%
Alternative Investments	0% - 10%

Cradle Adoption Partners, NFP

Notes to Consolidated Financial Statements

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.

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.

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, 2011.

Level 1 Fair Value Measurements

The fair value of common stock funds, bonds funds, money market funds and balanced funds are based on quoted market prices.

Level 2 Fair Value Measurements

The Cradle and the Foundation have no Level 2 investments at September 30, 2011.

Level 3 Fair Value Measurements

Fair value for the assets held in charitable remainder unitrusts is determined by calculating the present value of the future distributions expected to be received, using published life expectancy tables and an 8% discount rate. 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 Consolidated 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.

Fair values of assets measured on a recurring basis at September 30, 2011 are as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using:	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Common Stock Funds	\$ 10,174,763	\$ 10,174,763	\$ -
Bond Funds	4,448,672	4,448,672	-
Money Market Funds	1,353,535	1,353,535	-
Balanced Funds	487,392	487,392	-
Assets Held in Remainder Trusts	382,224	-	382,224
Beneficial Interest in Perpetual Trusts	2,652,957	-	2,652,957
	<u>\$ 19,499,543</u>	<u>\$ 16,464,362</u>	<u>\$ 3,035,181</u>

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, 2010	\$ 529,866	\$ 2,857,716	\$ 3,387,582
Distribution	(100,000)	-	(100,000)
Change in value in Split-Interest Agreements	(47,642)	(204,759)	(252,401)
Balance, September 30, 2011	<u>\$ 382,224</u>	<u>\$ 2,652,957</u>	<u>\$ 3,035,181</u>

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 statement of activities and is related to assets still held at the statement of financial position date.

Cradle Adoption Partners, NFP

Notes to Consolidated Financial Statements

Note 5. Pledges Receivable

Pledges receivable at September 30, 2011 represent unconditional promises to give.

Less than one year	\$ 264,537
One to five years	<u>642,537</u>
	907,074
Less: Discount to net present value	<u>(93,142)</u>
Net pledges receivable	813,932
Less: current portion	<u>(264,537)</u>
Long-term portion	<u><u>\$ 549,395</u></u>

The discount rate (5%) used in determining the net present value of unconditional promises to give is based on a risk free rate of return. This discounted value of pledges outstanding from board members as of September 30, 2011 was \$266,805.

Note 6. Property and Equipment

At September 30, 2011, property and equipment consist of the following:

Land	\$ 20,300
Land improvements and parking lot	317,080
Building and building improvements	5,369,216
Furnishings, equipment and software	<u>974,880</u>
	6,681,476
Less accumulated depreciation	<u>3,064,187</u>
	<u><u>\$ 3,617,289</u></u>
Depreciation expense	<u><u>\$ 185,891</u></u>

Cradle Adoption Partners, NFP

Notes to Consolidated Financial Statements

Note 7. Special Events

The Foundation sponsored the following fundraising events for the year ended September 30, 2011:

	Revenue	Expense	Net Income
Cradle Ball	\$ 243,534	\$ 101,316	\$ 142,218
Auto Show	112,926	34,979	77,947
Night of Promise	66,530	9,341	57,189
Open House	16,640	9,706	6,934
Golf Outing	84,465	35,596	48,869
Day at the Races	57,910	27,562	30,348
	<u>\$ 582,005</u>	<u>\$ 218,500</u>	<u>\$ 363,505</u>

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 \$24,274 for the year ended September 30, 2011.

Note 9. Long-Term Bonds Payable

In May 1998, The Cradle borrowed \$5,300,000 under a loan agreement with the Illinois Health Facilities Authority (IHFA). Pursuant to the loan agreement, the IHFA issued \$5,300,000 aggregate principal amount of variable rate demand bonds, Series 1998, and loaned the proceeds to The Cradle. The proceeds were used to renovate and equip The Cradle facility, to pay for costs related to temporary office facilities for The Cradle staff and nursery, to pay a portion of the interest on the bonds during construction, and to pay certain costs in connection with the issuance of the bonds. The principal balance is due and payable on April 1, 2033. A restricted gift of \$100,000 was applied against the principal balance in 1999, reducing the bonds payable to \$5,200,000. Interest is payable monthly and the interest rate is determined using a variable rate as defined in the agreement. During 2011, the interest rate ranged from 0.16% to 0.40%. At September 30, 2011, the interest rate was 0.18%. Interest expense related to the bonds was \$15,629 for the year ended September 30, 2011.

Pursuant to the above agreement, The Cradle maintains an irrevocable standby letter of credit agreement with a bank, which provides approximately \$5,271,000 as collateral for bond principal and interest. This amount is guaranteed by Cradle Adoption Partners, NFP. This letter of credit agreement expires on November 1, 2012. Letter of credit fees were \$43,961 for the year ended September 30, 2011, and are included in interest and debt service expense in the statement of functional expenses. The aforementioned agreement contains several financial and operating covenants related to The Cradle and the Foundation, the most restrictive of which relate to liquidity requirements and additional indebtedness.

Cradle Adoption Partners, NFP

Notes to Consolidated Financial Statements

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of September 30, 2011.

Cradle Associates	\$ 1,176
Special Needs Scholarships	297,374
Assets Held in Remainder Trusts	382,224
Pledges Receivable	266,805
	<u>\$ 947,579</u>

Net assets of \$262,128 were released from donor restrictions by incurring expenses satisfying the restricted program purposes or by satisfaction of the implied time restrictions during 2011.

Note 11. Permanently Restricted Net Assets

Permanently restricted net assets consist of the following as of September 30, 2011.

Nursery Endowment	\$ 500,000
Post Adoption Counselor Endowment	1,063,333
General Endowment	1,172,003
Schreyer Family Leadership Fund	500,000
Beneficial Interest in Perpetual Trusts	2,652,957
Pledges Receivable	547,126
	<u>\$ 6,435,419</u>

The earnings for the General Endowment and the Beneficial Interest in Perpetual Trusts are available for the general operations of the Organizations. The Schreyer Family Leadership Fund is limited to specific spending guidelines as outlined in the donor agreement.

Note 12. Endowment

The Cradle and the Foundation's endowments consist of four donor-restricted funds established to support the Nursery, a Post Adoption counselor position, and general operations. The endowment includes both donor-restricted endowment funds and board-designated funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the Boards of Directors to function as endowments, 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 requiring the preservation of the purchasing power (real value) 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 Consolidated Financial Statements

Note 12. Endowment (Continued)

Endowment net asset composition by type of fund as of September 30, 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Assets
Donor-restricted endowment funds	\$ (283,362)	\$ 22,241	\$ 3,235,336	\$ 2,974,215
Board-designated endowment funds	2,417,390	-	-	2,417,390
	<u>\$ 2,134,028</u>	<u>\$ 22,241</u>	<u>\$ 3,235,336</u>	<u>\$ 5,391,605</u>

Changes in endowment net assets as of September 30, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Assets
Endowment net assets, beginning of year	\$ 2,234,133	\$ 8,719	\$ 3,220,336	\$ 5,463,188
Contributions	-	-	15,000	15,000
Investment income	47,536	58,770	-	106,306
Net depreciation	(146,165)	-	-	(146,165)
Amounts appropriated for expenditures	-	(46,724)	-	(46,724)
Transfer to retain purchasing power	(1,476)	1,476	-	-
	<u>\$ 2,134,028</u>	<u>\$ 22,241</u>	<u>\$ 3,235,336</u>	<u>\$ 5,391,605</u>

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, deficiencies of this nature that are reported in unrestricted net assets were \$1,476 as of September 30, 2011.

The Foundation has established an investment policy to guide the management of all investment assets of the Foundation, including all endowment and board-designated 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 on these funds absent any donor specifications to the contrary. The annual endowment funds spending appropriation on certain donor-restricted funds is limited to 5 percent of the fund's average fair value over three years, unless extraordinary circumstances apply. Distribution from these specific funds will not commence until 2011 at the earliest. Distributions from board-designated funds are treated similarly to those with the donor restriction.

Cradle Adoption Partners, NFP

Notes to Consolidated Financial Statements

Note 13. Leases

The Cradle maintains operating leases for office space, a vehicle and certain office equipment. The leases have various expiration dates through January 2016. Rental expense for operating leases was \$59,732 in 2011. Future minimum rental payments are as follows:

Year ending September 30

2012	\$	36,061
2013		34,051
2014		28,148
2015		4,680
2016		1,170
	\$	<u>104,110</u>

Supplementary Information

Cradle Adoption Partners, NFP

Consolidating Schedule of Financial Position

As of September 30, 2011

	The Cradle	The Cradle Foundation	Eliminations	Consolidated
Assets				
Current Assets				
Cash	\$ 130,478	\$ 211,877	\$ -	\$ 342,355
Investments, at fair value	500,000	15,964,362	-	16,464,362
Receivables	262,856	15,275	(226,150)	51,981
Short-term pledges receivable, net	-	264,537	-	264,537
Prepaid expenses	199,845	11,606	-	211,451
Total current assets	1,093,179	16,467,657	(226,150)	17,334,686
Non-current Assets				
Long-term pledges receivable	-	549,395	-	549,395
Bond issuance costs, net of accumulated amortization	101,132	-	-	101,132
Assets held in remainder trusts	382,224	-	-	382,224
Beneficial interest in perpetual trusts	2,652,957	-	-	2,652,957
Beneficial interest in net assets of Foundation	16,736,532	-	(16,736,532)	-
Other assets, net of accumulated amortization	71,730	-	-	71,730
Property and equipment, net of accumulated depreciation	3,612,016	5,273	-	3,617,289
Total non-current assets	23,556,591	554,668	(16,736,532)	7,374,727
	\$ 24,649,770	\$ 17,022,325	\$ (16,962,682)	\$ 24,709,413
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 110,701	\$ 233,945	\$ (226,150)	\$ 118,496
Accrued payroll and benefits	126,188	23,543	-	149,731
Accrued vacation	125,449	27,907	-	153,356
Other accrued expenses	15,031	-	-	15,031
Deferred revenue	28,440	398	-	28,838
Total current liabilities	405,809	285,793	(226,150)	465,452
Long-Term Liabilities				
Bonds payable	5,200,000	-	-	5,200,000
Total long-term liabilities	5,200,000	-	-	5,200,000
Total liabilities	5,605,809	285,793	(226,150)	5,665,452
Net Assets				
Unrestricted				
Board designated	2,417,390	-	-	2,417,390
Other	9,243,573	12,888,714	(12,888,714)	9,243,573
Temporarily restricted	947,579	565,355	(565,355)	947,579
Permanently restricted	6,435,419	3,282,463	(3,282,463)	6,435,419
Total net assets	19,043,961	16,736,532	(16,736,532)	19,043,961
	\$ 24,649,770	\$ 17,022,325	\$ (16,962,682)	\$ 24,709,413

Cradle Adoption Partners, NFP

Consolidating Schedule of Activities
For the Year Ended September 30, 2011

	Unrestricted				Temporarily Restricted				Permanently Restricted				Consolidated
	The Cradle		Eliminations	Total	The Cradle		Eliminations	Total	The Cradle		Eliminations	Total	
	The Cradle	Foundation			The Cradle	Foundation			The Cradle	Foundation			
Revenues													
Public support													
Contributions													
Individuals and others	\$ 1,789	\$ 900,665	\$ -	\$ 902,454	\$ -	\$ 4,925	\$ -	\$ 4,925	\$ -	\$ (27,357)	\$ -	\$ (27,357)	\$ 880,022
Grants	219,802	-	-	219,802	-	-	-	-	-	-	-	-	219,802
Special event income	-	582,005	-	582,005	-	-	-	-	-	-	-	-	582,005
Trusts	67,521	-	-	67,521	-	-	-	-	-	-	-	-	67,521
Bequests	-	99,479	-	99,479	-	-	-	-	-	-	-	-	99,479
Donated goods and services	53,383	-	-	53,383	-	-	-	-	-	-	-	-	53,383
	<u>342,495</u>	<u>1,582,149</u>	<u>-</u>	<u>1,924,644</u>	<u>-</u>	<u>4,925</u>	<u>-</u>	<u>4,925</u>	<u>-</u>	<u>(27,357)</u>	<u>-</u>	<u>(27,357)</u>	<u>1,902,212</u>
Program revenue													
Fee income	<u>2,790,481</u>	<u>-</u>	<u>-</u>	<u>2,790,481</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,790,481</u>
Other revenues (expenses), net													
Interest and dividends	277	343,189	-	343,466	-	-	-	-	-	-	-	-	343,466
Realized/unrealized net losses on investments	-	(491,194)	-	(491,194)	-	-	-	-	-	-	-	-	(491,194)
Changes in value of split interest agreements and trusts	-	-	-	-	(47,642)	-	-	(47,642)	(204,759)	-	-	(204,759)	(252,401)
Administration fee	226,150	-	(226,150)	-	-	-	-	-	-	-	-	-	-
Miscellaneous revenue	50	2,775	-	2,825	-	-	-	-	-	-	-	-	2,825
	<u>226,477</u>	<u>(145,230)</u>	<u>(226,150)</u>	<u>(144,903)</u>	<u>(47,642)</u>	<u>-</u>	<u>-</u>	<u>(47,642)</u>	<u>(204,759)</u>	<u>-</u>	<u>-</u>	<u>(204,759)</u>	<u>(397,304)</u>
Net assets released from restriction	<u>100,000</u>	<u>162,128</u>	<u>-</u>	<u>262,128</u>	<u>(100,000)</u>	<u>(162,128)</u>	<u>-</u>	<u>(262,128)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>3,459,453</u>	<u>1,599,047</u>	<u>(226,150)</u>	<u>4,832,350</u>	<u>(147,642)</u>	<u>(157,203)</u>	<u>-</u>	<u>(304,845)</u>	<u>(204,759)</u>	<u>(27,357)</u>	<u>-</u>	<u>(232,116)</u>	<u>4,295,389</u>

Cradle Adoption Partners, NFP

Consolidating Schedule of Activities (Continued)

For the Year Ended September 30, 2011

	Unrestricted				Temporarily Restricted				Permanently Restricted				Consolidated
	The Cradle		Eliminations	Total	The Cradle		Eliminations	Total	The Cradle		Eliminations	Total	
	The Cradle	Foundation			The Cradle	Foundation			The Cradle	Foundation			
Expenses													
Program services													
Social Service	\$ 2,656,091	\$ -	\$ -	\$ 2,656,091	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,656,091
Nursery	791,354	-	-	791,354	-	-	-	-	-	-	-	-	791,354
Outreach and Communications	872,356	-	-	872,356	-	-	-	-	-	-	-	-	872,356
Adoption Learning Partners	938,752	-	-	938,752	-	-	-	-	-	-	-	-	938,752
	<u>5,258,553</u>	<u>-</u>	<u>-</u>	<u>5,258,553</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,258,553</u>
Supporting services													
Management and general	420,143	244,449	(226,150)	438,442	-	-	-	-	-	-	-	-	438,442
Fundraising	-	973,856	-	973,856	-	-	-	-	-	-	-	-	973,856
Special events	-	218,500	-	218,500	-	-	-	-	-	-	-	-	218,500
	<u>420,143</u>	<u>1,436,805</u>	<u>(226,150)</u>	<u>1,630,798</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,630,798</u>
Total expenses	<u>5,678,696</u>	<u>1,436,805</u>	<u>(226,150)</u>	<u>6,889,351</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,889,351</u>
Change in net assets	<u>(2,219,243)</u>	<u>162,242</u>	<u>-</u>	<u>(2,057,001)</u>	<u>(147,642)</u>	<u>(157,203)</u>	<u>-</u>	<u>(304,845)</u>	<u>(204,759)</u>	<u>(27,357)</u>	<u>-</u>	<u>(232,116)</u>	<u>(2,593,962)</u>
Net assets, beginning	13,717,964	14,620,579	(14,620,579)	13,717,964	1,252,424	722,558	(722,558)	1,252,424	6,667,535	3,309,820	(3,309,820)	6,667,535	21,637,923
Distributions	-	(1,894,107)	1,894,107	-	-	-	-	-	-	-	-	-	-
Change in beneficial interest in net assets of foundation	162,242	-	(162,242)	-	(157,203)	-	157,203	-	(27,357)	-	27,357	-	-
Net assets, ending	<u>\$ 11,660,963</u>	<u>\$ 12,888,714</u>	<u>\$ (12,888,714)</u>	<u>\$ 11,660,963</u>	<u>\$ 947,579</u>	<u>\$ 565,355</u>	<u>\$ (565,355)</u>	<u>\$ 947,579</u>	<u>\$ 6,435,419</u>	<u>\$ 3,282,463</u>	<u>\$ (3,282,463)</u>	<u>\$ 6,435,419</u>	<u>\$ 19,043,961</u>