



**THE ADOPTION EXCHANGE, INC.**

**Consolidated Financial Statements  
and  
Independent Auditors' Report  
June 30, 2017  
(With Summarized Totals for June 30, 2016)**

**EKS&H**

# THE ADOPTION EXCHANGE, INC.

## Table of Contents

	<u>Page</u>
Independent Auditors' Report.....	1
Consolidated Financial Statements	
Consolidated Statement of Financial Position.....	3
Consolidated Statement of Activities.....	4
Consolidated Statement of Functional Expenses.....	5
Consolidated Statement of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7
Supplementary Information	
Consolidating Statement of Financial Position.....	22
Consolidating Statement of Activities.....	23
Accompanying Information	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	24
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance.....	26
Schedule of Findings and Questioned Costs.....	28
Schedule of Expenditures of Federal Awards.....	29
Notes to Schedule of Expenditures of Federal Awards.....	30



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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
The Adoption Exchange, Inc.  
Aurora, Colorado

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

We have audited the accompanying consolidated financial statements of The Adoption Exchange, Inc. (the "Organization"), which are comprised of the consolidated statement of financial position as of June 30, 2017, and 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.

### **MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **AUDITORS' RESPONSIBILITY**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Adoption Exchange, Inc. as of June 30, 2017, and the changes in its net assets and its 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 Organization's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

## **OTHER MATTERS**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and change in net assets of the individual entities and is not a required part of the consolidated financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating statements of financial position and activities and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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.

## **OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

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October 26, 2017  
Denver, Colorado

**THE ADOPTION EXCHANGE, INC.**

**Consolidated Statement of Financial Position**

	<u>June 30, 2017</u>	<u>Summarized Financial Information as of June 30, 2016</u>
<b>Assets</b>		
Current assets		
Cash	\$ 544,298	\$ 516,509
Accounts receivable	282,717	389,198
Contributions receivable, current portion	295,187	29,100
Prepaid expenses and other assets	<u>21,824</u>	<u>58,097</u>
Total current assets	<u>1,144,026</u>	<u>992,904</u>
Non-current assets		
Long-term contributions receivable, net of current portion	252,920	156,000
Investments	408,644	442,231
Interest in net assets of Community First Foundation	46,244	43,660
Property and equipment, net	<u>676,198</u>	<u>726,274</u>
Total non-current assets	<u>1,384,006</u>	<u>1,368,165</u>
Total assets	<u>\$ 2,528,032</u>	<u>\$ 2,361,069</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 157,267	\$ 129,325
Accrued liabilities	188,239	235,412
Deferred revenue	177,000	38,050
Note payable, current portion	<u>6,952</u>	<u>6,646</u>
Total current liabilities	529,458	409,433
Long-term liabilities		
Note payable, net of current portion	<u>148,648</u>	<u>155,466</u>
Total liabilities	<u>678,106</u>	<u>564,899</u>
Commitments		
Net assets		
Unrestricted	1,013,602	1,010,509
Temporarily restricted	432,052	315,538
Permanently restricted	<u>404,272</u>	<u>470,123</u>
Total net assets	<u>1,849,926</u>	<u>1,796,170</u>
Total liabilities and net assets	<u>\$ 2,528,032</u>	<u>\$ 2,361,069</u>

See notes to consolidated financial statements.

## THE ADOPTION EXCHANGE, INC.

### Consolidated Statement of Activities

	For the Year Ended June 30, 2017			Summarized Financial Information for the Year Ended June 30, 2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues and gains					
Contributions					
Foundations	\$ 740,107	\$ 25,000	\$ -	\$ 765,107	\$ 463,705
Corporations and individuals	320,586	247,000	1,397	568,983	598,019
Fundraising events, net of direct costs of \$279,745 (2017) and \$314,819 (2016)	819,687	-	-	819,687	847,080
In-kind goods and services	175,572	-	-	175,572	268,197
Total contributions	<u>2,055,952</u>	<u>272,000</u>	<u>1,397</u>	<u>2,329,349</u>	<u>2,177,001</u>
Government support	2,032,851	-	-	2,032,851	2,362,865
Investment income (loss), net	-	29,445	-	29,445	(22,831)
Other income	28,336	-	-	28,336	58,674
Total revenues and gains	<u>4,117,139</u>	<u>301,445</u>	<u>1,397</u>	<u>4,419,981</u>	<u>4,575,709</u>
Net assets released from restrictions	252,179	(184,931)	(67,248)	-	-
Total revenues and gains	<u>4,369,318</u>	<u>116,514</u>	<u>(65,851)</u>	<u>4,419,981</u>	<u>4,575,709</u>
Expenses					
Program services					
Media based recruitment services	1,142,614	-	-	1,142,614	1,542,224
Intensive recruitment services	639,753	-	-	639,753	459,877
Mentoring program	161,566	-	-	161,566	17,814
Family support program	523,615	-	-	523,615	639,546
National recruitment capacity building	861,776	-	-	861,776	1,162,876
Total program services	<u>3,329,324</u>	<u>-</u>	<u>-</u>	<u>3,329,324</u>	<u>3,822,337</u>
Support services					
General and administration	543,575	-	-	543,575	356,879
Funds development	493,326	-	-	493,326	296,553
Total support services	<u>1,036,901</u>	<u>-</u>	<u>-</u>	<u>1,036,901</u>	<u>653,432</u>
Total expenses	<u>4,366,225</u>	<u>-</u>	<u>-</u>	<u>4,366,225</u>	<u>4,475,769</u>
Change in net assets	3,093	116,514	(65,851)	53,756	99,940
Net assets at beginning of year	<u>1,010,509</u>	<u>315,538</u>	<u>470,123</u>	<u>1,796,170</u>	<u>1,696,230</u>
Net assets at end of year	<u>\$ 1,013,602</u>	<u>\$ 432,052</u>	<u>\$ 404,272</u>	<u>\$ 1,849,926</u>	<u>\$ 1,796,170</u>

See notes to consolidated financial statements.

**THE ADOPTION EXCHANGE, INC.**

**Consolidated Statement of Functional Expenses**

	For the Year Ended June 30, 2017										Summarized Financial Information for the Year Ended June 30, 2016
	Media Based Recruitment Services	Intensive Recruitment Services	Mentoring Program	Family Support Program	National Recruitment Capacity Building	Total Program Services	General And Administration	Funds Development	Total Support Services	Total Expenses	
Compensation	\$ 756,452	\$ 476,162	\$ 116,709	\$ 279,137	\$ 403,648	\$ 2,032,108	\$ 403,747	\$ 314,973	\$ 718,720	\$ 2,750,828	\$ 2,604,148
Professional services	25,506	-	1,200	35,624	296,998	359,328	50,984	41,337	92,321	451,649	585,228
Direct program costs	53,488	21,779	3,415	68,446	1,022	148,150	-	-	-	148,150	134,788
Travel	41,048	55,815	2,701	9,208	92,815	201,587	3,359	14,870	18,229	219,816	265,126
Conferences and meetings	5,541	39	3,418	445	3,216	12,659	4,279	2,587	6,866	19,525	33,574
Printing, publications, and postage	19,998	474	287	8,246	5,002	34,007	6,489	54,105	60,594	94,601	69,558
Information technology	26,876	32,904	4,597	17,243	18,203	99,823	29,993	21,853	51,846	151,669	131,228
Office expenses	18,929	6,691	8,923	8,830	14,965	58,338	18,115	27,195	45,310	103,648	84,507
Occupancy	62,392	29,858	8,362	12,797	13,921	127,330	3,458	5,269	8,727	136,057	189,317
Insurance	8,984	7,167	3,690	5,856	3,093	28,790	7,098	-	7,098	35,888	32,851
Miscellaneous	1,910	-	-	208	559	2,677	3,778	5,930	9,708	12,385	23,576
Interest	-	-	-	-	-	-	8,862	-	8,862	8,862	9,170
Depreciation	15,141	8,864	8,264	8,352	8,334	48,955	3,413	5,207	8,620	57,575	44,501
In-kind	106,349	-	-	69,223	-	175,572	-	-	-	175,572	268,197
<b>Total</b>	<b>\$ 1,142,614</b>	<b>\$ 639,753</b>	<b>\$ 161,566</b>	<b>\$ 523,615</b>	<b>\$ 861,776</b>	<b>\$ 3,329,324</b>	<b>\$ 543,575</b>	<b>\$ 493,326</b>	<b>\$ 1,036,901</b>	<b>\$ 4,366,225</b>	<b>\$ 4,475,769</b>

See notes to consolidated financial statements.

**THE ADOPTION EXCHANGE, INC.**

**Consolidated Statement of Cash Flows**

	<b>For the Year Ended June 30, 2017</b>	<b>Summarized Financial Information for the Year Ended June 30, 2016</b>
	<u>          </u>	<u>          </u>
Cash flows from operating activities		
Change in net assets	\$ 53,756	\$ 99,940
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation expense	57,575	44,501
Net realized and unrealized (gains) losses on investments	(27,426)	23,098
Contributions restricted for endowments	(1,397)	(3,200)
Changes in assets and liabilities		
Accounts receivable	106,481	88,964
Contributions receivable	(363,007)	61,050
Prepaid expenses and other assets	36,273	(13,278)
Accounts payable	27,942	(203,689)
Accrued liabilities	(47,173)	25,565
Deferred revenue	138,950	(8,870)
	<u>(71,782)</u>	<u>14,141</u>
Net cash (used in) provided by operating activities	<u>(18,026)</u>	<u>114,081</u>
Cash flows from investing activities		
Net sales of investments	56,181	56,533
Distributions received from Community First Foundation	2,248	2,227
Purchases of property and equipment	(7,499)	(78,836)
Net cash provided by (used in) investing activities	<u>50,930</u>	<u>(20,076)</u>
Cash flows from financing activities		
Payments on note payable	(6,512)	(6,183)
Contributions restricted for endowments	1,397	3,200
Net cash used in financing activities	<u>(5,115)</u>	<u>(2,983)</u>
Net increase in cash	27,789	91,022
Cash at beginning of year	<u>516,509</u>	<u>425,487</u>
Cash at end of year	<u>\$ 544,298</u>	<u>\$ 516,509</u>

Supplemental disclosure of cash flow information:

Cash paid for interest for the years ended June 30, 2017 was \$8,862.

See notes to consolidated financial statements.

# THE ADOPTION EXCHANGE, INC.

## Notes to Consolidated Financial Statements

### **Note 1 - Organization and Summary of Significant Accounting Policies**

The Adoption Exchange, Inc. (the "Adoption Exchange"), was created to ensure all children have a family today and for the rest of their lives. The Adoption Exchange is a non-profit corporation incorporated in the state of Colorado and is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Adoption Exchange is headquartered in Aurora, Colorado, and maintains regional offices in Utah and Nevada.

The Adoption Exchange controls Wednesday's Child Foundation, Inc. ("WCF"), a Colorado non-profit corporation, for the purpose of raising, investing, and managing funds for the enhancement of the Adoption Exchange's current and future programs.

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Adoption Exchange and WCF (collectively referred to as the "Organization"). All intercompany accounts and transactions have been eliminated in consolidation.

#### Organization

The Organization assists thousands of youth in foster care each year and supports hundreds of families across the United States. The Organization offers resources to assist families before, during, and after adoption to ensure permanency for the child. Since inception, the Organization has helped connect over 8,600 children with permanent families.

Ultimately, the Organization measures success in terms of the number of children and youth who are connected with a permanent, loving family. During the year ended June 30, 2017, the Organization served 1,252 children waiting in foster care, including 254 children placed in loving adoptive homes and an additional 115 children who had their adoptions legally finalized. The children served by the Organization:

- Are older - 81% were aged nine or older
- Are ethnically diverse – 53% belonged to a minority ethnicity
- Have special needs – 97% had at least one special need

The Organization employs a strategic approach to achieve the goal of emptying the foster care system. Using an integrated permanency model, the Organization works to reduce the time youth spend in foster care, find a permanent connection for every youth in foster care before they leave the system, and to make sure that relationship lasts.

# THE ADOPTION EXCHANGE, INC.

## Notes to Consolidated Financial Statements

### **Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

#### Organization (continued)

The Organization's program services are as follows:

##### *Media Based Recruitment Services*

The Organization identifies and cultivates potential adoptive families for waiting children using child-centric recruitment methods and tools. Recruitment activities used to identify potential families include: hosting adoption networking events; partnering with local news stations to broadcast Wednesday's Child profiles; featuring registered children in the Children's Gallery on The Adoption Exchange website; conducting monthly adoption orientation and information classes; and using print and electronic media to create awareness of and support for the adoption of waiting children.

Additionally, the Organization works to help prospective adoptive families across the country understand the adoption process, connect with county human services agencies and child placement agencies to begin the adoption process, gain access to resources and professionals, and respond to questions and inquiries on specific children.

One of the most popular ways families learn more about waiting youth is through Heart Galleries. The Heart Gallery is a collaborative photographic exhibit designed to increase the number of adoptive families for children needing homes in Colorado, Missouri, Nevada, and Utah. The Heart Gallery helps waiting youth find loving families and permanency through images that bring the child's personality and beauty into focus.

In addition, small matching events are held which allow prospective families and waiting children to interact in small, facilitated events that include activities fun for all. During the year ended June 30, 2017, 70 Colorado youth were featured at matching events; 21 of these children have found loving adoptive families.

##### *Intensive Recruitment Services*

Intensive Recruitment Services build positive, healthy relationships with youth to understand their strengths, interests, needs, and family preferences, which inevitably enhances the ability of the youth to find strength and feel empowered through the process. The program follows an evidence-based model that increases the likelihood of finding that parental resource by as much as three times. The model has been shown to be a net cost savings to the community, as the program reduces congregate care and foster care costs.

# THE ADOPTION EXCHANGE, INC.

## Notes to Consolidated Financial Statements

### **Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

#### Organization (continued)

##### *Mentoring Program*

The signature mentoring program is CHOICE (Community, Happenings, Ownership by Youth, Involvement, Compassion, and Engagement). CHOICE is a hosting and mentorship program for youth in foster care between the ages of 12 to 18 that connects youth and host adults from the Colorado community to create life-long relationships. This program builds on and replicates an evidence-informed recruitment, permanency, and family visit model. In this initial year, more than 220 families have expressed interest in this program, and 19 youth have been referred to the program. Three families and youth have been matched into an active hosting relationship.

##### *Family Support Program*

Family preparation and support begins before a family has ever adopted. The family support program is geared toward education, support, and coaching. Hands-on, individualized, tailored supportive services are offered to families throughout their entire adoption journey. By developing relationships with families early, family commitment to adoption is maintained and adoption disruptions are often minimized.

Classes and training opportunities are offered to families and professionals and are geared toward providing information, support, and guidance in creating healthy, stable adoptive relationships. All children have entered the foster care system as a result of trauma, abuse, or neglect. The goal of many trainings is to help parents understand how these events may impact children and to recognize behaviors as symptoms of those experiences. The ultimate outcome for many of the training courses is for families to have the knowledge and tools they need to help their children become securely attached, successful, and healthy adults. Nearly 2,300 families and professionals, and over 6,700 hours of training and support through classes, webinars, and conferences were offered during the year ended June 30, 2017. Other post-adoption resources, including helpful articles and videos, were offered to adoptive families via bi-monthly e-newsletters.

##### *National Recruitment Capacity Building*

The Organization also works at a national level focused on systems change within foster care systems. The National Recruitment Capacity Building program assists states, tribes, and territories in developing and implementing data-informed diligent recruitment programs to achieve improved outcomes, including permanency and placement stability, for youth in foster care. The program provides free technical assistance, resources, and other support to help child welfare systems recruit, develop, and support foster, adoptive, and kinship families. During the year ended June 30, 2017, nearly 40 states and tribes benefited from technical assistance projects designed to meet their needs.

# THE ADOPTION EXCHANGE, INC.

## Notes to Consolidated Financial Statements

### **Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

#### Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted amounts are those currently available at the discretion of the Board of Directors (the "Board") for use in the Organization's operations and those resources invested in property and equipment.

Temporarily restricted amounts are assets restricted by donors specifically for certain time periods, purposes, or programs.

Permanently restricted amounts are assets that must be maintained permanently by the Organization or released as required by the donor, but the Organization is permitted to use or expend part or all of any income derived from those assets.

#### Prior-Year Comparative Information

The consolidated 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 accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2016 from which the summarized information was derived.

#### Cash

Cash consists of checking accounts held at financial institutions and petty cash and excludes cash held for reinvestment as part of the investment portfolio. The Organization continually monitors its positions with, and the credit quality of, the financial institutions with which it invests.

#### Concentrations of Credit Risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash, receivables, and investments. The Organization places its cash and investments with creditworthy, high-quality financial institutions as determined by management. A significant portion of funds are not insured by the FDIC or related entity. Credit risk with respect to receivables is generally diversified due to the number of individuals and entities and creditworthiness of the organizations that comprise the Organization's donor and customer base.

# THE ADOPTION EXCHANGE, INC.

## Notes to Consolidated Financial Statements

### **Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

#### Accounts Receivable

Accounts receivable consist primarily of amounts due under government contracts and other miscellaneous receivables. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management's best estimate of uncollectible amounts and is determined based on historical collections that are tracked by the Organization on an ongoing basis. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance. Management has reviewed accounts receivable as of June 30, 2017 and determined that an allowance is not necessary.

#### Contributions Receivable

Contributions receivable that are expected to be collected within one year are recorded at their net realizable value, and those that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Conditional contributions receivable are not included as support until such time as the conditions are substantially met. Management evaluates the need for an allowance for uncollectible accounts and continually monitors contributions receivable to assess their collectibility. Management has reviewed contributions receivable as of June 30, 2017 and determined that an allowance is not necessary. The Organization had contributions receivable from two donors totaling 59% of total promises to give as of June 30, 2017.

#### Investments

The Organization reports investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values with unrealized gains and losses, which are included in investment income on the consolidated statement of activities.

#### Property and Equipment

The Organization capitalizes all property and equipment with a cost or contributed fair value of \$3,000 or greater. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, which range from 5 to 30 years.

#### Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Organization looks primarily to the undiscounted future cash flows in its assessment of whether long-lived assets have been impaired. No assets were impaired during the year ended June 30, 2017.

# THE ADOPTION EXCHANGE, INC.

## Notes to Consolidated Financial Statements

### **Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

#### Deferred Revenue

Deferred revenue primarily represents funding received for events that will take place in a future period and annual membership dues paid in advance for services performed over a period of time (usually one year).

#### Contributions

The Organization records contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when unconditionally promised to the Organization.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the consolidated statement of activities as net assets released from restrictions. When a temporary restriction is satisfied in the same time period the contribution is received, the revenue is reported as unrestricted.

#### Revenue

Revenue from government grants, contracts, and fundraising events is recognized in the period in which the related services are rendered and expenses are incurred.

#### Functional Expenses

The costs of supporting the Organization's primary programs and other activities have been summarized on a functional basis on the consolidated statement of activities. Costs are allocated by management based on the best available estimate of the percentage of each cost element applicable to each functional area. Expenses incurred directly for a program service are charged to such service.

#### In-Kind Goods and Services

Donated goods are recorded at their fair value on the date received and are recognized as revenue and expenses on the consolidated statement of activities. Amounts are recognized in the consolidated financial statements for voluntary donations of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and would typically be purchased if not provided by donation. Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs. During the year ended June 30, 2017, the Organization had 287 volunteers that provided over 3,400 hours of donated service, however, no amounts have been reflected in the consolidated financial statements for these donated services because they do not meet the criteria for recognition.

During the year ended June 30, 2017, in-kind goods and services relating to fundraising events and program activities totaled \$136,864 and \$175,572, respectively.

# THE ADOPTION EXCHANGE, INC.

## Notes to Consolidated Financial Statements

### **Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

#### Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Code and is classified as a publicly supported organization under 509(a)(1) of the Code. Accordingly, no provision for income taxes is made for federal, state, or local taxes.

The Organization applies a more-likely-than-not measurement methodology to reflect the consolidated financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2017.

If incurred, interest and penalties associated with tax positions are recorded in the period assessed as general and administration expenses. No interest or penalties have been assessed for the year ended June 30, 2017.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

#### Recently Issued Accounting Standards

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment applies to not-for-profit entities. The amendment reduces the classes of net assets to *net assets with donor restrictions* and *net assets without donor restrictions*; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for all fiscal years beginning after December 15, 2017, with early adoption allowed. Entities should apply the amendment in this update retrospectively to all periods presented.

# THE ADOPTION EXCHANGE, INC.

## Notes to Consolidated Financial Statements

### **Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

#### Recently Issued Accounting Standards (continued)

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires 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. ASU No. 2014-09 will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States of America when it becomes effective. The new standard is effective for all fiscal years beginning after December 15, 2018.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

The Organization is currently evaluating the impacts of the pending adoption of the new standards on its consolidated financial statements.

#### Subsequent Events

The Organization has evaluated all subsequent events through the auditors' report date, which is the date the consolidated financial statements were available to be issued, and has determined there are no material events requiring disclosure.

### **Note 2 - Interest in Net Assets of Community First Foundation**

The Organization participated in the non-profit Preservation Challenge Grant Program established by the Community First Foundation ("CFF"). The purpose of this program is to assist charitable organizations with the formation of perpetual endowment funds. Under the terms and conditions of the grant award, the Organization made irrevocable transfers of permanently restricted funds to CFF, and CFF matched contributions received by the Organization.

CFF made distributions to the Organization of \$2,248 during the year ended June 30, 2017. Funds held by CFF for the benefit of the Organization are recorded as interest in net assets of CFF on the consolidated statement of financial position. The Organization's interest in CFF, including contributions transferred, matching contributions, and investment earnings, totaled \$46,244 as of June 30, 2017.

# THE ADOPTION EXCHANGE, INC.

## Notes to Consolidated Financial Statements

### Note 3 - Investments and Fair Value Measurements

The Organization has adopted the FASB guidance surrounding fair value measurements, which establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. This guidance also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped based on significant levels of inputs as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2, or 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

Following is a description of the valuation methodologies used for assets measured at fair value:

*Mutual funds and government money market fund:* Valued at the closing price reported on the active market on which the mutual funds are traded.

The carrying amounts of financial assets required to be measured at fair value on a recurring basis include investments held by CFF, the fair value of which is based upon information determined and reported by CFF and corroborated by management using CFF's audited financial statements. The fair value of investments held at CFF includes Level 1, 2, and 3 classifications; however, the Organization's share of the pooled investments is not quoted in active markets and is, therefore, classified within Level 3 in the fair value hierarchy.

There were no changes in the valuation methodologies during the year.

Financial assets carried at fair value as of June 30, 2017 are classified in the table below in one of the three categories described above:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 371,155	\$ -	\$ -	\$ 371,155
Government money market fund	37,489	-	-	37,489
Interest in net assets of CFF	<u>-</u>	<u>-</u>	<u>46,244</u>	<u>46,244</u>
Total	<u>\$ 408,644</u>	<u>\$ -</u>	<u>\$ 46,244</u>	<u>\$ 454,888</u>

# THE ADOPTION EXCHANGE, INC.

## Notes to Consolidated Financial Statements

### **Note 3 - Investments and Fair Value Measurements (continued)**

Net investment income consists of the following for the year ended June 30, 2017:

Dividends and interest	\$	3,995
Net realized gain		11,906
Net unrealized gain		15,520
Investment management service fees		<u>(1,976)</u>
Total net investment income	\$	<u>29,445</u>

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2017:

Beginning balance	\$	43,660
Investment earnings reinvested		936
Realized gain		202
Unrealized gain		4,141
Distributions		(2,248)
Investment management service fees		<u>(447)</u>
Ending balance	\$	<u>46,244</u>

### **Note 4 - Property and Equipment**

The Organization's property and equipment are comprised of the following as of June 30, 2017:

Land	\$	107,075
Buildings and improvements		1,060,820
Furniture and equipment		34,697
Software and website		<u>135,456</u>
		1,338,048
Less accumulated depreciation		<u>(661,850)</u>
	\$	<u>676,198</u>

Depreciation expense was \$57,575 for the year ended June 30, 2017.

### **Note 5 - Accrued Liabilities**

Accrued expenses are comprised of the following as of June 30, 2017:

Accrued compensation	\$	81,421
Accrued vacation		<u>106,818</u>
	\$	<u>188,239</u>

# THE ADOPTION EXCHANGE, INC.

## Notes to Consolidated Financial Statements

### **Note 6 - Line-of-Credit**

The Organization has a \$390,000 line-of-credit with a bank, which bears interest at 1.25% above the prime rate (5.50% at June 30, 2017) with a floor of 4.50% and matures April 23, 2018. There was no amount outstanding at June 30, 2017. The line-of-credit is collateralized by one of the Organization's buildings and is subject to certain non-financial covenants of which the Organization was in compliance as of June 30, 2017.

### **Note 7 - Note Payable**

Note payable consists of the following as of June 30, 2017:

Note payable to a bank with monthly principal and interest payments of \$1,148, an interest rate of 4.5%, and a maturity date of March 29, 2023. A balloon payment of \$110,893 is required at maturity. The note originated for the purchase of the building adjacent to the Organization's main office in Aurora, Colorado, is collateralized by the building, and is subject to certain financial and non-financial covenants, of which the Organization was in compliance as of June 30, 2017.

	\$	155,600
Less current portion		<u>(6,952)</u>

Long-term portion of note payable	\$	<u>148,648</u>
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Maturities of the note payable are as follows:

#### **For the Year Ending June 30,**

2018	\$	6,952
2019		7,271
2020		7,605
2021		7,955
2022		8,320
Thereafter		<u>117,497</u>
	\$	<u>155,600</u>

### **Note 8 - Retirement Plan**

The Organization has a retirement plan (the "Plan") under Code Section 401(k). Employees who work 20 or more hours per week are eligible to participate in the Plan. The Plan allows employees to defer a discretionary amount of their salaries, not to exceed a defined limit. The Organization did not make any contributions to the Plan during the year ended June 30, 2017.

# THE ADOPTION EXCHANGE, INC.

## Notes to Consolidated Financial Statements

### **Note 9 - Temporarily and Permanently Restricted Net Assets**

The temporarily restricted net assets represent the net proceeds of contributions, which have been restricted by the donors to be used only for the following purposes as of June 30, 2017:

Time restrictions	\$	367,120
Program restrictions		31,870
Net endowment earnings		<u>33,062</u>
	\$	<u>432,052</u>

The permanently restricted net assets represent the net proceeds of contributions, which have been restricted by the donors to be used only for the following purposes as of June 30, 2017:

The Adoption Exchange Endowment Fund	\$	24,675
Wednesday's Child Foundation		<u>379,597</u>
	\$	<u>404,272</u>

### **Note 10 - Commitments and Contingencies**

#### Operating Leases

The Organization leases facilities and equipment under non-cancelable operating leases. The leases expire through March 2020. Rent expense for the year ended June 30, 2017 was \$77,626.

Future minimum lease payments under these leases are approximately as follows:

#### For the Year Ending June 30,

2018	\$	31,700
2019		25,300
2020		<u>18,300</u>
	\$	<u>75,300</u>

### **Note 11 - Investments in Endowments**

Investments in endowments consist of two primary funds established for long-term support of the Organization. The endowments are donor-restricted endowment funds. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

# THE ADOPTION EXCHANGE, INC.

## Notes to Consolidated Financial Statements

### Note 11 - Investments in Endowments (continued)

In 2006, the Uniform Law Commission approved the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"), which governs the investment and management of donor-restricted endowment funds by non-profit organizations. In 2008, the state of Colorado enacted UPMIFA, and the FASB issued guidance on the net asset classification of donor-restricted endowment funds that is subject to UPMIFA as well as additional disclosure requirements for both donor-restricted and Board-designated endowments.

The portion of an endowment that is perpetual in nature shall be classified as permanently restricted net assets. The remaining portion of accumulations to donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as dictated by the donor or, in absence of donor stipulation, as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Certain endowment assets are kept at CFF. CFF has discretion in selecting the asset mix and managers for the endowments of the Organization. The target asset allocation is as follows: (a) 5% in money markets, (b) 45% in fixed income, and (c) 50% in equities. The remaining endowment assets are allocated based on the Board-approved investment policy. That policy's target allocation is (a) 40% in equities and (b) 60% in fixed income.

The Board approves distributions from the endowment funds. Expenditures from the donor-restricted endowment funds are controlled by the Board in concert with the donors' intent with no more than 5% of the monthly average net fair value distributed in any given year.

### Invested Endowment Asset Composition by Type of Fund

As of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 33,062</u>	<u>\$ 404,272</u>	<u>\$ 437,334</u>

**THE ADOPTION EXCHANGE, INC.**

**Notes to Consolidated Financial Statements**

**Note 11 - Investments in Endowments (continued)**

**Changes in Invested Endowment Assets**

For the year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets at beginning of year	<u>\$ -</u>	<u>\$ 15,768</u>	<u>\$ 470,123</u>	<u>\$ 485,891</u>
Investment return				
Investment income, net	-	2,019	-	2,019
Net appreciation	<u>-</u>	<u>27,426</u>	<u>-</u>	<u>27,426</u>
Total investment return	<u>-</u>	<u>29,445</u>	<u>-</u>	<u>29,445</u>
Additions	<u>-</u>	<u>-</u>	<u>1,397</u>	<u>1,397</u>
Appropriation and distribution of endowment assets for expenditure	<u>-</u>	<u>(12,151)</u>	<u>(67,248)</u>	<u>(79,399)</u>
Endowment assets at end of year	<u>\$ -</u>	<u>\$ 33,062</u>	<u>\$ 404,272</u>	<u>\$ 437,334</u>

**SUPPLEMENTARY INFORMATION**

**THE ADOPTION EXCHANGE, INC.**

**Consolidating Statement of Financial Position  
For the Year Ended June 30, 2017**

	<u>The Adoption Exchange</u>	<u>Wednesday's Child Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Assets</b>				
Current assets				
Cash	\$ 540,260	\$ 4,038	\$ -	\$ 544,298
Accounts receivable	282,717	-	-	282,717
Contributions receivable, current portion	295,187	-	-	295,187
Interorganizational receivable	12,085	-	(12,085)	-
Prepaid expenses and other assets	21,824	-	-	21,824
Total current assets	<u>1,152,073</u>	<u>4,038</u>	<u>(12,085)</u>	<u>1,144,026</u>
Non-current assets				
Long-term contributions receivable, net of current portion	252,920	-	-	252,920
Investments	-	408,644	-	408,644
Interest in net assets of Community First Foundation	46,244	-	-	46,244
Property and equipment, net	676,198	-	-	676,198
Total non-current assets	<u>975,362</u>	<u>408,644</u>	<u>-</u>	<u>1,384,006</u>
Total assets	<u>\$ 2,127,435</u>	<u>\$ 412,682</u>	<u>\$ (12,085)</u>	<u>\$ 2,528,032</u>
<b>Liabilities and Net Assets</b>				
Current liabilities				
Accounts payable	\$ 157,267	\$ -	\$ -	\$ 157,267
Accrued liabilities	188,239	-	-	188,239
Interorganizational payable	-	12,085	(12,085)	-
Deferred revenue	177,000	-	-	177,000
Note payable, current portion	6,952	-	-	6,952
Total current liabilities	<u>529,458</u>	<u>12,085</u>	<u>(12,085)</u>	<u>529,458</u>
Long-term liabilities				
Note payable, net of current portion	148,648	-	-	148,648
Total liabilities	<u>678,106</u>	<u>12,085</u>	<u>(12,085)</u>	<u>678,106</u>
Commitments				
Net assets				
Unrestricted	1,004,095	9,507	-	1,013,602
Temporarily restricted	420,559	11,493	-	432,052
Permanently restricted	24,675	379,597	-	404,272
Total net assets	<u>1,449,329</u>	<u>400,597</u>	<u>-</u>	<u>1,849,926</u>
Total liabilities and net assets	<u>\$ 2,127,435</u>	<u>\$ 412,682</u>	<u>\$ (12,085)</u>	<u>\$ 2,528,032</u>

**THE ADOPTION EXCHANGE, INC.**

**Consolidating Statement of Activities  
For the Year Ended June 30, 2017**

	<u>The Adoption Exchange</u>	<u>Wednesday's Child Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Unrestricted revenues and gains				
Contributions	\$ 2,120,952	\$ -	\$ (65,000)	\$ 2,055,952
Government support	2,032,851	-	-	2,032,851
Other income	<u>34,336</u>	<u>-</u>	<u>(6,000)</u>	<u>28,336</u>
Total unrestricted revenues and gains	4,188,139	-	(71,000)	4,117,139
Revenue released from temporarily restricted	172,780	12,151	-	184,931
Revenue released from permanently restricted	<u>2,248</u>	<u>65,000</u>	<u>-</u>	<u>67,248</u>
Total unrestricted revenue and releases	<u>4,363,167</u>	<u>77,151</u>	<u>(71,000)</u>	<u>4,369,318</u>
Expenses				
Program	3,329,324	71,000	(71,000)	3,329,324
General and administration	537,424	6,151	-	543,575
Funds development	<u>493,326</u>	<u>-</u>	<u>-</u>	<u>493,326</u>
Total expenses	<u>4,360,074</u>	<u>77,151</u>	<u>(71,000)</u>	<u>4,366,225</u>
Change in unrestricted net assets	<u>3,093</u>	<u>-</u>	<u>-</u>	<u>3,093</u>
Temporarily restricted revenue	276,832	24,613	-	301,445
Release from temporarily restricted	<u>(172,780)</u>	<u>(12,151)</u>	<u>-</u>	<u>(184,931)</u>
Change in temporarily restricted net assets	<u>104,052</u>	<u>12,462</u>	<u>-</u>	<u>116,514</u>
Permanently restricted revenue	-	1,397	-	1,397
Release from permanently restricted	<u>(2,248)</u>	<u>(65,000)</u>	<u>-</u>	<u>(67,248)</u>
Change in permanently restricted net assets	<u>(2,248)</u>	<u>(63,603)</u>	<u>-</u>	<u>(65,851)</u>
Change in net assets	104,897	(51,141)	-	53,756
Net assets at beginning of year	<u>1,344,432</u>	<u>451,738</u>	<u>-</u>	<u>1,796,170</u>
Net assets at end of year	<u>\$ 1,449,329</u>	<u>\$ 400,597</u>	<u>\$ -</u>	<u>\$ 1,849,926</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
The Adoption Exchange, Inc.  
Aurora, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Adoption Exchange, Inc. (the "Organization"), which are comprised of the consolidated statement of financial position as of June 30, 2017, and 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, and have issued our report thereon dated October 26, 2017.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors  
The Adoption Exchange, Inc.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

## **PURPOSE OF THIS REPORT**

The purpose of this report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*EKS+H LLLP*

EKS&H LLLP

October 26, 2017  
Denver, Colorado

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE**

To the Board of Directors  
The Adoption Exchange, Inc.  
Aurora, Colorado

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited The Adoption Exchange, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2017. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

To the Board of Directors  
The Adoption Exchange, Inc.

### Opinion on Each Major Federal Award

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **PURPOSE OF THIS REPORT**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*EKS&H LLLP*  
EKS&H LLLP

October 26, 2017  
Denver, Colorado

**THE ADOPTION EXCHANGE, INC.**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2017**

**Section I - Summary of Auditors' Results**

*Consolidated Financial Statements*

Type of auditors' report issued - *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiencies identified?  Yes  None reported

Non-compliance material to consolidated financial statements noted?

Yes  No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiencies identified?  Yes  None reported

Type of auditors' report issued on compliance for major programs - *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)

Yes  No

Identification of major programs:

<u>Name of Program</u>	<u>CFDA#</u>
Administration for Children, Youth and Families/Children's Bureau	93.254

Dollar threshold used to distinguish between type A and B programs: \$750,000

Auditee qualified as a low-risk auditee?  Yes  No

**Section II - Consolidated Financial Statement Findings**

None.

**Section III - Federal Award Findings and Questioned Costs**

None.

**Section IV - Prior-Year Findings and Questioned Costs - Major Federal Award Programs Audit**

None.

**THE ADOPTION EXCHANGE, INC.**

**Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2017**

<u>Federal Grantor/Pass-Through Grantor</u>	<u>Program Title</u>	<u>Federal Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures June 30, 2017</u>
U.S. Department of Health and Human Services				
Passed Through				
State of Colorado Division of Child Welfare	Promoting Safe and Stable Families	93.556	131HA46227	\$ 363,491
State of Nevada Division of Child and Family Services	Promoting Safe and Stable Families	93.556	G120NVFPSS	<u>79,615</u>
				443,106
State of Nevada Division of Child and Family Services	Title IV-E Adoption Incentive Payment Program	93.603	1301NVAIPP, 1201NVAIPP	18,556
State of Utah Division of Children, Youth, and Families Adoption Exchange Association	Adoption Opportunities Infant Adoption Awareness Training	93.652 93.254 *	None 90CQ0003-05	230,000 <u>824,258</u>
Total				<u>\$ 1,515,920</u>

\*Major program

See notes to schedule of expenditures of federal awards.

**THE ADOPTION EXCHANGE, INC.**

**Notes to Schedule of Expenditures of Federal Awards**

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Adoption Exchange, Inc. (the "Organization") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Compliance Supplement, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the consolidated financial statements.

**Note 2 - Reconciliation to the Consolidated Financial Statements**

The Organization receives grants from other government sources in addition to its federal awards. The following analysis reconciles expenditures in the accompanying schedule of expenditures of federal awards to government grants and contracts revenue reflected in the Organization's consolidated financial statements for the year ended June 30, 2017:

Government grants and contracts	
Federal expenditures	\$ 1,515,920
Other government support	<u>516,931</u>
	<u>\$ 2,032,851</u>

**Note 3 - Indirect Cost Rate**

The Organization did not elect to use the 10% de minimis indirect cost rate.