



THE ADOPTION EXCHANGE, INC.

**Consolidated Financial Statements
and
Independent Auditors' Report
June 30, 2018
(With Summarized Totals for June 30, 2017)**

THE ADOPTION EXCHANGE, INC.

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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, 2018, 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, 2018, and the changes in its net assets, its functional expenses, 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

The consolidated financial statements of the Organization as of June 30, 2017 were audited by EKS&H LLLP, whose report dated October 26, 2017 expressed an unqualified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 November 15, 2018, 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.



Plante & Moran, PLLC

THE ADOPTION EXCHANGE, INC.

Consolidated Statement of Financial Position

	<u>June 30,</u> <u>2018</u>	<u>Summarized</u> <u>Financial</u> <u>Information as</u> <u>of June 30,</u> <u>2017</u>
Assets		
Current assets		
Cash	\$ 720,835	\$ 544,298
Current portion of receivables, net	785,827	577,904
Prepaid expenses and other assets	<u>36,309</u>	<u>21,824</u>
Total current assets	<u>1,542,971</u>	<u>1,144,026</u>
Non-current assets		
Long-term receivables, net	405,270	252,920
Investments	719,225	408,644
Interest in net assets of Community First Foundation	46,445	46,244
Property and equipment, net	<u>642,200</u>	<u>676,198</u>
Total non-current assets	<u>1,813,140</u>	<u>1,384,006</u>
Total assets	<u>\$ 3,356,111</u>	<u>\$ 2,528,032</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 235,277	\$ 157,267
Accrued liabilities	177,679	188,239
Deferred revenue	214,450	177,000
Note payable, current portion	<u>6,754</u>	<u>6,952</u>
Total current liabilities	634,160	529,458
Long-term liabilities		
Note payable, net of current portion	<u>142,167</u>	<u>148,648</u>
Total liabilities	<u>776,327</u>	<u>678,106</u>
Commitments		
Net assets		
Unrestricted	1,324,590	1,013,602
Temporarily restricted	847,811	432,052
Permanently restricted	<u>407,383</u>	<u>404,272</u>
Total net assets	<u>2,579,784</u>	<u>1,849,926</u>
Total liabilities and net assets	<u>\$ 3,356,111</u>	<u>\$ 2,528,032</u>

See notes to consolidated financial statements.

THE ADOPTION EXCHANGE, INC.

Consolidated Statement of Activities

	For the Year Ended June 30, 2018				Summarized Financial Information for the Year Ended June 30, 2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues and gains					
Contributions					
Foundations	\$ 772,807	\$ 110,000	\$ -	\$ 882,807	\$ 765,107
Corporations and individuals	885,057	491,999	5,300	1,382,356	568,983
Fundraising events, net of direct costs of \$234,587 (2018)	810,018	-	-	810,018	819,687
In-kind goods and services	<u>475,741</u>	<u>-</u>	<u>-</u>	<u>475,741</u>	<u>175,572</u>
Total contributions	2,943,623	601,999	5,300	3,550,922	2,329,349
Government support	1,513,285	-	-	1,513,285	2,032,851
Investment income, net	-	24,005	-	24,005	29,445
Other income	<u>31,692</u>	<u>-</u>	<u>-</u>	<u>31,692</u>	<u>28,336</u>
Total revenues and gains	4,488,600	626,004	5,300	5,119,904	4,419,981
Net assets released from restrictions	<u>212,434</u>	<u>(210,245)</u>	<u>(2,189)</u>	<u>-</u>	<u>-</u>
Total revenues and gains	<u>4,701,034</u>	<u>415,759</u>	<u>3,111</u>	<u>5,119,904</u>	<u>4,419,981</u>
Expenses					
Program services					
Media based recruitment services	900,987	-	-	900,987	1,142,614
Intensive recruitment services	976,645	-	-	976,645	639,753
Mentoring program	183,733	-	-	183,733	161,566
Family support program	830,450	-	-	830,450	523,615
National recruitment capacity building	<u>403,095</u>	<u>-</u>	<u>-</u>	<u>403,095</u>	<u>861,776</u>
Total program services	<u>3,294,910</u>	<u>-</u>	<u>-</u>	<u>3,294,910</u>	<u>3,329,324</u>
Support services					
General and Administration	458,427	-	-	458,427	543,575
Funds development	<u>636,709</u>	<u>-</u>	<u>-</u>	<u>636,709</u>	<u>493,326</u>
Total support services	<u>1,095,136</u>	<u>-</u>	<u>-</u>	<u>1,095,136</u>	<u>1,036,901</u>
Total expenses	<u>4,390,046</u>	<u>-</u>	<u>-</u>	<u>4,390,046</u>	<u>4,366,225</u>
Change in net assets	310,988	415,759	3,111	729,858	53,756
Net assets at beginning 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>
Net assets at end of year	<u>\$ 1,324,590</u>	<u>\$ 847,811</u>	<u>\$ 407,383</u>	<u>\$ 2,579,784</u>	<u>\$ 1,849,926</u>

See notes to consolidated financial statements.

THE ADOPTION EXCHANGE, INC.

Consolidated Statement of Functional Expenses

	For the Year Ended June 30, 2018										Summarized Financial Information for the Year Ended June 30, 2017
	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	\$ 379,573	\$ 750,814	\$ 143,958	\$ 552,249	\$ 211,863	\$ 2,038,457	\$ 329,088	\$ 417,011	\$ 746,099	\$ 2,784,556	\$ 2,750,828
Professional services	36,884	-	6,425	1,783	127,315	172,407	31,442	36,964	68,406	240,813	451,649
Direct program costs	35,201	44,036	7,949	5,960	17,778	110,924	-	-	-	110,924	148,150
Travel	9,769	59,261	1,584	22,548	14,789	107,951	12,216	8,593	20,809	128,760	219,816
Conferences and meetings	6,489	2,508	738	11,472	1,427	22,634	11,065	1,895	12,960	35,594	19,525
Printing, publications, and postage	21,802	414	-	2,835	2,293	27,344	1,933	22,387	24,320	51,664	94,601
Information technology	20,443	31,675	6,144	30,243	9,285	97,790	22,874	39,474	62,348	160,138	151,669
Office expenses	9,223	25,700	4,589	25,539	10,536	75,587	6,551	633	7,184	82,771	94,698
Occupancy	18,053	29,689	3,422	20,283	375	71,822	3,149	11,502	14,651	86,473	99,227
Insurance	6,525	11,111	2,357	10,098	3,118	33,209	10,909	5,186	16,095	49,304	35,888
Miscellaneous	4,696	4,501	1,299	2,976	3,765	17,237	14,000	18,853	32,853	50,090	53,015
Interest	-	-	-	-	-	-	7,392	-	7,392	7,392	8,862
Depreciation	9,027	14,276	4,418	13,199	551	41,471	7,808	9,471	17,279	58,750	57,575
Bad debt	2,186	-	-	150	-	2,336	-	64,740	64,740	67,076	5,150
In-kind	341,116	2,660	850	131,115	-	475,741	-	-	-	475,741	175,572
Total	\$ 900,987	\$ 976,645	\$ 183,733	\$ 830,450	\$ 403,095	\$ 3,294,910	\$ 458,427	\$ 636,709	\$ 1,095,136	\$ 4,390,046	\$ 4,366,225

See notes to consolidated financial statements.

THE ADOPTION EXCHANGE, INC.

Consolidated Statement of Cash Flows

	For the Year Ended June 30, 2018	Summarized Financial Information for the Year Ended June 30, 2017
	<u> </u>	<u> </u>
Cash flows from operating activities		
Change in net assets	\$ 729,858	\$ 53,756
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation expense	58,750	57,575
Net realized and unrealized gains on investments	(23,102)	(27,426)
Donation of stock	(288,967)	-
Provision for doubtful accounts	55,100	-
Contributions restricted for endowments	(5,300)	(1,397)
Changes in operating assets and liabilities		
Receivables	(415,373)	(256,526)
Prepaid expenses and other assets	(14,485)	36,273
Accounts payable	78,010	27,942
Accrued liabilities	(10,560)	(47,173)
Deferred revenue	37,450	138,950
	<u>(528,477)</u>	<u>(71,782)</u>
Net cash provided by (used in) operating activities	<u>201,381</u>	<u>(18,026)</u>
Cash flows from investing activities		
Net (purchases) sales of investments	(902)	56,181
Distributions received from Community First Foundation	2,189	2,248
Purchases of property and equipment	(24,752)	(7,499)
Net cash (used in) provided by investing activities	<u>(23,465)</u>	<u>50,930</u>
Cash flows from financing activities		
Payments on note payable	(6,679)	(6,512)
Contributions restricted for endowments	5,300	1,397
Net cash used in financing activities	<u>(1,379)</u>	<u>(5,115)</u>
Net increase in cash	176,537	27,789
Cash at beginning of year	<u>544,298</u>	<u>516,509</u>
Cash at end of year	<u>\$ 720,835</u>	<u>\$ 544,298</u>

Supplemental disclosure of cash flow information:

Cash paid for interest for the year ended June 30, 2018 was \$7,392.

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. As of July 1, 2018, WCF was merged with the Adoption Exchange and will no longer exist as a separate entity.

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 9,100 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, 2018, the Organization served 1,529 children waiting in foster care, including 190 children placed in loving adoptive homes and an additional 230 children who had their adoptions legally finalized. The children served by the Organization:

- Are older – 83% were aged nine or older
- Are ethnically diverse – 51% belonged to a minority ethnicity
- Have special needs – almost all 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 WCF 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, 2018, 82 Colorado and Utah youth were featured at matching events; 25 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 and 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 past year, 202 families and community members have expressed interest in the program. In total, 34 youth have been referred to the program from Adams and Denver counties and 17 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 1,753 families and professionals benefited from over 8,433 hours of training and support through classes, webinars, and conferences that were offered during the year ended June 30, 2018. 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 works at a national level as a partner in the AdoptUSKids collaboration, helping states, tribes, and territories – and their private agency partners – build their capacity to recruit, engage, develop, and support foster, adoptive, and kinship families. The Organization provides free webinars, trainings, workshops, publications, peer learning opportunities, and tailored capacity-building services on a variety of topics for child welfare professionals. In the year ended June 30, 2018, 47 states, Washington D.C., Guam, and 9 tribes participated in system-specific capacity-building services delivered by the Organization.

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. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2017 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.

At June 30, 2018, four donors and governmental agencies accounted for 57% of total receivables.

THE ADOPTION EXCHANGE, INC.

Notes to Consolidated Financial Statements

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

Receivables

The Organization provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Organization's estimate is based on historical collection experience and a review of the current status of receivables. It is reasonably possible that the Organization's estimate of the allowance for doubtful accounts will change and that losses ultimately incurred could differ materially from the amounts estimated in determining the allowance. As of June 30, 2018, the Organization's allowance for receivables was \$55,100.

Accounts Receivable

Accounts receivable consist primarily of amounts due under government contracts and other miscellaneous receivables.

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.

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, dividends, and interest, 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 \$5,000 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, 2018.

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).

THE ADOPTION EXCHANGE, INC.

Notes to Consolidated Financial Statements

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

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, 2018, the Organization had 286 volunteers that provided over 3,717 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, 2018, in-kind goods and services relating to program activities totaled \$475,741.

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 ADOPTION EXCHANGE, INC.

Notes to Consolidated Financial Statements

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

Income Taxes (continued)

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, 2018.

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, 2018.

Use of Estimates

The preparation of consolidated 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 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 August 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new standard clarifies and improves current guidance to determine whether a transaction is a contribution or an exchange transaction, in order for an entity to identify which revenue recognition guidance is applicable. The standard also provides additional guidance to classify contributions as conditional or unconditional. ASU No. 2018-08 is effective for 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.

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.

THE ADOPTION EXCHANGE, INC.

Notes to Consolidated Financial Statements

Note 2 - Interest in Net Assets of Community First Foundation (continued)

CFF made distributions to the Organization of \$2,189 during the year ended June 30, 2018. 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 \$46,445 as of June 30, 2018.

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, government money market fund, and stock: Valued at the closing price reported on the active market on which the mutual funds and stock 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 main input is the fair value of the underlying investments held at CFF and 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.

THE ADOPTION EXCHANGE, INC.

Notes to Consolidated Financial Statements

Note 3 - Investments and Fair Value Measurements (continued)

Financial assets carried at fair value as of June 30, 2018 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	\$ 392,414	\$ -	\$ -	\$ 392,414
Government money market fund	37,844	-	-	37,844
Stock	288,967	-	-	288,967
Interest in net assets of CFF	<u>-</u>	<u>-</u>	<u>46,445</u>	<u>46,445</u>
Total	<u>\$ 719,225</u>	<u>\$ -</u>	<u>\$ 46,445</u>	<u>\$ 765,670</u>

Net investment income consists of the following for the year ended June 30, 2018:

Dividends and interest	\$ 1,376
Net realized gain	6,974
Net unrealized gain	16,128
Investment management service fees	<u>(473)</u>
Total net investment income	<u>\$ 24,005</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, 2018:

Beginning balance	\$ 46,244
Investment earnings reinvested	1,019
Realized gain	6,974
Unrealized loss	(5,130)
Distributions	(2,189)
Investment management service fees	<u>(473)</u>
Ending balance	<u>\$ 46,445</u>

THE ADOPTION EXCHANGE, INC.

Notes to Consolidated Financial Statements

Note 4 - Balance Sheet Disclosures

Receivables are summarized as follows as of June 30, 2018:

Accounts receivable	\$ 400,377
Contributions receivable	<u>845,820</u>
	1,246,197
Less current portion of receivables	(785,827)
Less allowance for receivables	<u>(55,100)</u>
	<u>\$ 405,270</u>

Contributions receivable amounts due in:

Less than one year	\$ 440,550
One to five years	<u>405,270</u>
Total	<u>\$ 845,820</u>

Property and equipment are summarized as follows as of June 30, 2018:

Land	\$ 107,075
Buildings and improvements	1,051,862
Furniture and equipment	59,448
Software and website	<u>135,456</u>
	1,353,841
Less accumulated depreciation	<u>(711,641)</u>
	<u>\$ 642,200</u>

Depreciation expense for the year ended June 30, 2018 was \$58,750.

Accrued expenses consist of the following as of June 30, 2018:

Accrued compensation	\$ 56,219
Accrued vacation	111,283
Accrued other	<u>10,177</u>
	<u>\$ 177,679</u>

Note 5 - Line-of-Credit

The Organization had a \$390,000 line-of-credit with a bank, which had a \$0 balance and expired on April 23, 2018. On July 9, 2018, the Organization obtained a new \$200,000 line-of-credit with a bank that bears interest at 1% above the prime rate (6% at June 30, 2018) with a floor of 6% and matures January 31, 2020.

THE ADOPTION EXCHANGE, INC.

Notes to Consolidated Financial Statements

Note 6 - Note Payable

Note payable consists of the following as of June 30, 2018:

Note payable to a bank with monthly principal and interest payments of \$1,247, an interest rate of 5.63%, and a maturity date of March 25, 2023. A balloon payment of \$115,017 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, 2018.

	\$	148,921
Less current portion		<u>(6,754)</u>
Long-term portion of note payable	\$	<u>142,167</u>

Maturities of the note payable are as follows:

For the Year Ending June 30,

2019	\$	6,754
2020		7,145
2021		7,557
2022		7,994
2023		<u>119,471</u>
	\$	<u>148,921</u>

Note 7 - 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, 2018.

Note 8 - 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, 2018:

Time restrictions	\$	662,967
Program restrictions		139,882
Unappropriated endowment earnings		<u>44,962</u>
	\$	<u>847,811</u>

THE ADOPTION EXCHANGE, INC.

Notes to Consolidated Financial Statements

Note 8 - Temporarily and Permanently Restricted Net Assets (continued)

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, 2018:

The Adoption Exchange Endowment Fund	\$ 22,486
Wednesday's Child Foundation	<u>384,897</u>
	<u>\$ 407,383</u>

The earnings on these endowments are available for unrestricted use when appropriated.

Note 9 - 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, 2018 was \$59,329.

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

For the Year Ending June 30,

2019	\$ 86,100
2020	<u>19,600</u>
	<u>\$ 105,700</u>

Note 10 - 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.

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 ADOPTION EXCHANGE, INC.

Notes to Consolidated Financial Statements

Note 10 - Investments in Endowments (continued)

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, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 44,962</u>	<u>\$ 407,383</u>	<u>\$ 452,345</u>

THE ADOPTION EXCHANGE, INC.

Notes to Consolidated Financial Statements

Note 10 - Investments in Endowments (continued)

Changes in Invested Endowment Assets

For the year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets at beginning of year	\$ -	\$ 33,062	\$ 404,272	\$ 437,334
Investment return				
Investment income, net	-	903	-	903
Net appreciation	-	23,102	-	23,102
Total investment return	-	24,005	-	24,005
Additions	-	-	5,300	5,300
Appropriation and distribution of endowment assets for expenditure	-	(12,105)	(2,189)	(14,294)
Endowment assets at end of year	<u>\$ -</u>	<u>\$ 44,962</u>	<u>\$ 407,383</u>	<u>\$ 452,345</u>

SUPPLEMENTARY INFORMATION

THE ADOPTION EXCHANGE, INC.

**Consolidating Statement of Financial Position
For the Year Ended June 30, 2018**

	<u>The Adoption Exchange</u>	<u>Wednesday's Child Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets				
Current assets				
Cash	\$ 718,622	\$ 2,213	\$ -	\$ 720,835
Current portion of receivables, net	785,827	-	-	785,827
Interorganizational receivable	17,040	-	(17,040)	-
Prepaid expenses and other assets	<u>36,309</u>	<u>-</u>	<u>-</u>	<u>36,309</u>
Total current assets	<u>1,557,798</u>	<u>2,213</u>	<u>(17,040)</u>	<u>1,542,971</u>
Non-current assets				
Long-term receivables, net	405,270	-	-	405,270
Investments	288,967	430,258	-	719,225
Interest in net assets of Community First Foundation	46,445	-	-	46,445
Property and equipment, net	<u>642,200</u>	<u>-</u>	<u>-</u>	<u>642,200</u>
Total non-current assets	<u>1,382,882</u>	<u>430,258</u>	<u>-</u>	<u>1,813,140</u>
Total assets	<u>\$ 2,940,680</u>	<u>\$ 432,471</u>	<u>\$ (17,040)</u>	<u>\$ 3,356,111</u>
Liabilities and Net Assets				
Current liabilities				
Accounts payable	\$ 235,277	\$ -	\$ -	\$ 235,277
Accrued liabilities	177,679	-	-	177,679
Interorganizational payable	-	17,040	(17,040)	-
Deferred revenue	214,450	-	-	214,450
Note payable, current portion	<u>6,754</u>	<u>-</u>	<u>-</u>	<u>6,754</u>
Total current liabilities	634,160	17,040	(17,040)	634,160
Long-term liabilities				
Note payable, net of current portion	<u>142,167</u>	<u>-</u>	<u>-</u>	<u>142,167</u>
Total liabilities	<u>776,327</u>	<u>17,040</u>	<u>(17,040)</u>	<u>776,327</u>
Commitments				
Net assets				
Unrestricted	1,315,058	9,532	-	1,324,590
Temporarily restricted	826,809	21,002	-	847,811
Permanently restricted	<u>22,486</u>	<u>384,897</u>	<u>-</u>	<u>407,383</u>
Total net assets	<u>2,164,353</u>	<u>415,431</u>	<u>-</u>	<u>2,579,784</u>
Total liabilities and net assets	<u>\$ 2,940,680</u>	<u>\$ 432,471</u>	<u>\$ (17,040)</u>	<u>\$ 3,356,111</u>

THE ADOPTION EXCHANGE, INC.

**Consolidating Statement of Activities
For the Year Ended June 30, 2018**

	<u>The Adoption Exchange</u>	<u>Wednesday's Child Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Unrestricted revenues and gains				
Contributions	\$ 2,943,623	\$ -	\$ -	\$ 2,943,623
Government support	1,513,285	-	-	1,513,285
Other income	<u>37,667</u>	<u>25</u>	<u>(6,000)</u>	<u>31,692</u>
Total unrestricted revenues and gains	4,494,575	25	(6,000)	4,488,600
Revenue released from temporarily restricted	198,140	12,105	-	210,245
Revenue released from permanently restricted	<u>2,189</u>	<u>-</u>	<u>-</u>	<u>2,189</u>
Total unrestricted revenue and releases	<u>4,694,904</u>	<u>12,130</u>	<u>(6,000)</u>	<u>4,701,034</u>
Expenses				
Program	3,294,910	-	-	3,294,910
General and administration	452,322	12,105	(6,000)	458,427
Funds development	<u>636,709</u>	<u>-</u>	<u>-</u>	<u>636,709</u>
Total expenses	<u>4,383,941</u>	<u>12,105</u>	<u>(6,000)</u>	<u>4,390,046</u>
Change in unrestricted net assets	<u>310,963</u>	<u>25</u>	<u>-</u>	<u>310,988</u>
Temporarily restricted revenue	604,390	21,614	-	626,004
Release from temporarily restricted	<u>(198,140)</u>	<u>(12,105)</u>	<u>-</u>	<u>(210,245)</u>
Change in temporarily restricted net assets	<u>406,250</u>	<u>9,509</u>	<u>-</u>	<u>415,759</u>
Permanently restricted revenue	-	5,300	-	5,300
Release from permanently restricted	<u>(2,189)</u>	<u>-</u>	<u>-</u>	<u>(2,189)</u>
Change in permanently restricted net assets	<u>(2,189)</u>	<u>5,300</u>	<u>-</u>	<u>3,111</u>
Change in net assets	715,024	14,834	-	729,858
Net assets at beginning of year	<u>1,449,329</u>	<u>400,597</u>	<u>-</u>	<u>1,849,926</u>
Net assets at end of year	<u>\$ 2,164,353</u>	<u>\$ 415,431</u>	<u>\$ -</u>	<u>\$ 2,579,784</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, 2018, 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 November 15, 2018.

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 consolidated 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.



Plante & Moran, PLLC

Denver, Colorado
November 15, 2018

**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, 2018. 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.

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, 2018.

To the Board of Directors
The Adoption Exchange, Inc.

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.

Plante & Moran, PLLC

Plante & Moran, PLLC

Denver, Colorado
November 15, 2018

THE ADOPTION EXCHANGE, INC.

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

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>
Adoption Opportunities	93.652

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.

THE ADOPTION EXCHANGE, INC.

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018**

<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, 2018</u>
U.S. Department of Health and Human Services				
Passed Through:				
State of Nevada Division of Child and Family Services	Promoting Safe and Stable Families	93.556	G1701NVFPSS	\$ 79,619
State of Nevada Division of Child and Family Services	Title IV-E Adoption Incentive Payment Program	93.603	G1601NVFPSS	19,113
Adoption Exchange Association Inc.	Infant Adoption Awareness Training	93.254	90CQ000305	210,366
State of Utah Division of Child and Family Services	Adoption Opportunities	93.652*	None	230,000
Adoption Exchange Association Inc.	Adoption Opportunities	93.652*	None	<u>236,529</u>
Total Adoption Opportunities				<u>466,529</u>
Total				<u><u>\$ 775,627</u></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 (the "Schedule") includes the federal award activity of The Adoption Exchange, Inc. (the "Organization") under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - 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, 2018:

Government grants and contracts	
Federal expenditures	\$ 775,627
Other government support	<u>737,658</u>
	<u>\$ 1,513,285</u>

Note 4 - Indirect Cost Rate

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

Note 5 - Subrecipients

No amounts were provided to subrecipients for the year ended June 30, 2018.