

MADISON ADOPTION ASSOCIATES, LTD.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2017 AND 2016

MADISON ADOPTION ASSOCIATES, LTD.

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Madison Adoption Associates, Ltd.
Claymont, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements for Madison Adoption Associates, Ltd. (a nonprofit organization), which comprise the statement of financial position-modified cash basis as of December 31, 2017, the related statements of activities-modified cash basis and functional expenses-modified cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note B; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Madison Adoption Associates, Ltd. (a nonprofit organization) as of December 31, 2017, and its support, revenue, and expenses for the year then ended in accordance with the modified cash basis of accounting as described in Note B.

Basis of Accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Prior Year Auditor's Report

The financial statements of Madison Adoption Associates, Ltd. as of December 31, 2016, were audited by Haggerty & Haggerty, P.A. (which merged with Whisman, Giordano & Associates, LLC. effective August 1, 2017), whose report dated July 10, 2017, expressed an unmodified opinion on those financial statements.

Whisman Giordano & Associates, LLC

August 2, 2018
Newark, Delaware

MADISON ADOPTION ASSOCIATES, LTD.

STATEMENTS OF FINANCIAL POSITION-MODIFIED CASH BASIS

AS OF DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 469,979	\$ 1,113,339
Restricted cash and cash equivalents:		
Charitable aid account	37,538	72,036
Post-placement bond account	453,932	410,776
Investments at fair value	750,006	-
Deposit held in escrow on real property	-	10,000
Security Deposit	2,790	-
Property and equipment, net of accumulated depreciation	<u>57,403</u>	<u>63,874</u>
 TOTAL ASSETS	 <u>\$ 1,771,648</u>	 <u>\$ 1,670,025</u>
LIABILITIES		
Accounts payable and other	\$ 22,788	\$ 5,016
Payroll withholdings and taxes	7,771	42
Deferred revenues and other deposits	27,078	20,484
Post-placement bond payable	<u>469,536</u>	<u>415,500</u>
 TOTAL LIABILITIES	 <u>527,173</u>	 <u>441,042</u>
NET ASSETS		
Unrestricted:		
Net investment in property and equipment	57,403	63,874
Designated as operating reserves	1,123,264	1,067,552
Undesignated	<u>26,270</u>	<u>25,521</u>
Total unrestricted	1,206,937	1,156,947
Temporarily restricted	<u>37,538</u>	<u>72,036</u>
Total net assets	<u>1,244,475</u>	<u>1,228,983</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,771,648</u>	 <u>\$ 1,670,025</u>

See accompanying notes to the financial statements.

MADISON ADOPTION ASSOCIATES, LTD.

STATEMENTS OF ACTIVITIES-MODIFIED CASH BASIS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Totals	Unrestricted	Temporarily Restricted	Totals
Revenues, gains, and other support						
Contributions	\$ 30,328	\$ -	\$ 30,328	\$ 27,019	\$ -	\$ 27,019
Program service fees	1,767,431	19,500	1,786,931	2,029,723	62,000	2,091,723
Interest Income	2,323	46	2,369	1,611	36	1,647
Miscellaneous revenue	12,153	-	12,153	8,365	-	8,365
Total revenues and gains	1,812,235	19,546	1,831,781	2,066,718	62,036	2,128,754
Net assets released from restriction	54,044	(54,044)	-	102,060	(102,060)	-
Total revenues, gains, and other support	1,866,279	(34,498)	1,831,781	2,168,778	(40,024)	2,128,754
Expenses and losses						
Program services	1,640,559	-	1,640,559	1,793,343	-	1,793,343
Supporting services:						
Management and general	173,180	-	173,180	150,078	-	150,078
Fundraising costs	2,550	-	2,550	-	-	-
Total expenses and losses	1,816,289	-	1,816,289	1,943,421	-	1,943,421
Change in net assets	49,990	(34,498)	15,492	225,357	(40,024)	185,333
Net assets, beginning of year	1,156,947	72,036	1,228,983	931,590	112,060	1,043,650
Net assets, end of year	\$ 1,206,937	\$ 37,538	\$ 1,244,475	\$ 1,156,947	\$ 72,036	\$ 1,228,983

See accompanying notes to the financial statements.

MADISON ADOPTION ASSOCIATES, LTD.

STATEMENT OF FUNCTIONAL EXPENSES-MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2017

	Program Services	Supporting Services		Total Expenses
		Management & General	Fund Raising	
Expenses and losses				
Salaries	\$ 644,228	\$ 120,607	\$ -	\$ 764,835
Employees other benefits	-	-	-	-
Employees retirement benefits	7,241	1,763	-	9,004
Payroll taxes, etc.	52,245	8,505	-	60,750
Total personnel costs	<u>703,714</u>	<u>130,875</u>	<u>-</u>	<u>834,589</u>
Waived agency fees	323,210	-	-	323,210
Grant awards and allocations:				
Domestic	20,600	-	-	20,600
Foreign	38,270	-	-	38,270
Foreign adoption expenses	202,745	-	-	202,745
Program expenses	30,997	-	-	30,997
Contractual services	98,252	-	-	98,252
Professional fees	-	12,071	-	12,071
Fundraising	-	-	2,550	2,550
Insurance	29,480	3,276	-	32,756
Office expense and supplies	31,066	3,452	-	34,518
Telephone	8,850	983	-	9,833
Information technology	20,626	2,292	-	22,918
Postage and freight	36,038	735	-	36,773
Occupancy costs:				
Rent	33,062	3,673	-	36,735
Utilities	2,209	245	-	2,454
Equipment rental and maintenance	7,952	884	-	8,836
Travel	24,215	2,691	-	26,906
Advertising/publicity	21,226	1,117	-	22,343
Conferences and meetings	-	10,203	-	10,203
Dues and memberships	1,831	203	-	2,034
Miscellaneous	201	24	-	225
Total other expenses	<u>930,830</u>	<u>41,849</u>	<u>2,550</u>	<u>975,229</u>
Total expenses and losses before depreciation expense	1,634,544	172,724	2,550	1,809,818
Depreciation expense	<u>6,015</u>	<u>456</u>	<u>-</u>	<u>6,471</u>
Total expenses and losses	<u>\$ 1,640,559</u>	<u>\$ 173,180</u>	<u>\$ 2,550</u>	<u>\$ 1,816,289</u>

See accompanying notes to the financial statements.

MADISON ADOPTION ASSOCIATES, LTD.

STATEMENT OF FUNCTIONAL EXPENSES-MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2016

	Program Services	Supporting Services		Total Expenses
		Management & General	Fund Raising	
Expenses and losses				
Salaries	\$ 667,943	\$ 93,981	\$ -	\$ 761,924
Employees other benefits	-	7,692	-	7,692
Employees retirement benefits	9,838	2,683	-	12,521
Payroll taxes, etc.	51,462	8,378	-	59,840
Total personnel costs	<u>729,243</u>	<u>112,734</u>	<u>-</u>	<u>841,977</u>
Waived agency fees	398,247	-	-	398,247
Grant awards and allocations:				
Domestic	37,868	-	-	37,868
Foreign	83,282	-	-	83,282
Foreign adoption expenses	223,882	-	-	223,882
Program expenses	10,416	-	-	10,416
Contractual services	93,727	-	-	93,727
Professional fees	-	13,384	-	13,384
Fundraising	-	-	-	-
Insurance	28,208	3,134	-	31,342
Office expense and supplies	19,030	2,115	-	21,145
Telephone	10,497	1,166	-	11,663
Information technology	17,231	1,915	-	19,146
Postage and freight	35,369	722	-	36,091
Occupancy costs:				
Rent	13,824	1,536	-	15,360
Utilities	2,160	240	-	2,400
Equipment rental and maintenance	7,395	822	-	8,217
Travel	39,121	4,347	-	43,468
Advertising/publicity	20,524	1,080	-	21,604
Conferences and meetings	-	4,447	-	4,447
Dues and memberships	17,491	1,943	-	19,434
Miscellaneous	166	19	-	185
Total other expenses	<u>1,058,438</u>	<u>36,870</u>	<u>-</u>	<u>1,095,308</u>
Total expenses and losses before depreciation expense	1,787,681	149,604	-	1,937,285
Depreciation expense	<u>5,662</u>	<u>474</u>	<u>-</u>	<u>6,136</u>
Total expenses and losses	<u>\$ 1,793,343</u>	<u>\$ 150,078</u>	<u>\$ -</u>	<u>\$ 1,943,421</u>

See accompanying notes to the financial statements.

MADISON ADOPTION ASSOCIATES, LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE A - NATURE OF THE ORGANIZATION

Madison Adoption Associates, Ltd. (the “Organization”) is a Hague accredited, not-for-profit 501(c)(3) organization whose mission is to bring hope, love, and a permanent family to children in need. By serving children and families through domestic and international adoption, our work is guided by the following core principles:

- Conducting our activities with our heart first and an unwavering commitment to ethics.
- Treating each child with dignity and always acting in the best interest of the child.
- Ensuring that each adoption process is transparent, with adherence to all laws and regulations.
- Providing birth parents with caring, compassionate, nonjudgmental and confidential support.
- Recognizing the unique and precious potential of each child and each family.
- Securing stable and loving permanent families for children through pre-adoption preparation, education, and guidance.
- Committing time and resources to charitable activities that help children who are not eligible for adoption to lead stronger, safer, healthier, and more productive lives.

The Organization is overseen by a board of independent trustees, most of whom hold professional degrees in fields related to the adoption process. One of the primary focuses of the Organization is to advocate for waiting children, who may otherwise be overlooked. The Organization also helps adopting parents avoid improper adoption practices, such as the payment of improper fees or false representations as to international adoption requirements or processes. The Organization accomplishes this by providing: (1) consulting, (2) home study assessment services, and (3) educational programs. Other priorities include training for parents, mentoring and educational programs designed to foster new, legitimate adoption organizations, and sending aid to domestic and international child care organizations. Fees charged for consultation and/or home study assessment services support the Organization’s charitable activities. It is also the Organization’s standard practice to provide grants for waiting children and families who require additional assistance. Grants are given for each waiting child depending on their age, special need and how long they have waited for a family. The families may also apply for additional grants through the Organization based on their family’s unique needs and circumstances.

The Organization’s placement goals are to provide for the best interest of each child, along with a strong commitment to work with the rights and wishes of prospective families. Currently the Organization offers international adoption programs in China, Colombia (new in 2017), Bulgaria and the Philippines. The Organization can also assist with home study and post adoption services in Delaware, Pennsylvania, New Jersey and Illinois.

MADISON ADOPTION ASSOCIATES, LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE A - NATURE OF THE ORGANIZATION (CONTINUED)

To maintain standards and policies that are consistent with applicable child welfare policy and law, including, without limitation, *The Convention on Protection of Children and Cooperation* in respect of inter-country adoption, a multilateral treaty executed at the Hague on May 29, 1993 (the Hague Convention), the *Inter-Country Adoption Act of 2000* (the “IAA” or Hague Law), and implementing Regulations set forth in 22 CFR Part 96-98 dated February 15, 2006 (the “Hague Regulations”). Specifically, the Organization shall abide by the principles of (i) ensuring that inter-country adoptions take place in the best interest of children; and (ii) preventing the abduction, sale or trafficking of children in connection with inter-country adoption.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards’ Accounting Standards Codification (FASB ASC) Topic 958, *Not-for-Profit Entities*. Under FASB ASC Topic 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The net assets and the changes therein are classified and reported as follows:

Unrestricted net assets are not subject to donor-imposed restrictions. The unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted net assets are subject to donor-imposed stipulations, including funds collected from each family for humanitarian aid, that may or will be fulfilled by the Organization’s actions and/or passage of time, to meet stipulations or become unrestricted at a date specified by the donor. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities-modified cash basis as net assets released from restriction.

Permanently restricted net assets are subject to donor-imposed stipulations that the assets be maintained permanently by the Organization. Generally, the donors permit the Organization to use all or part of the investment return on these assets for general or specific purposes. The Organization reported no permanently restricted net assets.

MADISON ADOPTION ASSOCIATES, LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Organization's policy is to prepare the financial statements of the modified cash basis of accounting; consequently, certain revenues are recognized when received rather than when earned, and certain expenses are recognized when cash is disbursed rather than when the obligation is incurred. Certain modifications to the cash basis of accounting have evolved through common usage in practice, thereby creating the modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Use of Estimates

Preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, the actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Restricted Cash and Cash Equivalents

Charitable Aid Account holds funds collected from each family (\$500) for purposes of providing humanitarian aid domestically and internationally to children's causes.

Post-Placement Bond Account holds post-placement bonds collected from qualifying families (\$1,000) to ensure that all post adoption reporting is completed. Upon the successful completion of the post adoption reporting requirements, the bond is refunded.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position-modified cash basis. Fair values are estimated based upon quoted market prices. Realized and unrealized gains and losses are included in the statement of activities-modified cash basis. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized.

MADISON ADOPTION ASSOCIATES, LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment is carried at cost and consists of leasehold improvements, furniture and fixtures, and equipment. The cost related to maintenance and repairs is charged to expense as incurred, and the cost of renewals and betterments is capitalized. When capital assets are sold or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts, and any gain or loss is included in the statement of activities-modified cash basis. The Organization follows the practice of capitalizing all expenditures for capital assets as assets with an initial, individual cost of \$2,500 or more and a useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful lives of the property and equipment ranging from 5 to 15 years.

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values as of the date of the donation.

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of the donation. Such donations are reported as unrestricted support unless the donor restricted the donated capital asset for a specific purpose. The capital assets donated with explicit restrictions regarding their use, and contributions of cash that are used to acquire capital assets, are reported as restricted support. Absent donor stipulations regarding how long those donated capital assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired capital assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at the time.

Donated Services

The Organization recognizes donated services that create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization received no services meeting such criteria for the years presented.

Advertising/Publicity Costs

The Organization advertises to promote its programs to the public it serves. The advertising cost is expensed the first time the advertising takes place. Total advertising cost is \$22,343 and \$21,604 for the years ended December 31, 2017 and 2016, respectively.

MADISON ADOPTION ASSOCIATES, LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

In accordance with the Financial Accounting Standards Board Statement of Accounting for the *Impairment or Disposal of Long-Lived Assets*, the Organization reviews its capital assets for impairment whenever events or changes in circumstances indicate that the carrying value of a capital asset may not be recoverable. If the fair value is less than the carrying amount of the capital asset, an impairment loss is recognized for the difference. No impairment loss was recognized for the years presented.

Post-Placement Bond Payable

The Organization reflects a post-placement bond payable on the financial statements for post-placement bonds (\$1,000) collected from qualifying families to ensure that a family completes the post adoption reporting requirements.

Waived Agency Fees

The Organization provides prospective adoptive parents with grants to assist with the various costs incurred in the adoption process. Many of these families have the financial means to support and provide for a secure future for the child, but the cost of adoption would prevent them from being able to bring these children home. The grants offered by the Organization allow children to have loving, permanent families.

Grants are based on the financial status of the adoptive family, and on the circumstances of each child being adopted. Grants are allocated in the form of agency fee reductions or “waived agency fees.” The Organization also helps support other foundations that provide grants for adoptive families.

The Organization provides grants to each waiting child in order to draw attention to that child and encourage people to consider the referral of that particular child. Fee reductions are applied to families who are adopting more than one child at a time.

In 2017 and 2016, the Organization provided a total of \$323,210 and \$398,247 in waived agency fees to 111 and 142 families in need of financial assistance, respectively.

Allocation of Expenses

The cost of providing the Organization’s programs is summarized on a functional basis on the statement of activities-modified cash basis. Accordingly, certain costs are allocated among the programs and supporting services benefitted. These allocations are included in the statement of functional expenses-modified cash basis.

MADISON ADOPTION ASSOCIATES, LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Service (IRS) Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation.

The Financial Accounting Standards Board on statements pertaining to the *Accounting for Uncertainty in Income Taxes* recognized in the financial statements prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken on the return. The returns of the Organization for the three prior years are subject to examination by the IRS, generally for three years after they are filed. The tax positions taken by management for these years are based on clear and unambiguous tax law; and management has a high level of confidence in the technical merits of the positions taken.

NOTE C - CONCENTRATION OF CREDIT RISK

At December 31, 2017 and 2016, the Organization's deposits are held by one financial institution whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). The deposits held by the financial institution totaling \$982,046 (book value \$961,449) and \$1,613,025 (book value \$1,596,151) are in excess of FDIC limits in the amount of \$732,046 and \$1,363,025, respectively, and therefore, any excess (or non-coverage) is exposed to custodial credit risk. The custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to the Organization.

NOTE D - RISKS AND UNCERTAINTIES

Due to factors affecting the investment assets of the organization, past financial performance should not be considered a reliable indicator of future performance, and the users of these financial statements should not use historical trends to anticipate results or trends in future periods.

The Organization invests in certain investment vehicles held in custody by a brokerage firm. These investments are exposed to such risks as interest rates, market, and credit risks. Due to the level of risk associated with investment activity, it is reasonably possible that changes in investment values will occur in the near-term and those changes could materially affect the account balances and amounts reported in the financial statements. It is the intention of the Organization to hold the investments long-term.

MADISON ADOPTION ASSOCIATES, LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE E - INVESTMENTS AT FAIR VALUE

At December 31, the investments are presented at fair value and consist of the following:

<u>Description</u>	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash equivalents	<u>\$ 750,006</u>	<u>\$ 750,006</u>	<u>\$ -</u>	<u>\$ -</u>

The Organization's net investment return is summarized as follows:

<u>Description</u>	<u>2017</u>	<u>2016</u>
Interest income	<u>\$ 6</u>	<u>\$ -</u>

NOTE F - FAIR VALUE MEASUREMENTS

The Organization adopted the provisions of Financial Accounting Standards Board statement on *Fair Value Measurements*. Under this statement, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants. This statement also establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The fair value hierarchy is categorized into three levels based on inputs as follows:

Level 1-Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Since the valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2-Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3-Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Investment fair value measured on a recurring basis at December 31 is:

<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
As of December 31, 2017:				
Investments (See Note E)	<u>\$ 750,006</u>	<u>\$ 750,006</u>	<u>\$ -</u>	<u>\$ -</u>
As of December 31, 2016:				
Investments (See Note E)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MADISON ADOPTION ASSOCIATES, LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE G - PROPERTY AND EQUIPMENT

The following tables summarize the annual changes to property and equipment:

Description	As of and Year Ended December 31, 2017			
	Beginning Balances	Additions	Deletions	Ending Balances
Leasehold improvements	\$ 71,199	\$ -	\$ -	\$ 71,199
Furniture and fixtures	12,077	-	-	12,077
Equipment	40,139	-	-	40,139
Total book value	123,415	-	-	123,415
Accumulated depreciation	59,541	6,471	-	66,012
Net book value	\$ 63,874	\$ (6,471)	\$ -	\$ 57,403

Description	As of and Year Ended December 31, 2016			
	Beginning Balances	Additions	Deletions	Ending Balances
Leasehold improvements	\$ 71,199	\$ -	\$ -	\$ 71,199
Furniture and fixtures	6,701	5,376	-	12,077
Equipment	40,139	-	-	40,139
Total book value	118,039	5,376	-	123,415
Accumulated depreciation	53,405	6,136	-	59,541
Net book value	\$ 64,634	\$ (760)	\$ -	\$ 63,874

NOTE H - LEASING ARRANGEMENTS

At December 31, the Organization has the following leasing arrangements:

Office Equipment

On August 28, 2015, the Organization entered into an operating leasing arrangement expiring September 1, 2020 for a Cannon copier system. The minimum future payments under the non-cancelable leasing arrangement are:

Years Ending December 31	Amount
2018	\$ 6,851
2019	6,851
2020	4,567
Total minimum future lease payments required	\$ 18,269

MADISON ADOPTION ASSOCIATES, LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE H - LEASING ARRANGEMENTS (CONTINUED)

Leasing Arrangements-Other

The Organization also leases a Pitney-Bowes postage system. The lease became effective January 9, 2015 and is for a term of 51 months with quarterly payments of \$131.

Office Space

On February 10, 2017, the Organization entered into a lease for certain office space located at 1102 Society Drive, Claymont, Delaware for a term of three years commencing March 1, 2017 with a five-year renewal option of year-to-year. The leasing arrangement calls for monthly rental payments of \$2,375 in year 1, \$2,500 in year 2, and \$2,563 in year 3. The minimum future payments required under the non-cancelable leasing arrangement are:

Years Ending December 31	Amount
2018	\$ 29,750
2019	30,630
2020	5,126
Total minimum future lease payments required	<u>\$ 65,506</u>

The Organization also leases other office space located at 1009 Woodstream Drive, Wilmington, Delaware and 128 North John Street, Suite 2, Rochester, Illinois on a month-to-month basis. The monthly rents are \$950 and \$330, respectively.

Total lease payments are \$44,563 and \$23,577 for the years ended December 31, 2017 and 2016, respectively.

NOTE I - PENSION PLAN

The Organization sponsors a Simple IRA pension plan. The plan covers all qualifying full-time employees. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish. The Organization makes a matching contribution equal to 3.00% of eligible employee compensation. The plan contributed a total of \$9,004 and \$12,521 for the years ended December 31, 2017 and 2016, respectively.

MADISON ADOPTION ASSOCIATES, LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE J - RESTRICTION ON NET ASSETS

At December 31, the temporarily restricted net assets are available for the following purposes and/or periods:

Description	2017	2016
Contributions for Humanitarian and Charitable Aid	<u>\$ 37,538</u>	<u>\$ 72,036</u>

Net assets released from restriction for the years presented are:

Description	2017	2016
Released for Humanitarian and Charitable Aid	<u>\$ 54,044</u>	<u>\$ 102,060</u>

NOTE K - RISK MANAGEMENT

The Organization purchases commercial insurance policies in response to potential risks of loss related to torts; theft, damage or destruction of assets; injuries to employees; errors or omissions; or acts of God. Payment of premiums for such policies is recorded as an expense, and insurance settlements have not exceeded insurance coverage for the years presented.

NOTE L - COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingencies in addition to the normal purchases of goods and services. The Organization does not anticipate material losses as a result of these commitments and contingencies.

Leasing Arrangements

The Organization is committed to certain leasing arrangements disclosed in Note H.

Self-Insurance

The Organization is self-insured in regards to unemployment risks for employees working in offices located within the States of Delaware and California. The Organization does not follow a policy to reserve funds to cover for such risks. The amount of potential unemployment claims cannot be determined at this time, although the Organization expects such amounts not to be material to the financial statements.

MADISON ADOPTION ASSOCIATES, LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE M - IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14 *Presentation of Financial Statement of Not-for-Profit Entities*. This guidance affects substantially all not-for-profit entities and is effective for years beginning after December 15, 2017. The core principle of the Update changes current GAAP in different ways. Some amendments will improve the usefulness of information provided to donors, grantors, creditors and other users of financial statements, reduce complexities or costs for preparers of such financial statements, or in certain situations accomplish both. The new standard requires several changes in the presentation of financial position and the statement of activities with respect to “*Net Assets with Donor Restrictions*” and “*Net Assets without Donor Restrictions*”, as well as enhanced disclosures about board designations, the composition of net assets with donor restrictions, qualitative information about how the entity communicates the management of its liquid resources available to meet cash needs for general purposes, expenses by their natural classification and their functional classification and the method used to allocate costs among program and support functions. Further, there are new requirements with respect to reporting investment returns and approach to reporting expiration of restriction on certain gifts to be used for long-lived assets. Finally, there are certain required disclosures for underwater endowment funds.

In February 2016, the Financial Accounting Standards Board (FASB) issued new guidance on *Leases* to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lease to record ROU asset and lease liability on the balance sheet 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 and the statement of functional expenses. The new 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. Management is currently evaluating the impact of its adoption of the new standard, which included compiling a list of all contracts that meet the definition of a lease under the new standard and determine the proper classification and accounting treatment to determine the ultimate impact the new standard will have on the financial statements.

NOTE N - EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the auditor’s report, the date on which the financial statements were available to be issued. Management has determined no additional disclosures or adjustments are necessary to the financial statements.