

ONTARIO COURT OF JUSTICE
(GENERAL DIVISION)

IN THE MATTER OF THE PROPOSAL OF

**KIDS LINK INTERNATIONAL ADOPTION AGENCY
O/A IMAGINE ADOPTION**

OF THE CITY OF CAMBRIDGE
IN THE REGIONAL MUNICIPALITY OF WATERLOO
IN THE PROVINCE OF ONTARIO

**PROPOSAL TRUSTEE'S MONITORING REPORT
For June 2010**

BDO Canada Limited - Kitchener
Trustee in the Proposal of
Imagine Adoption

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Exhibit A (attached)

INTRODUCTION

KIDS LINK INTERNATIONAL ADOPTION AGENCY O/A IMAGINE ADOPTION (“Imagine Adoption”) filed a proposal to creditors on September 3, 2009. This plan to creditors was approved by the creditors (September 21st) and subsequently by the Court. The proposal was filed following an assignment into bankruptcy that was effective July 14, 2009.

BDO REPORTS

All proposals require monitoring by a Trustee. BDO Canada Limited (formerly BDO Dunwoody Limited) (“BDO”) has been performing this role. A status report was required and issued for operations to March 31, 2010. This final report is required for operations to June 30, 2010. This final report is also to address any ongoing role for BDO as the monitor. The organization could be reinstated independent of ongoing monitoring having fulfilled all proposal requirements.

BDO has been in communication with the Imagine Adoption Board since mid June 2010 regarding this report. June 30 financial statements were available by mid to late July. There were some specific, long term operating issues being investigated by the Board throughout August and September. These have some variation to the proposal regarding management in particular.

The timing of this report was anticipated to be before November. However, the various discussions (reported herein) needed resolution.

PROPOSAL MONITORING MILESTONES

Section 14 of the Proposal outlined the specific milestones and timetable for achievement by the new organization. It provided a general requirement to report any event “... to be outside the realm of ordinary operations or in the best interest of the general body of creditors...”

The milestones were identified as operational, financial and referral/matching objectives (Exhibit A). Many of the milestones were concluded and reported in the March 2010 report. Further relevant issues only are reported now.

OPERATIONAL MILESTONES

There are seven action areas required in the proposal and summarized in Exhibit A. The following confirms the status of these objectives in the order as they are listed above.

- Board minutes and meeting status previously reported. No issues.
- The Advisory committee status previously reported. No issues.
- Renewal contracts and fees had been received for 271 families by February 28, 2010. The proposal required renewal agreements by a majority of the 350 families (306 families). As of the payment of the second renewal instalment, the number of renewing families is 252 due to some families withdrawing from the program for personal reasons. Taking into account 17 families where the placement of a child is now complete, there are 235 families in process. This appears to be sufficient to support ongoing activity of the restructuring proposal.
- Adoption programs by country reported at February 2010. Ethiopia is the country for an active adoption program. No issues.

- The transition home was previously reported. No issues.
- Orphanage agreements previously reported and confirmed with two organizations having four facilities in Ethiopia. The recent concern is in Ethiopia as the number of referrals from certain areas has been limited. This commenced in the Spring of 2010. This appears to be Ethiopian administration and not a function of Imagine Adoption relations.

The operational objectives have been met as outlined above. Two milestones are of some concern being the number of renewed families and the referral rate from Ethiopia. The referral rate has the most impact to Imagine Adoption. Monthly costs will be required to continue for a much longer period if referral rate stays at the present 5-6 children per month. The proposal estimated 10-15 referrals per month by this time.

FINANCIAL MILESTONES

The restructured Imagine Adoption has provided BDO with financial results for the period from October 1, 2009 to June 30, 2010 including management notes and commentary, an analysis of changes in the organization's cash position over the period and copies of bank statements at June 30, 2010. There have been some changes in the classification and presentation of the organization's June 30, 2010 Profit and Loss Statement versus the Income Statement/Cash Flow format used for the original projections and financial results to February 28, 2010. However, the budget amounts included used in the June 30, 2010 results are consistent with the original projection.

At BDO's request, the organization provided detailed monthly reports of Ethiopian expenditures. Our comments are based on these reports and discussions with the board.

BDO has not audited, reviewed or otherwise verified this financial information. These internal reports have not yet been audited by any other accounting firm. Such work would be expected for completion at the year-end of Imagine Adoption.

Receipts/Revenue/Income

The proposal projections were based on the receipt of renewal fees from 306 families at \$4,000 per family.

Renewal fees for the period were \$995,216, versus projection of \$1,224,000. Based on \$4,000 per family, the reported renewal fee revenue would equate to 248 families. This is in line with the number of renewing families. The shortfall reflects the renewal levels discussed above versus the 306 renewing families on which the proposal projections were based.

The organization also reported agency fees for the period of \$45,000. (The organization previously reported agency fees of \$68,000 for the period to February 28, 2010, but has now revised its internal accounting practices so that the collection of amounts already recorded as accounts receivable are not included as agency fees.) The \$45,000 of revenue for the year to June 30, 2010 was not anticipated in the original projection and relates to new fees generated from items such as a family changing to a different program at a higher cost.

The organization also generated \$18,554 of fundraising and miscellaneous revenue.

Overall revenues were \$165,000 below projection. The renewal fee shortfall is not considered detrimental to Imagine Adoption as costs have also been less than projected (see Expenses below).

The projections anticipated the receipt of remaining agency funds of \$200,000 from the bankrupt/proposal estate. The actual amount received was \$150,000. A further \$25,000 was funded by the Proposal Trustee/BDO for a total of \$175,000 of the \$200,000.

The bankrupt/proposal estate will forward a further amount after payment of the creditor distribution and costs. The original projections anticipated a further \$150,000. The amount may not match the full \$150,000; however, the estimated variance is not expected to compromise the new operations or the restructuring plan.

Expenses

Operating expenses for the period to June 30, 2010 were approximately \$68,000 below projection. Operating expenses include items previously reported as Administration and General (excluding payroll expenses) as well as that previously reported as Adoption Processing expenses and Professional Service fees.

The organization achieved expenses significantly below projection in the areas of travel, professional fees (legal and accounting) and expense categories such as supplies, postage and shipping. Travel expenses were \$18,848 versus projection of \$48,000, and professional fees were \$3,860 versus projection of \$27,000. These items were partially offset by higher than anticipated office expenses, which were noted in our March 2010 report and relate to start-up costs for computers, office equipment and furniture.

Payroll expenses are the largest component of the organization's Canadian expenses. As noted in the March 2010 report, payroll expenses have continued to track below the original projection of \$21,275 per month. This is due to the delay with some staffing noted in March 2010. Also, an Executive Director was in place for January and February 2010 but then chose to leave Imagine Adoption. They have at present postponed the hiring of a full-time Executive Director. Payroll expenses for the period to June 30, 2010 were \$67,000 below projection.

Ethiopian Operations

The new transition home and new orphanage funding arrangements that were put in place over January/February 2010 have resulted in lower than originally projected costs for the operations in Ethiopia.

For the transition home, over the period March through June 2010, expenses for wages and operations were higher than the revised budget of \$20,475 per month. This was due to several factors, including: the transition home operating at or above capacity due to the slow-down in placements; one-time costs associated with settling in to the new transition home; and some costs being paid twice during the overlap between the old and new facilities.

However, average monthly costs over the March through June period of approximately \$23,500 per month were still below the original projection of \$27,000 per month. The organization supplied BDO with detailed monthly reporting of expenditures in Ethiopia for this period. For the full period to June 30, 2010, expenditures for the transition home wages and operations were below the original projection.

Orphanage fees were projected to be \$26,000 per month. Expenses were incurred at this level for December 2009 and approximately \$22,000 for November 2009. With the new arrangements noted in March 2010 in place, fees tracked closely to the revised budget of \$16,000 per month, versus the original budget of \$26,000 per month. Over the full period of October 1, 2009 to June 30, 2010, orphanage fees were approximately \$75,000 less than projection.

The combined effect of the new transition home, the foreign office and the revised arrangements with the local orphanages have been positive. On an overall basis, expenses in Ethiopia through June 30, 2010 were approximately \$125,000 below projection.

Cash position

The revenue shortfall of \$165,000 was more than offset by the decline in expenses, totaling \$260,000 discussed above. However, the overall cash position at June 30, 2010 is very close to projection for the following reasons:

- The 2nd payment from the bankrupt/proposal estate was projected as \$150,000 to be received April 2010, but had not yet been paid at June 30, 2010.
- The collection of accounts receivable over the period to June 30, 2010 had a positive effect on the cash balance versus projection.

According to Imagine Adoption prepared reports, the organization has a cash balance at June 30, 2010 of \$755,109 versus projection of \$754,025.

Imagine Adoption provided BDO with copies of third party bank statements at June 30, 2010 that indicate combined bank account balances of \$759,896. (The small difference versus the \$755,109 noted above would be due to month end reconciling items in the current account)

The organization had maintained funds in an account segregated and identified as 'Renewal fees in Trust'. The balance in this account at June 30, 2010 was \$627,435. The funds have since been transitioned to a general operating account.

Through cost containment and changes to operations in Ethiopia, the restructured organization has been able offset the impact of lower than projected revenues resulting from fewer families renewing than originally anticipated. Taking into the account the 2nd payment still to be received from the bankrupt/proposal estate, the organization's cash position at June 30, 2010 exceeds the projections.

Financial Statements to August 31, 2010

Prior to the preparation of this report, the organization supplied the Trustee with financial statements to August 31, 2010. We conducted only a preliminary review of these statements, but noted the following since the June month end:

- As expected, there were no significant revenues over the period July 1 to August 31, 2010
- No unusual items were noted in operations or payroll expenses for the 2 month period.
- Expenses for Ethiopian operations were higher in July 2010 than recent history. These expenses returned to more normal levels in August 2010. For the 2 months, total Ethiopian expenses were below original projection.
- Orphanage fees continued to track closely to the revised budget of \$16,000 per month, but reflect the shift in support from the Salem to the Abenezer orphanage.
- The organization's cash position decreased from \$755,109 to \$631,507

Long Term Cash Position

The major financial issue facing the organization is whether the current cash balance plus the balance of amounts due from families and any other future monies received will be sufficient to fund the completion of placements for all 235 active families. The organization's ability to accomplish this goal is directly related to the ongoing rate of referrals and placements. As discussed elsewhere in this report, the referral rate has recently slowed to approximately 6 to 7 children per month. This is below the level contemplated in the proposal and cash flow projection.

CHILD/REFERRAL MATCHING MILESTONES

The proposal and cash flow projections indicated the following:

Referrals to March 2010 = 5

Referrals per month April 2010 to October 2010 = 10

Referrals per month thereafter = 15

To June 30, 2010, actual referred children totalled 38. Imagine Adoption has met the proposal requirements to June 2010 of 35.

The organization is closely monitoring the orphanage activity in support of referrals. Both orphanages, Kingdom Village and Abenezer, will need to provide for a certain number of proposed children per month in order for the organization to meet referral and match objectives. Imagine Adoption continues to focus on this operational issue as well as completed referrals and matches.

OTHER MATTERS

Management / Board of Directors

The new organization has been operating with a 6 member board. The Ministry of Children and Community Services raised concern regarding Board members being adoptive parents. This resulted in 3 of the Board members fully participating in board discussions for operational issues; however, they became non-voting members. This complied with the Ministry requirements to issue the adoption agency license.

The board continues to review the need for other committees including finance, governance and branding. Board membership was identified as a priority, considering the need for new members and preferred skills. A board governance committee was established. This committee has identified several candidates with an interest in joining the board who have various requisite skills. However, no board members have been formally added, pending significant changes in the management of the organization being finalized and announced, as discussed below.

Agreement with Mission of Tears

Kids Link has entered into an agreement with the Mission of Tears (Ontario) organization ("MOT") and its Executive Director, Reverend Gordon Lewis, commencing in February 2011. Under this agreement, MOT would assume the management and ongoing administration of the remaining Kids Link files through to completion.

MOT was established in 1993 and is well regarded in the international adoption community. It is believed that MOT can provide expertise in international matters, a reduction in costs from Kids

Link existing infrastructure and the leadership of an experienced, full-time Executive Director that Kids Link is currently lacking. The arrangement has the strong support of the Ministry.

Kids Link will continue to exist as an organization, governed by the same Board of Directors, and over a proposed period of 24 months would pay for the management services of MOT on a monthly basis. A full merger of the organizations would be considered after the 24 months.

The monthly costs to Kids Link will be less than the original projected costs for office salaries, administration and adoption processing. The cost will also be in line with recent actual costs. Kids Link would continue to separately fund the costs of the Ethiopian transition home and capacity building commitments.

It should be noted that it is intended that management of all existing files is assumed by MOT. However, under exceptional circumstances and with the approval of Kids Link, MOT can either decline to assume management of a file or offer the family an alternate MOT program. It is anticipated that this would occur in only a very small number of cases considering specific requests or family profile that may be challenging to MOT.

The MOT agreement should address several of the identified needs of the Kids Link organization and provide a net benefit to existing families.

Taxation and Financial Returns

Paragraph 13 of the proposal required compliance with all tax filings. This could include corporate returns, GST, PST, Source deduction or other requirements.

Financial statements for the year ended August 31, 2009 have not yet been completed, pending the accounting being finalized and certain adjustments made to reflect the issues associated with the closure of the former organization and launch of the restructured organization. With the financial statements not completed, there was no Annual General Meeting for 2009.

Other issues are being managed including complete remittance of all payroll source deductions. The new organization is working to ensure proper reporting and compliance with the GST filings.

Ministry of Women's Affairs - Ethiopia ("MOWA")

There was a restriction in Spring 2010 by MOWA in issuing letters for relinquished (not abandoned) children in certain geographic regions. Imagine Adoption continues to maintain communication to monitor this issue.

MONITOR'S CONCLUSIONS

As noted throughout the above comments, Imagine Adoption to June 2010 appears to have met the proposal plan objectives and milestones. Specifically, the OPERATIONAL, FINANCIAL and CHILD/REFERRAL issues are on track with the proposal.

The OTHER AREA issue of management/board of directors has presented some challenges. The management arrangement with Mission of Tears is a significant benefit for the long term success.

The Board membership and the Advisory Committee activity should continue to be addressed. Weaknesses in the areas of governance and independent oversight were factors in the closing of the original Kids Link operations.

At present, the new organization is working within the proposal requirements for OTHER AREAS.

The new OTHER AREA issue of MOWA paperwork was not a specified objective in the proposal. All licensing and operational milestones were met to facilitate the adoption program in Ethiopia. The continued support of MOWA approvals will be essential to the success of the new Imagine Adoption operations.

NEXT STEPS

The proposal distribution of funds to creditors (non family creditors) will be completed.

The new organization had wanted ongoing monitoring by BDO during the latter part of 2010. BDO had final discussions in January 2011 to assess that need. The restructuring plan requirements have been fulfilled; thus, BDO monitoring is no longer required.

The Court application for the discharge of BDO will conclude the 2009 restructuring plan. This will occur in 2011.

This report respectfully submitted to all stakeholders of
KIDS LINK INTERNATIONAL ADOPTION AGENCY O/A IMAGINE ADOPTION



BDO Canada Limited (formerly BDO Dunwoody Limited)
Trustee in the Bankruptcy/Proposal of Imagine Adoption
Susan E. Taves, CA-CIRP
Senior Vice President

OBJECTIVES

As noted in Section 14 of the Proposal of Kids Link International Adoption Agency o/a Imagine Adoption

Specific operational objectives are as follows:

- Board meeting minutes will be made available to the required parties as per the bylaws of Imagine Adoption within 5 business days of any meetings. These may be circulated by the organization. However, in addition, copies will be provided to the Monitor for posting on the Imagine Adoption bankruptcy web site.
- Board meetings will occur at a minimum of once every 3 weeks during the proposal period.
- Advisory Committee meeting minutes will be circulated in the same manner as Board minutes.
- There will be a required minimum number of renewal agreements and payments. This restructuring plan will fail without the majority of the 350 families renewing. The number of renewal agreements will be reported weekly following October 1, 2009 to assess if enough families are participating.
- Assessment of adoption programs for all countries to be completed as soon as possible and no later than February 2010.
- Assessment of the long term need for a transition home including related costs to be considered by February 2010.
- Assessment of orphanage relationships, ongoing needs, financial requirements and other issues to be considered by February 2010.

Specific **FINANCIAL OBJECTIVES** noted in section 14 of the proposal are as follows:

- Review of actual monthly costs of operations compared to projections for first three months to December 31, 2009. To be completed by January 15, 2010.

Specific **CHILD REFERRAL/MATCHING OBJECTIVES** noted in section 14 of the proposal are as follows:

- Review of progress on family matching to be completed for first six months of operations to March 31, 2010. To be completed by April 15.

Specific **OTHER MATTERS** were noted in Exhibit F and Section 13 of the proposal. These related to governance structure as well as tax filing and financial reporting requirements.