

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**  
**March 2010**

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

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## 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 21<sup>st</sup>) and subsequently by the Court. The proposal was filed following an assignment into bankruptcy that was effective July 14, 2009.

All proposals require monitoring by the proposal Trustee being BDO Canada Limited (formerly BDO Dunwoody Limited) (“BDO”). 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...”

Specific **OPERATIONAL OBJECTIVES** noted in section 14 of the proposal 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. These have been monitored by BDO with comments included below.

## OPERATIONAL MILESTONES

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

- Board minutes confirm meetings at least every 3 weeks. Minutes have been provided and posted to the BDO website. Meetings occurred on September 24 and 29, October 6, November 16 and 26, December 15, January 7 and 18, February 10, 2010.
- The Advisory committee has been contacted on an as needed basis rather than in scheduled group meetings. Advisory committee assistance has been obtained for accounting/financial statement input, hiring of the Executive Director plus practitioner input. The Board has confirmed access and assistance from this group.
- 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. A ten percent loss was anticipated for approximately 315 families to consider the renewal contracts. The 271 appears to be sufficient to support ongoing activity of the restructuring proposal.
- Adoption programs by country are to be reviewed by February 2010. The Board and staff have investigated Ethiopia, Ghana, Zambia, Panama and Tanzania and decisions were concluded for these countries. Ethiopia is the country for an active adoption program.
- The transition home was assessed during a trip to Ethiopia in November by certain staff and Board. The Board contemplated variations of the transition home arrangements with a December 29, 2009 internal memo/report. The Board considered the pros and cons as well as expectations of having a transition home. The Board assessed different properties to provide one, smaller transition home facility. An agreement and occupation of the premises was in place by February 15, 2010. There were 18 children (all referred and matched) in the facility at February 28, 2010. Transition home costs have been monitored and total approximately \$20,000 US per month plus capacity building fees (further comments below).
- Orphanage agreements have been executed with two organizations having four facilities in Ethiopia. Two other orphanages were reviewed but not acceptable to Imagine Adoption considering operational and standard of care guidelines. The two orphanages are believed to be able to manage a sufficient number of children for Imagine Adoption family requirements.

The operational milestone requirements of the proposal appear to have been met by the new organization as outlined above.

## FINANCIAL MILESTONES

The restructured Imagine Adoption has provided BDO with financial results through to February 28, 2010. It included a variance report comparing actual results to the proposal projections. BDO has prepared these comments considering the reports provided as well as general discussion of finances. Financial information was also provided to December 2009 as required. The BDO review of December results confirmed financial activity consistent with the proposal.

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 a year end of Imagine Adoption. BDO has confirmed information where noted below related to bank accounts and funds on deposit.

#### General Comment

Over the period to February 28, 2010, total revenues/receipts were marginally below the proposal projections. However, expenses for both the local office and Ethiopian operation were also below projected amounts. Thus, the result is that Imagine Adoption's cash position at February 28, 2010 exceeded the projection balances.

#### Receipts/Revenue/Income

The proposal projections were based on the receipt of renewal fees from 306 families. This considered the 339 original families less a non-participation rate of 10%. The renewal fees of \$2,000 were due at each of November 30, 2009 and March 31, 2010.

There have been 271 families that elected to enter into renewal agreements. As previously noted, this renewal level exceeds the majority needed to support the restructuring plan. However, it represents a renewal fee shortfall versus the projections of approximately \$70,000 for the period to February 28, 2010. There will be a further shortfall of \$70,000 with the March 2010 renewal fee payments. This 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. BDO as the monitor but still in possession of funds in the bankrupt/proposal estate paid the costs of the Ethiopian transition home for October 2009 and November 2009. As agreed and directed by the new Imagine Adoption, these funds were retained by BDO from the \$200,000 proposal amount. This reduced funding amount was offset by the reduced expenses to the new Imagine Adoption for Ethiopia for October and November being \$82,000 below the projections.

As specified in the proposal, reasonable reserves were retained by BDO in the bankrupt/proposal estate for further costs, Ethiopian funding and the creditor funding. Based on discussion and evaluation of costs with Imagine Adoption, the bankrupt/proposal estate will forward a further amount of approximately \$75,000 to the restructured organization. The original projections anticipated receipt of \$150,000. The variance does not compromise the new operations or the restructuring plan considering costs paid with the bankruptcy/proposal funds.

Current client agency fees of approximately \$68,000 were received during the period to February 2010. The projection did not anticipate receipt of such fees in the period. These relate to various contract fees for adoptive families in different stages of the adoption process.

On an overall basis, the total revenue shortfall versus the projections for the period to February 2010 was approximately \$40,000. However, there have been offsetting reductions in expenses (see below).

#### Expenses

##### **Administration and General**

Expenses for Administration and General cost were approximately \$55,000 below the projections.

Labour is the largest expense item in this category. Over the period to February 28, 2010, labour was approximately \$48,000 below the projections. Staffing levels were ramping up to the projected levels during this period. Specifically, the new Executive Director did not join Imagine Adoption until January 4, 2010. Labour costs for the month of February 2010 were approximately \$17,000. This should now be near full staff levels. Thus, ongoing salary costs should not exceed the proposal projections for ongoing labour costs of \$21,650 per month.

Office equipment expenditures were approximately \$10,000 in each of October and December 2010 versus the projections of less than \$1,000. This is an overage of approximately \$19,000. Office equipment and furniture could not be recovered from the previous landlord and one-time costs were incurred for office equipment, furniture and the telephone system.

Travel expenses during the period were approximately \$12,000 versus projection of \$24,000

#### **Adoption Processing Expenses**

These are smaller cost items not projected to exceed a few thousand dollars per month. These expenses were below the projections for the period to February 28, 2010.

#### **Professional Service Fees**

In January 2010, the lawsuit launched by former employees in Ethiopia was settled. The total cost was \$11,766. The new Imagine Adoption was involved with this conclusion. The projections had provided for legal fees of \$2,000 per month. There were no other legal expenditures during the period to February 2010. The insurance costs and accounting fees were less than projected. Thus, the total professional service costs for the period were approximately \$6,000 lower than projected.

There is the possibility that the timing of billing for professional items has shifted some costs to the period beyond February 28, 2010. These costs will continue to be monitored but do not appear to be an area of concern.

#### **Ethiopian Operations**

In December 2009 and January 2010, expenses for the transition home and monthly operations fluctuated. The two months combined were in-line with the projection of \$27,000 per month. As noted earlier in the Revenue section, October and November 2009 expenses were well below the projections given the payments made directly by the bankrupt/proposal estate.

As of February 15, 2010, a new transition home facility was established in Ethiopia. Future costs for the new transition home and monthly operations are budgeted at \$20,475 per month. This is compared to the original projections of \$27,000 per month.

A new office location near the transition house was also finalized in February. The office is leased on a prepaid 6 month basis.

Actual transition home and operations expenses for February exceeded the projections by \$4,000 and reflect in part, the prepayment of the office lease. The ongoing combined monthly costs for the transition home and office should not exceed the proposal projections of \$27,000 per month.

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. Imagine Adoption and its representatives in Ethiopia have entered into new arrangements with the two orphanages that

it funds. Under the new arrangements, the fees paid will be approximately \$16,000 per month versus the original projection of \$26,000 per month.

The combined effect of the new transition home, the foreign office and the revised arrangements with the local orphanages will be positive compared to the proposal projections.

#### Cash position

On an overall basis, the modest shortfall in revenues versus the projections was offset by larger declines in expenses. The restructured Imagine Adoption's cash position is ahead of projection. According to Imagine Adoption prepared reports, the organization has a cash balance at Feb. 28, 2010 of \$475,446 versus projection of \$354,625 generating a favourable variance of approximately \$120,000.

At December 31, 2009 the organization reported a cash position of \$587,174, which was approximately \$30,000 ahead of projection. Imagine Adoption provided BDO with copies of third party bank statements at December 31, 2009 that indicate combined bank account balances of \$606,250. The organization has maintained, until April 2010, funds in an account segregated and identified as 'renewal fees'.

#### 6 Month Projection to August 31, 2010

Imagine Adoption has provided BDO with a revised 6 month Cash Flow projection for the period from March 1 to August 31, 2010. This projection is based on current information and reflects revised revenues based on the actual number of families that signed renewal agreements as well as the revised costs for the Ethiopian operations. The starting point of this projection is the actual cash balance at February 28, 2010.

The revenue in the revised projections include the second renewal fee payment due on March 31, 2010. It also includes the agreed payment from the bankrupt/proposal estate. There are agency family fees of \$28,350 to be received in August 2010 for referrals/matches. There is no other source of revenue.

Local expenses have been revised from the original projection. The more material changes are for the Ethiopian operations considering revised facilities and arrangements in that country.

Over this 6 month period of the revised projections, the month-end cash position fluctuates as both positive and negative relative to the original proposal projections. The cash shortfall versus the original projections is estimated to be approximately \$57,000 at April 30, 2010. The shortfall reduces thereafter. By August 31, 2010, the revised projection cash balance is \$617,000 versus \$574,000 in the original proposal projection.

The projection appears to indicate that the restructured Imagine Adoption is on track to meet the financial targets established in the proposal.

#### 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 February 28, 2010, actual referred children totalled 18. Imagine Adoption has met the proposal requirements to February 2010.

The organization is closely monitoring the orphanage activity in support of referrals. Both orphanages, Kingdom Village and Salem, 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 have a focus on this operational issue as well as completed referrals and matches.

## OTHER MATTERS

### Management / Board of Directors

The staff of the organization includes the Executive Director who was hired effective January 4, 2010. There are several other employees. The staff resources appear to be in place as considered in the proposal cash flow projections.

Any organization requires oversight structure involving a Board of Directors and other committees as determined. The Board membership for the new organization was outlined in Exhibit F of the proposal. There were to be 8 members. One member had health issues and could not provide service. Another member did not provide the required police check or other reports to be accepted as a Board member. Thus, the new organization has been operating with a 6 member board.

In addition, 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 is discussing the need for an Annual General Meeting once the August 2009 year end financial statements are available. They are discussing the need for other committees including finance, governance and branding. Board membership is also being reviewed given the variation from the proposal plan.

### 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.

These issues are being managed including complete remittance of all payroll source deductions. As previously noted, the 2009 yearend financial statements are not yet completed; thus, 2009 corporate tax returns are outstanding. Canada Revenue Agency is aware of the issues that have affected Imagine Adoption for filing compliance.

The GST requirement has not yet been determined. The only income has been renewal fees. It appears that GST must be charged on this revenue. The second payment due will identify this and trigger the GST filing requirement. The new organization is working to ensure proper reporting and compliance with the GST filings.

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

There has been a recent restriction by MOWA in issuing letters for relinquished (not abandoned) children in certain geographic regions. This is affecting all adoption agencies for certain areas in Ethiopia. Three of the four Imagine Adoption orphanages are located in the affected regions.



This has just occurred recently. It appears to be a temporary situation. Imagine Adoption is maintaining communication in order to monitor this issue.

#### MONITOR'S CONCLUSIONS

As noted throughout the above comments, Imagine Adoption to February 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.

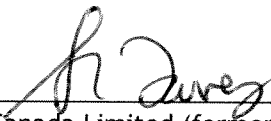
The OTHER AREA issue of management/board of directors has presented some challenges. This will be assessed further for the June 2010 monitoring review of the proposal by BDO. The current status of the Board membership and the Advisory Committee activity may need to be modified. At present, the new organization is working within the proposal; however, these two areas could be expanded to fully meet the objectives of the proposal.

The 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

A final report of BDO as monitor will be prepared after June 2010 being the final milestone date in the restructuring plan of Imagine Adoption.

KIDS LINK INTERNATIONAL ADOPTION AGENCY O/A IMAGINE ADOPTION



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