THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE) OF NASHVILLE

FINANCIAL STATEMENTS AND SCHEDULES

December 31, 2008 and 2007

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE) OF NASHVILLE

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FRASIER, DEAN & HOWARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

3310 WEST END AVENUE, SUITE 550
NASHVILLE, TENNESSEE 37203
PHONE 615-383-6592, FAX 615-383-7094

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Association for Guidance, Aid, Placement
and Empathy (AGAPE) of Nashville
Nashville, Tennessee

We have audited the accompanying statements of financial position of The Association for Guidance, Aid, Placement and Empathy (AGAPE) of Nashville (a nonprofit organization) as of December 31, 2008 and 2007, and the related statements of activities, functional expenses, and cash flows, for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Association for Guidance, Aid, Placement and Empathy (AGAPE) of Nashville as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Frasier, Dean + Howard, PLLC

June 7, 2009

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE) OF NASHVILLE
STATEMENTS OF FINANCIAL POSITION
December 31, 2008 and 2007

	2008	2007
Assets		
Current assets:		
Cash	$ 217,728	$ 194,089
Investments	3,606,586	4,863,841
Accounts and pledges receivable	58,871	99,503
State of Tennessee contract services receivable	7,617	86,017
Prepaid expenses	27,654	28,369
Total current assets	3,918,456	5,271,819
Property and equipment, net	612,253	647,329
Total assets	$ 4,530,709	$ 5,919,148
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 36,368	$ 58,094
Accrued expenses	58,833	55,580
Current portion of annuities payable	4,625	4,271
Total current liabilities	99,826	117,945
Annuities payable, excluding current portion	66,327	70,285
Total liabilities	166,153	188,230
Net assets:		
Unrestricted	3,330,463	4,485,509
Temporarily restricted	64,851	279,292
Permanently restricted	969,242	966,117
Total net assets	4,364,556	5,730,918
Total liabilities and net assets	$ 4,530,709	$ 5,919,148

See accompanying notes.

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE) OF NASHVILLE
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2008 and 2007

	2008	2007
Changes in unrestricted net assets:		
Public support:		
Individual support	$ 750,589	$ 708,866
Congregational support	227,828	239,601
Corporate support	238,469	241,780
Estate gifts	16,814	125,130
Memorial gifts	31,703	24,471
Total public support	1,265,403	1,339,848
Service revenue:		
Foster care support	107,631	135,943
Adoption fees	72,667	83,750
Professional services fees	527,156	436,822
Counseling fees	756,494	702,493
Total service revenue	1,463,948	1,359,008
Other revenue and (losses) gains:		
Investment (loss) gain	(931,933)	358,430
Miscellaneous income	3,838	277
Total other revenue and (losses) gains	(928,095)	358,707
Total public support, service and other revenue and (losses) gains	1,801,256	3,057,563
Expenses:		
Program services	2,414,572	2,305,737
Supporting services	541,730	447,793
Total expenses	2,956,302	2,753,530
(Decrease) increase in unrestricted net assets	(1,155,046)	304,033
Changes in temporarily restricted net assets:		
Investment (loss) gain	(214,441)	90,285
(Decrease) increase in temporarily restricted assets	(214,441)	90,285
Changes in permanently restricted net assets:		
Contributions to endowment fund	3,125	500
Increase in permanently restricted net assets	3,125	500
(Decrease) increase in net assets	(1,366,362)	394,818
Net assets at beginning of year	5,730,918	5,336,100
Net assets at end of year	$ 4,364,556	$ 5,730,918

See accompanying notes.

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE) OF NASHVILLE
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	$ (1,366,362)	$ 394,818
Adjustments to reconcile change in net assets to cash flows used in operating activities:		
Depreciation	36,280	38,698
Net loss (gain) on investments	1,226,878	(364,318)
Donated stock	(99,472)	(8,713)
Permanently restricted contributions	(3,125)	(500)
Changes in operating assets and liabilities:		
Accounts and pledges receivable	40,632	(78,038)
State of Tennessee contract services receivable	78,400	3,220
Prepaid expenses	715	2,508
Accounts payable	(21,726)	(28,741)
Accrued expenses	3,253	673
Annuities payable	(3,604)	4,081
Net cash used in operating activities	(108,131)	(36,312)
Cash flows from investing activities:		
Purchases of property and equipment	(1,204)	(7,327)
Proceeds from sale of investments	3,424,665	3,497,593
Purchases of investments	(3,294,816)	(3,576,624)
Net cash provided by (used in) investing activities	128,645	(86,358)
Cash flows from financing activities:		
Permanently restricted contributions	3,125	500
Net increase (decrease) in cash	23,639	(122,170)
Cash at beginning of year	194,089	316,259
Cash at end of year	$ 217,728	$ 194,089

See accompanying notes.

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE) OF NASHVILLE
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2008

	Counseling	Foster Care and Parental Education	Maternity Care and Adoption	Total Program	Management and General	Fundraising	Total Supporting	Grand Total
Salaries and related expenses	$ 689,572	$ 344,710	$ 205,648	$1,239,930	$ 80,780	$ 189,191	$ 269,971	$1,509,901
Legal and professional	8,353	397,035	13,794	419,182	978	45,583	46,561	465,743
Psychiatric and clinical expenses	244,566	-	-	244,566	-	-	-	244,566
Support payments - foster care	-	194,082	-	194,082	-	-	-	194,082
Direct mail costs	-	-	-	-	-	86,737	86,737	86,737
Insurance	38,841	19,416	11,584	69,841	4,550	10,657	15,207	85,048
Travel	31,736	16,879	12,855	61,470	673	7,043	7,716	69,186
Golf tournament	-	-	-	-	-	46,794	46,794	46,794
Advertising and promotion	-	594	46,178	46,772	-	-	-	46,772
Supplies and maintenance	18,718	11,232	5,977	35,927	2,221	6,979	9,200	45,127
Depreciation	16,569	8,283	4,941	29,793	1,941	4,546	6,487	36,280
Annual dinner	-	-	-	-	-	32,049	32,049	32,049
Utilities	9,813	4,906	2,927	17,646	1,150	2,692	3,842	21,488
Telephone	7,000	7,895	2,312	17,207	717	3,215	3,932	21,139
Miscellaneous	8,185	4,141	2,470	14,796	970	2,273	3,243	18,039
Postage	4,760	2,468	3,732	10,960	552	1,432	1,984	12,944
Dues and subscriptions	2,899	1,693	5,204	9,796	389	1,203	1,592	11,388
Annuity expense	-	-	-	-	-	6,415	6,415	6,415
Adoption home study	-	-	2,604	2,604	-	-	-	2,604
	$1,081,012	$1,013,334	$ 320,226	$2,414,572	$ 94,921	$ 446,809	$ 541,730	$2,956,302

See accompanying notes.

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE) OF NASHVILLE
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2007

	Counseling	Foster Care and Parental Education	Maternity Care and Adoption	Total Program	Management and General	Fundraising	Total Supporting	Grand Total
Salaries and related expenses	$ 670,141	$ 362,309	$ 199,023	$1,231,473	$ 61,450	$ 159,799	$ 221,249	$1,452,722
Legal and professional	9,029	349,709	10,872	369,610	828	46,328	47,156	416,766
Support payments - foster care	-	207,401	-	207,401	-	-	-	207,401
Psychiatric and clinical expenses	189,722	-	-	189,722	-	-	-	189,722
Insurance	35,319	19,095	10,489	64,903	3,238	8,422	11,660	76,563
Travel	25,170	17,268	13,453	55,891	377	15,116	15,493	71,384
Supplies and maintenance	19,863	12,621	6,183	38,667	1,525	11,287	12,812	51,479
Advertising and promotion	-	390	44,605	44,995	-	-	-	44,995
Depreciation	17,851	9,651	5,302	32,804	1,637	4,257	5,894	38,698
Direct mail costs	479	259	142	880	44	36,745	36,789	37,669
Golf tournament	-	-	-	-	-	35,749	35,749	35,749
Annual dinner	-	-	-	-	-	29,943	29,943	29,943
Miscellaneous	11,382	6,299	3,667	21,348	1,068	2,778	3,846	25,194
Annuity expense	-	-	-	-	-	19,764	19,764	19,764
Utilities	7,899	4,271	2,346	14,516	724	1,884	2,608	17,124
Telephone	4,967	4,570	3,345	12,882	414	2,185	2,599	15,481
Postage	5,588	3,101	1,824	10,513	512	1,374	1,886	12,399
Dues and subscriptions	344	-	4,980	5,324	-	345	345	5,669
Adoption home study	-	-	4,808	4,808	-	-	-	4,808
	$ 997,754	$ 996,944	$ 311,039	$2,305,737	$ 71,817	$ 375,976	$ 447,793	$2,753,530

See accompanying notes.

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE) OF NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 – NATURE OF OPERATIONS

The Association for Guidance, Aid, Placement and Empathy (AGAPE) of Nashville (the "Association") is a licensed, independent, nonprofit, family service agency providing (1) an educational program for teaching good family life and mental health; (2) counseling services for troubled marriages, family systems and individuals; and (3) children services through foster care, placing children for adoption and group experiences for children. The Association is supported primarily by contributions from individuals, congregations of the churches of Christ, and corporations.

The financial statements reflect only the activities for which the Association is directly involved in the receipt and expending of funds and do not include indirect assistance to the Association's clients through other programs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Association are presented on the accrual basis. The significant accounting policies followed are described below:

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

> Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
>
> Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Association and/or passage of time.
>
> Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Association reports the support as unrestricted.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents

For purposes of the statements of cash flows, the Association considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. During the years ended December 31, 2008 and 2007, the Association maintained deposits in financial institutions which, at times, exceeded federally insured limits. The Association has not experienced any losses in such accounts. At December 31, 2008, the Association had no balances in excess of federally insured limits. At December 31, 2007, the Association had approximately $15,000 in excess of federally insured limits.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are shown at their estimated fair values in the statements of financial position. All gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Dividends, interest and other investment income are reported in the period earned as increases in unrestricted net assets unless the use of the assets received is limited by donor imposed restrictions.

Receivables and Credit Policy

Accounts receivable for counseling services are uncollateralized client obligations due at the time the service is provided. Certain clients have been granted extended payment terms. Late fees or interest charges are not assessed on delinquent accounts. The carrying amount of accounts receivable is reduced by a valuation allowance, if necessary, which reflects management's best estimate of the amounts that will not be collected.

Pledges receivable are recorded when an unconditional promise is received that a future donation will occur. No discounts have been recorded on the pledges receivable that are due within one year.

Receivables from the State of Tennessee for foster care, adoption or counseling services are recorded when earned. No allowance has been recorded because management believes the receivables are fully collectible.

Property and Equipment

Property and equipment are stated at cost. Donated assets are recorded at their estimated fair value at the date of the gift. Depreciation is provided over the assets' estimated useful lives using the straight-line method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in the statements of activities.

Charitable Gift Annuities

The Association has entered into irrevocable agreements with donors whereby in exchange for the gift from the donor, the Association is obligated to provide an annuity to the donor or other designated beneficiaries for a specific number of years. A liability is recognized for the estimated present value of the annuity obligation and the assets are recorded at their gross market value for agreements where the Association is trustee. The discount rate and actuarial assumptions used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines and actuarial tables. The portion of the funds attributable to the present value of the future benefits to be received by the Association was recorded in the statement of activities as an unrestricted contribution in the period the funds were received. On an annual basis, the Association revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions.

Income Taxes

The Association is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3) and, accordingly, no provision for income taxes is included in the financial statements.

Revenue Recognition

Cash contributions are recognized as revenue when received.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met. Service revenue is recognized at the time the services are provided.

In-kind contributions are recorded at fair value at the date of donation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Lived Assets

The carrying values of long-lived assets are reviewed whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If this review indicates that the carrying value of an asset will not be recoverable, as determined based on the undiscounted cash flows of the operating entity or asset over the remaining amortization period, the carrying value of the asset will be reduced to its fair value.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Restricted Endowment Funds

During 2008, the staff of the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. FAS 117-1 *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* ("FSP 117-1"). The provisions of the FSP are effective for fiscal years ending after December 15, 2008, and therefore the Association has adopted FSP 117-1 during the year ended December 31, 2008. Tennessee has enacted the related Uniform Prudent Management Institutional Funds Act. This FSP requires that the amount of permanently restricted net assets should not be reduced by losses on investments of the funds or by an organization's expenditures from the fund unless the donor required the gift to be held in specific investments. It also requires disclosure of a description of the governing board's interpretation of the law that underlies the organization's net asset classification of donor-restricted endowment funds, a description of the organization's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the organization's endowment investment policies and additional disclosures not previously required.

NOTE 3 – CREDIT RISK AND OTHER CONCENTRATIONS

The Association utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported on the statements of financial position.

NOTE 4 – INVESTMENTS

A summary of investments as of December 31 is as follows:

	2008 Quoted Prices in Active Markets for Identical Assets (Level 1)	2007 Quoted Prices in Active Markets for Identical Assets (Level 1)
Cash and short-term investments	$ 256,450	$ 189,398
Mutual funds	31,100	90,354
Marketable equity securities	1,784,431	2,968,861
Corporate bonds	600,696	554,909
Government securities	933,909	1,060,319
	$ 3,606,586	$ 4,863,841

The following schedule summarizes the net investment income in the statements of activities for December 31:

	2008	2007
Dividend income	$ 57,471	$ 61,629
Interest income	77,135	79,085
Net loss on investments	(1,226,878)	364,318
Investment expenses	(54,102)	(56,317)
	$ (1,146,374)	$ 448,715

NOTE 4 – INVESTMENTS (Continued)

Net loss on investment is presented in the accompanying statements of activities as follows:

	2008	2007
Unrestricted loss on investment	$ (931,933)	$ 358,430
Temporarily restricted loss on investment	(214,441)	90,285
	$ (1,146,374)	$ 448,715

NOTE 5 – PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31 is as follows:

	2008	2007
Land	$ 139,790	$ 139,790
Buildings and improvements	801,258	801,259
Furniture and equipment	227,364	226,160
Transportation equipment	23,556	23,556
	1,191,968	1,190,764
Accumulated depreciation	(579,715)	(543,435)
	$ 612,253	$ 647,330

NOTE 6 – ANNUITIES PAYABLE

The Association has entered into irrevocable agreements with donors whereby in exchange for the gift from the donor, the Association is obligated to provide an annuity to the donor or other designated beneficiaries for a specific number of years. There were no such gifts received during 2008 and 2007. The present value of the estimated future payments ($70,952 and $74,556 at December 31, 2008 and 2007, respectively) has been recorded as a liability in the accompanying statements of financial position. The Association maintains investments with a fair market value at December 31, 2008 and 2007 of $71,036 and $109,812, respectively, with which to satisfy this obligation. According to the terms of the agreements, the Association is required to make quarterly payments totaling $2,738.

NOTE 7 – NET ASSETS

The Board of Directors has designated that certain types of support received not be used for current operating purposes. Such designation may be terminated at the discretion of the Board and does not represent donor restrictions. A summary of unrestricted net assets at December 31 is as follows:

NOTE 7 – NET ASSETS (Continued)

	2008	2007
Board-designated:		
Heffington	$ 156,870	$ 156,870
Kresge Foundation	106,022	106,022
Estate gifts	925,244	925,244
	1,188,136	1,188,136
Undesignated	2,142,327	3,297,373
	$ 3,330,463	$ 4,485,509

Temporarily restricted net assets of $64,851 and $279,292 at December 31, 2008 and 2007, respectively, consist of investment income from permanently restricted net assets and is to be used for the care of special needs children.

Permanently restricted net assets of $969,242 and $966,117 at December 31, 2008 and 2007, respectively, consist of investments in perpetuity, the income from which is expendable to support the care of special needs children.

NOTE 8 – ENDOWMENT AND PERMANTENTLY RESTRICTED NET ASSETS

The Association's endowment consists of donor restricted gifts held in investment accounts. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions

Interpretation of Relevant Law

The Board of Directors of the Association has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by SPMIFA.

NOTE 8 – ENDOWMENT AND PERMANTENTLY RESTRICTED NET ASSETS (Continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 64,851	$ 969,242	$ 1,034,093

Changes in Endowment Net Assets for the Year Ended December 31, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 279,292	$ 966,117	$ 1,245,409
Investment return:				
Amortization of discount	$ -	$ -	$ -	$ -
Net depreciation (realized and unrealized)	-	(214,441)	-	(214,441)
Total investment return	$ -	$ (214,441)	$ -	$ (214,441)
Contributions	$ -	$ -	$ 3,125	$ 3,125
Appropriation of endowment assets for expenditure	$ -	$ -	$ -	$ -
Endowment net assets, end of year	$ -	$ 64,851	$ 969,242	$ 1,034,093

Endowment Net Asset Composition by Type of Fund as of December 31, 2007:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 279,292	$ 966,117	$ 1,245,409

NOTE 8 – ENDOWMENT AND PERMANTENTLY RESTRICTED NET ASSETS (Continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2007:

Endowment net assets, beginning of year	$ -	$ 189,007	$ 965,617	$ 1,154,624
Investment return:				
Amortization of discount	$ -	$ -	$ -	$ -
Net depreciation (realized and unrealized)	-	90,285	-	90,285
Total investment return	$ -	$ 90,285	$ -	$ 90,285
Contributions	$ -	$ -	$ 500	$ 500
Appropriation of endowment assets for expenditure	$ -	$ -	$ -	$ -
Endowment net assets, end of year	$ -	$ 279,292	$ 966,117	$ 1,245,409

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA required the Association to retain as a fund of perpetual duration. However, there were no such deficiencies as of December 31, 2008 and 2007.

Endowment Investment Policy and Risk Parameters

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed inflation by 4 percent while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

NOTE 8 – ENDOWMENT AND PERMANTENTLY RESTRICTED NET ASSETS (Continued)

Strategies Employed for Achieving Investment Objectives

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Association has a policy of appropriating for distribution each year 5 percent or less of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Association considered the long-term expected return on its endowment. This is consistent with the Association's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 9 – STATE CONTRACTS

The Association has entered into reimbursement agreements with the State of Tennessee in order to receive compensation for providing foster care to regular and medically fragile children as well as providing placement and evaluation services for children in state foster care. Revenues under these agreements amounted to $635,221 in 2008 and $569,805 in 2007 and are included in foster care support and professional service fees revenues in the accompanying statements of activities. The foster care contract agreement expires on June 30, 2009 and the permanency services contract agreement expires on June 30, 2013.

NOTE 10 – RETIREMENT PLAN

The Association sponsors a defined contribution retirement plan for its employees, which was established under the provisions of Internal Revenue Code Section 403(b). In order to participate in the plan, an employee must be 21 years old and have six months of service. Employee contributions of up to 5% of wages are matched by the Association. The Association's matching contributions of $49,525 in 2008 and $46,829 in 2007 are included in salary and related expenses in the accompanying statements of functional expenses.

NOTE 11 – ADVERTISING EXPENSES

The Association's advertising efforts involved television, radio, magazine and yellow page advertisements to the general public. Costs associated with the advertising totaled $46,772 and $44,995 for 2008 and 2007, respectively, and are included in adoption and foster care expenses in the accompanying statements of activities.

NOTE 12 – CONTINGENT LIABILITIES

The Association is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material adverse effect on the Association's financial position.

NOTE 13 – LINE OF CREDIT

During 2008, the Association entered into a revolving line of credit agreement with a financial institution. The agreement allows maximum borrowings of $100,000 with interest payable monthly at the prime rate. The line is secured by all assets of the Association. Any amounts outstanding are payable on demand. There were no amounts outstanding at December 31, 2008 and 2007.