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

FINANCIAL STATEMENTS

December 31, 2012 and 2011

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

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FRASIERDEAN HOWARDCPAs

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of The Association for Guidance, Aid, Placement and Empathy (AGAPE) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 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 risks 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.

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 financial position of The Association for Guidance, Aid, Placement and Empathy (AGAPE) as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Frasier, Dean & Howard, PLLC

June 14, 2013

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE)
STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$ 147,077	$ 107,764
Investments	1,456,708	1,982,528
Accounts and pledges receivable	177,832	49,191
Prepaid expenses	17,333	16,936
Total current assets	1,798,950	2,156,419
Property and equipment, net	604,127	622,254
Investments, net of amounts shown as current	1,385,087	1,279,560
Total assets	$ 3,788,164	$ 4,058,233
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 61,732	$ 34,616
Accrued expenses	63,578	73,997
Current portion of annuities payable	6,357	5,871
Total current liabilities	131,667	114,484
Annuities payable, excluding current portion	47,236	52,686
Total liabilities	178,903	167,170
Net assets:		
Unrestricted	2,266,923	2,655,840
Temporarily restricted	371,246	264,131
Permanently restricted	971,092	971,092
Total net assets	3,609,261	3,891,063
Total liabilities and net assets	$ 3,788,164	$ 4,058,233

See accompanying notes.

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE)
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2012 and 2011

	2012	2011
Changes in unrestricted net assets:		
Public support:		
Individual support	$ 602,873	$ 602,757
Corporate support	248,852	233,366
Congregational support	210,366	200,400
Memorial gifts	74,295	38,626
Estate gifts	79,250	18,101
Total public support	1,215,636	1,093,250
Service revenue:		
Counseling fees	835,265	833,421
Adoption fees	69,026	70,160
Professional services fees	12,760	9,065
Foster care support	8,005	13,686
Total service revenue	925,056	926,332
Other revenue and gains:		
Investment gain	178,548	4,661
Miscellaneous income	2,553	305
Total other revenue and gains	181,101	4,966
Total public support, service and other revenue and gains	2,321,793	2,024,548
Expenses:		
Program services	2,033,672	1,984,916
Supporting services	677,038	666,224
Total expenses	2,710,710	2,651,140
Decrease in unrestricted net assets	(388,917)	(626,592)
Changes in temporarily restricted net assets:		
Investment gain (loss)	107,115	(925)
Increase (decrease) in temporarily restricted net assets	107,115	(925)
Changes in permanently restricted net assets:		
Contributions to endowment fund	-	1,025
Increase in permanently restricted net assets	-	1,025
Change in net assets	(281,802)	(626,492)
Net assets at beginning of year	3,891,063	4,517,555
Net assets at end of year	$ 3,609,261	$ 3,891,063

See accompanying notes.

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE)
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ (281,802)	$ (626,492)
Adjustments to reconcile change in net assets to cash flows used in operating activities:		
Depreciation	41,122	32,853
Net (gain) loss on investments	(249,935)	52,324
Permanently restricted contributions	-	(1,025)
Changes in operating assets and liabilities:		
Accounts and pledges receivable	(128,641)	27
Prepaid expenses	(397)	7,372
Accounts payable	27,116	17,321
Accrued expenses	(10,419)	(2,126)
Annuities payable	(4,964)	(4,335)
Net cash used in operating activities	(607,920)	(524,081)
Cash flows from investing activities:		
Purchases of property and equipment	(22,995)	(78,757)
Proceeds from sale of investments	2,937,432	2,543,527
Purchases of investments	(2,267,204)	(2,023,350)
Net cash provided by investing activities	647,233	441,420
Cash flows from financing activities:		
Permanently restricted contributions	-	1,025
Net cash provided by financing activities	-	1,025
Net increase (decrease) in cash and cash equivalents	39,313	(81,636)
Cash and cash equivalents at beginning of year	107,764	189,400
Cash and cash equivalents at end of year	$ 147,077	$ 107,764

See accompanying notes.

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE)
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2012

	Counseling	Foster Care and Parental Education	Maternity Care and Adoption	Total Program Services	Management and General	Fundraising	Total Supporting Services	Grand Total
Salaries and related expenses	$ 765,731	$ 290,112	$ 183,536	$1,239,379	$ 193,352	$ 205,484	$ 398,836	$1,638,215
Psychiatric and clinical expenses	290,804	-	-	290,804	-	-	-	290,804
Support payments - foster care	-	200,119	-	200,119	-	-	-	200,119
Legal and professional	12,666	35,517	3,631	51,814	2,890	58,313	61,203	113,017
Insurance	31,590	11,834	7,570	50,994	8,015	8,461	16,476	67,470
Supplies and maintenance	25,367	8,935	5,942	40,244	5,470	12,305	17,775	58,019
Direct mail costs	42	16	10	68	11	46,297	46,308	46,376
Travel	13,705	13,701	7,588	34,994	1,286	6,964	8,250	43,244
Depreciation	19,253	7,213	4,614	31,080	4,885	5,157	10,042	41,122
Golf tournament	-	-	-	-	-	40,602	40,602	40,602
Miscellaneous	13,880	4,879	3,121	21,880	3,490	3,525	7,015	28,895
Annual dinner	-	-	-	-	-	28,084	28,084	28,084
Barn sale	-	-	-	-	-	23,098	23,098	23,098
Advertising and promotion	-	496	21,996	22,492	-	-	-	22,492
Utilities	9,091	3,406	2,178	14,675	2,307	2,435	4,742	19,417
Telephone	9,020	4,312	1,908	15,240	1,707	2,238	3,945	19,185
Postage	5,005	1,875	1,212	8,092	1,270	2,435	3,705	11,797
Dues and subscriptions	2,749	1,267	2,498	6,514	808	1,129	1,937	8,451
Adoption home study	-	-	5,283	5,283	-	-	-	5,283
Annuity expense	-	-	-	-	-	5,020	5,020	5,020
	$1,198,903	$ 583,682	$ 251,087	$2,033,672	$ 225,491	$ 451,547	$ 677,038	$2,710,710

See accompanying notes.

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE)
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2011

	Counseling	Foster Care and Parental Education	Maternity Care and Adoption	Total Program Services	Management and General	Fundraising	Total Supporting Services	Grand Total
Salaries and related expenses	$ 806,792	$ 261,192	$ 166,872	$1,234,856	$ 172,677	$ 204,761	$ 377,438	$1,612,294
Psychiatric and clinical expenses	273,811	-	-	273,811	-	-	-	273,811
Support payments - foster care	-	179,922	-	179,922	-	-	-	179,922
Legal and professional	9,795	28,489	3,935	42,219	2,097	47,786	49,883	92,102
Direct mail costs	-	-	-	-	-	88,151	88,151	88,151
Insurance	37,435	12,119	7,743	57,297	8,012	9,501	17,513	74,810
Supplies and maintenance	26,000	10,570	8,027	44,597	5,170	9,921	15,091	59,688
Travel	15,079	11,921	9,996	36,996	937	7,737	8,674	45,670
Advertising and promotion	-	75	38,342	38,417	-	-	-	38,417
Annual dinner	-	-	-	-	-	36,586	36,586	36,586
Golf tournament	-	-	-	-	-	36,141	36,141	36,141
Depreciation	16,440	5,322	3,400	25,162	3,519	4,172	7,691	32,853
Utilities	8,765	2,838	1,813	13,416	1,876	2,225	4,101	17,517
Telephone	7,246	3,244	1,817	12,307	1,262	3,342	4,604	16,911
Miscellaneous	7,025	2,218	1,417	10,660	1,525	1,738	3,263	13,923
Postage	4,904	1,727	1,048	7,679	1,050	1,493	2,543	10,222
Barn sale	-	-	-	-	-	7,523	7,523	7,523
Dues and subscriptions	2,166	436	1,988	4,590	139	1,472	1,611	6,201
Annuity expense	-	-	-	-	-	5,411	5,411	5,411
Hospital and medical payments	-	-	2,231	2,231	-	-	-	2,231
Adoption home study	-	-	756	756	-	-	-	756
	$1,215,458	$ 520,073	$ 249,385	$1,984,916	$ 198,264	$ 467,960	$ 666,224	$2,651,140

See accompanying notes.

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE)
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – NATURE OF OPERATIONS

The Association for Guidance, Aid, Placement and Empathy (AGAPE) (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's services through foster care, placing children for adoption and group experiences for children. The Association is supported primarily by contributions from individuals, corporations and congregations of the Churches of Christ.

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 the 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, 2012 and 2011, 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, 2012 and 2011, the Association had no balances in excess of federally insured limits.

Investments

According to the Not-for-Profit Entities topic of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC"), investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are recognized in the statements of activities. Fair values are based on quoted market prices on the last business day of the fiscal year.

Gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets and ordinary income from investments are accounted for in the unrestricted and temporarily restricted funds unless permanently restricted by the donor.

Fair Value Measurements

The Association has an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market-based or independently-sourced market data and third party information. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Accounting principles generally accepted in the United States of America have a three-level valuation hierarchy for fair value measurements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are explained as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Level 2 **–** inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 **–** inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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 to give is received. No discounts have been recorded on the pledges receivable that are due within one year.

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. Estimated useful lives for the various classes of assets are as follows:

Buildings and improvements	4 - 40 years
Furniture and equipment	3 - 7 years
Transportation equipment	5 years

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statements of activities as unrestricted contributions in the periods 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.

The Association follows FASB ASC guidance that clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Association has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include years ended December 31, 2009 through December 31, 2012. The Association had no uncertain tax positions at December 31, 2012 and 2011.

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 estimated 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 an interest rate applicable to the year in which the promise is received.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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.

Valuation of Long-Lived Assets

The carrying values of long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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

The Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) was enacted in Tennessee effective July 1, 2007. The Not-for-Profit Entities topic of the FASB ASC provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. 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 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Association evaluated subsequent events through June 14, 2013, when these financial statements were available to be issued. The Association is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

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 in the statements of financial position.

NOTE 4 – INVESTMENTS

Investments are stated at fair value with fair value determined based on active markets (Level 1) and consist of the following at December 31:

	2012	2011
Marketable equity securities	$ 1,608,289	$ 1,791,159
Government securities	565,353	592,210
Corporate bonds	286,515	601,833
Mutual funds	200,730	53,571
Cash and short-term investments	180,908	223,315
	2,841,795	3,262,088
Less amounts shown as current	(1,456,708)	(1,982,528)
	$ 1,385,087	$ 1,279,560

NOTE 4 – INVESTMENTS (Continued)

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

	2012	2011
Dividend income	$ 40,044	$ 41,464
Interest income	36,711	60,308
Net gain (loss) on investments	252,443	(52,324)
Investment expenses	(43,535)	(45,712)
	$ 285,663	$ 3,736

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

	2012	2011
Unrestricted gain on investment	$ 178,548	$ 4,661
Temporarily restricted gain (loss) on investment	107,115	(925)
	$ 285,663	$ 3,736

NOTE 5 – PROPERTY AND EQUIPMENT

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

	2012	2011
Land	$ 139,790	$ 139,790
Buildings and improvements	830,932	828,651
Furniture and equipment	255,391	247,678
Transportation equipment	30,840	34,146
	1,256,953	1,250,265
Accumulated depreciation	(652,826)	(628,011)
	$ 604,127	$ 622,254

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 2012 and 2011. The present value of the estimated future payments ($53,593 and $58,557 at December 31, 2012 and 2011, 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, 2012 and 2011 of $49,106 and $52,708, respectively, with which to satisfy this obligation. According to the terms of the agreements, the Association is required to make quarterly payments totaling $2,533.

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:

	2012	2011
Board-designated:		
Estate gifts	$ 1,016,225	$ 935,133
Heffington	162,054	151,423
Kresge Foundation	83,284	76,638
	1,261,563	1,163,194
Undesignated	1,005,360	1,492,646
	$ 2,266,923	$ 2,655,840

Temporarily restricted net assets of $371,246 and $264,131 at December 31, 2012 and 2011, respectively, consist of investment income from permanently restricted net assets and are to be used for the care of special needs children.

Permanently restricted net assets of $971,092 at December 31, 2012 and 2011, consist of investments in perpetuity, the income from which is expendable to support the care of special needs children.

NOTE 8 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS

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

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

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.

Changes in Endowment Net Assets for the Year Ended December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 264,131	$ 971,092	$ 1,235,223
Investment return:				
Investment income	-	13,775	-	13,775
Net appreciation (realized and unrealized)	-	93,340	-	93,340
Total investment return	-	107,115	-	107,115
Contributions	-	-	-	-
Endowment net assets, end of year	$ -	$ 371,246	$ 971,092	$ 1,342,338

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

Changes in Endowment Net Assets for the Year Ended December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 265,056	$ 970,067	$ 1,235,123
Investment return:				
Investment income	-	17,990	-	17,990
Net depreciation (realized and unrealized)	-	(18,915)	-	(18,915)
Total investment return	-	(925)	-	(925)
Contributions	-	-	1,025	1,025
Endowment net assets, end of year	$ -	$ 264,131	$ 971,092	$ 1,235,223

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, 2012 and 2011.

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 PERMANENTLY 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 preceding 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 – 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 percent of wages are matched by the Association. The Association's matching contributions of $51,259 in 2012 and $43,588 in 2011 are included in salary and related expenses in the accompanying statements of functional expenses.

NOTE 10 – 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 $22,492 and $38,417 for 2012 and 2011, respectively, and are included as advertising and promotion expenses in the accompanying statements of functional expenses.

NOTE 11 – LEASE COMMITMENTS

The Association leases certain equipment under noncancelable operating leases that expire between 2013 and 2017. Future minimum lease payments under the noncancelable leases as of December 31, 2012 are as follows:

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 11 – LEASE COMMITMENTS (Continued)

Year Ending December 31,	
2013	$ 14,321
2014	14,879
2015	14,879
2016	14,879
2017	9,090
Thereafter	1,227
	$ 69,275

Total rental expense for the years ended December 31, 2012 and 2011 was $16,306 and $14,150, respectively.