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

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2018 and 2017

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

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

TABLE OF CONTENTS

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Directors
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 June 30, 2018, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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 June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of The Association for Guidance, Aid, Placement and Empathy (AGAPE) as of June 30, 2017, were audited by other auditors whose report dated September 27, 2017, expressed an unmodified opinion on those statements.

Cherry Bekaert LLP

Nashville, Tennessee
January 17, 2019

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE)
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 35,523	$ 191,865
Investments	1,379,546	1,389,539
Accounts receivable, net	19,311	26,314
Prepaid expenses	22,040	20,541
Total Current Assets	1,456,420	1,628,259
Property and equipment, net	483,516	484,212
Investments, net of amounts shown as current	971,133	970,868
Total Assets	$ 2,911,069	$ 3,083,339
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 15,028	$ 8,901
Accrued expenses	45,717	69,173
Current portion of annuities payable	4,159	3,842
Total Current Liabilities	64,904	81,916
Annuities payable, net of current portion	8,991	13,150
Total Liabilities	73,895	95,066
Net Assets:		
Unrestricted	1,790,457	1,871,529
Temporarily restricted	75,625	145,652
Permanently restricted	971,092	971,092
Total Net Assets	2,837,174	2,988,273
Total Liabilities and Net Assets	$ 2,911,069	$ 3,083,339

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

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Changes in Unrestricted Net Assets:		
Public Support:		
Individual support	$ 630,613	$ 650,484
Corporate support	118,596	139,238
Congregational support	157,740	155,349
Memorial gifts	81,111	73,346
Estate gifts	13,820	103,797
Total Public Support	1,001,880	1,122,214
Service Revenue:		
Counseling fees	596,524	594,173
Adoption fees	22,050	52,184
Professional service fees	208,340	144,437
Total Service Revenue	826,914	790,794
Other Revenue:		
Investment income, net	58,757	113,981
Net assets released from restrictions	210,815	135,401
Loss on disposal of assets	(3,105)	-
Miscellaneous income	10,574	12,769
Total Other Revenue	277,041	262,151
Total Public Support, Service, and Other Revenue	2,105,835	2,175,159
Expenses:		
Program services	1,599,385	1,433,622
Supporting services	587,522	734,240
Total Expenses	2,186,907	2,167,862
Change in Unrestricted Net Assets	(81,072)	7,297
Changes in Temporarily Restricted Net Assets:		
Contributions	97,000	167,500
Investment income, net	43,788	83,078
Net assets released from restrictions	(210,815)	(135,401)
Changes in Temporarily Restricted Net Assets	(70,027)	115,177
Change in net assets	(151,099)	122,474
Net assets, beginning of year	2,988,273	2,865,799
Net assets, end of year	$ 2,837,174	$ 2,988,273

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

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (151,099)	$ 122,474
Adjustments to reconcile change in net assets to cash flows used in operating activities:		
Depreciation	39,151	37,637
Donated property and equipment	(5,409)	-
Loss on disposal of property and equipment	3,105	-
Net gain on investments	(82,837)	(186,701)
Changes in operating assets and liabilities:		
Accounts receivable	7,003	15,679
Prepaid expenses	(1,499)	(2,374)
Accounts payable	6,127	(9,947)
Accrued expenses	(23,456)	952
Annuities payable	(3,842)	(17,131)
Net cash used in operating activities	(212,756)	(39,411)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	1,002	-
Purchases of property and equipment	(37,153)	(8,726)
Proceeds from sale of investments	2,633,417	2,313,540
Purchases of investments	(2,540,852)	(2,218,612)
Net cash provided by investing activities	56,414	86,202
Net (decrease) increase in cash and cash equivalents	(156,342)	46,791
Cash and cash equivalents, beginning of year	191,865	145,074
Cash and cash equivalents, end of year	$ 35,523	$ 191,865
Supplemental disclosure of cash flow information:		
Donated property and equipment	$ 5,409	$ -

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

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	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	$ 487,538	$ 187,619	$ 179,506	$ 854,663	$ 219,591	$ 130,327	$ 349,918	$ 1,204,581
Clinical expenses	309,525	-	-	309,525	35	-	35	309,560
Support payments - foster care	-	174,025	46	174,071	-	-	-	174,071
Professional fees	7,366	20,509	3,557	31,432	45,538	45,134	90,672	122,104
Insurance	30,765	9,715	3,238	43,718	7,017	3,238	10,255	53,973
Supplies and maintenance	27,624	7,124	6,605	41,353	6,233	3,747	9,980	51,333
Computer expense	27,336	4,575	2,530	34,441	6,801	3,704	10,505	44,946
Depreciation	20,615	5,203	5,203	31,021	5,530	2,600	8,130	39,151
Miscellaneous	8,883	5,875	1,368	16,126	14,416	1,632	16,048	32,174
Golf tournament expenses	-	-	-	-	-	29,537	29,537	29,537
Utilities	13,630	3,539	3,539	20,708	3,741	1,835	5,576	26,284
Travel	3,876	7,027	6,754	17,657	6,143	1,909	8,052	25,709
Telephone	6,877	2,412	2,222	11,511	2,043	1,984	4,027	15,538
Direct mail costs	-	-	-	-	-	14,173	14,173	14,173
Advertising and promotion	1,725	150	556	2,431	79	10,004	10,083	12,514
Dues and subscriptions	1,798	500	600	2,898	6,789	224	7,013	9,911
Postage	2,911	958	345	4,214	740	4,233	4,973	9,187
Annuity expense	-	-	-	-	5,038	-	5,038	5,038
Bad debt expense	1,816	-	1,800	3,616	-	-	-	3,616
Annual dinner expenses	-	-	-	-	-	3,507	3,507	3,507
Total expenses	$ 952,285	$ 429,231	$ 217,869	$ 1,599,385	$ 329,734	$ 257,788	$ 587,522	$ 2,186,907

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

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	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	$ 425,223	$ 164,243	$ 177,360	$ 766,826	$ 276,046	$ 138,325	$ 414,371	$ 1,181,197
Clinical expenses	267,400	2,002	-	269,402	8,708	-	8,708	278,110
Support payments - foster care	-	173,613	-	173,613	-	-	-	173,613
Professional fees	7,802	28,789	1,784	38,375	45,733	41,540	87,273	125,648
Insurance	30,084	8,434	3,842	42,360	7,854	5,456	13,310	55,670
Supplies and maintenance	20,244	5,967	4,274	30,485	16,294	3,337	19,631	50,116
Annual dinner expenses	-	-	-	-	-	49,798	49,798	49,798
Depreciation	19,571	5,081	5,081	29,733	5,269	2,635	7,904	37,637
Golf tournament expenses	-	-	-	-	-	36,140	36,140	36,140
Computer expense	13,327	4,047	1,766	19,140	6,908	2,775	9,683	28,823
Utilities	11,360	3,824	270	15,454	10,889	1,843	12,732	28,186
Travel	4,997	9,722	4,090	18,809	7,207	1,207	8,414	27,223
Miscellaneous	5,524	5,752	3,856	15,132	4,634	1,133	5,767	20,899
Direct mail costs	-	-	-	-	-	18,882	18,882	18,882
Advertising and promotion	410	97	-	507	3,837	12,836	16,673	17,180
Telephone	6,113	2,462	1,784	10,359	3,255	2,143	5,398	15,757
Postage	746	235	93	1,074	6,082	4,692	10,774	11,848
Dues and subscriptions	35	518	600	1,153	7,986	796	8,782	9,935
Bad debt expense	-	-	1,200	1,200	-	-	-	1,200
Total expenses	$ 812,836	$ 414,786	$ 206,000	$ 1,433,622	$ 410,702	$ 323,538	$ 734,240	$ 2,167,862

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 churches.

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.

Cash and 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 June 30, 2018 and 2017, 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 June 30, 2018 and 2017, 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 ("FASB") Accounting Standards Codification ("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 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.

Note 2—Summary of significant accounting policies (continued)

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 ("GAAP") 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.

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 are 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. There were no such gifts received during the years ended June 30, 2018 and 2017. On an annual basis, the Association revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments ($13,150 and $16,992 at June 30, 2018 and 2017, respectively) has been recorded as a liability in the accompanying statements of financial position. The Association maintains investments with a fair market value at June 30, 2018 and 2017 of $4,200 and $3,618, respectively, with which to satisfy this obligation. According to the terms of the agreements, the Association is required to make quarterly payments totaling $2,223. The Association will use undesignated funds to the extent necessary to satisfy the obligations.

Income Taxes – The Association is exempt from federal income taxes under the provisions of Internal Revenue Code ("IRC") 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 50% likely of being realized upon ultimate settlement. The Association has no tax penalties or interest reported in the accompanying financial statements. The Association had no uncertain tax positions at June 30, 2018 and 2017.

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. 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 estimated 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.

Note 2—Summary of significant accounting policies (continued)

Use of Estimates – The preparation of financial statements in conformity with GAAP 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 requires that the amount of permanently restricted net assets cannot be reduced by losses on investments of 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.

Subsequent Events – The Association evaluated subsequent events through January 17, 2019, when these financial statements were available to be issued. Except as discussed in Note 11, management 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.

Future Pronouncements – In May 2014, FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will be effective for the Association on July 1, 2019. The Association is currently evaluating the effect of the implementation of this new standard.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the statements of activities. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU will be effective for the Association on July 1, 2018. Early adoption is permitted. The Association is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

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 statement 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 June 30:

	2018	2017
Marketable equity securities	$ 1,270,303	$ 1,284,701
Mutual funds	643,739	592,662
Government securities	238,804	251,392
Corporate bonds	133,922	154,673
Cash and short-term investments	63,911	76,979
Total investments	2,350,679	2,360,407
Less amounts shown as current	(1,379,546)	(1,389,539)
Investments, net of amounts shown as current	$ 971,133	$ 970,868

The following schedule summarizes the net investment income in the statements of activities for the years ended June 30:

	2018	2017
Dividend income	$ 42,054	$ 34,648
Interest income	10,542	8,439
Net gain on investments	82,837	186,701
Investment expenses	(32,888)	(32,729)
Investment income, net	$ 102,545	$ 197,059

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

	2018	2017
Unrestricted gain on investments	$ 58,757	$ 113,981
Temporarily restricted gain on investments	43,788	83,078
Investment income, net	$ 102,545	$ 197,059

Note 5—Property and equipment

A summary of property and equipment is as follows at June 30:

	2018	2017
Land	$ 139,790	$ 139,790
Buildings and improvements	877,997	865,466
Furniture and equipment	161,982	137,360
Transportation equipment	5,409	7,949
	1,185,178	1,150,565
Accumulated depreciation	(701,662)	(666,353)
Property and equipment, net	$ 483,516	$ 484,212

Note 6—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 June 30, is as follows:

	2018	2017
Board-designated:		
Heffington	$ 185,247	$ 191,469
Kresge Foundation	116,765	111,727
	302,012	303,196
Undesignated	1,488,445	1,568,333
Total unrestricted net assets	$ 1,790,457	$ 1,871,529

Temporarily restricted net assets consist of contributions restricted by donors for the following purposes at June 30:

	2018	2017
Subsequent year operations	$ 40,000	$ 95,000
Counseling Affordability Initiative	18,185	23,902
Hispanic counseling	17,440	15,250
Therapy play room renovations	-	7,500
Website upgrades	-	4,000
Total temporarily restricted net assets	$ 75,625	$ 145,652

Permanently restricted net assets of $971,092 at June 30, 2018 and 2017, consist of investments in perpetuity, the income from which is expendable to support the care of special needs children.

Note 7—Endowment and permanently restricted net assets

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

The board of directors of the Association has interpreted the UPMIFA 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 UPMIFA.

Note 7—Endowment and permanently restricted net assets (continued)

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.

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.

The Association has a policy of appropriating for distribution each year 5% 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.

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 UPMIFA requires the Association to retain as a fund of perpetual duration. However, there were no such deficiencies as of June 30, 2018 and 2017.

The following is a schedule of the activity of the endowment funds for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2017	$ -	$ -	$ 971,092	$ 971,092
Investment return:				
Investment income	-	11,146	-	11,146
Net appreciation (realized and unrealized)	-	32,642	-	32,642
Net investment return	-	43,788	-	43,788
Appropriation of endowment assets for expenditure	-	(43,788)	-	(43,788)
June 30, 2018	$ -	$ -	$ 971,092	$ 971,092

Note 7—Endowment and permanently restricted net assets (continued)

The following is a schedule of the activity of the endowment funds for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	$ -	$ -	$ 971,092	$ 971,092
Investment return:				
Investment income	-	3,635	-	3,635
Net appreciation (realized and unrealized)	-	79,443	-	79,443
Net investment return	-	83,078	-	83,078
Appropriation of endowment assets for expenditure	-	(83,078)	-	(83,078)
June 30, 2017	$ -	$ -	$ 971,092	$ 971,092

Note 8—Retirement plan

The Association sponsors a defined contribution retirement plan for its employees, which was established under the provisions of IRC Section 403(b). Employees may begin participation upon inception of employment. Employee contributions of up to 5% of wages are matched by the Association. The Association's matching contributions of $48,592 and $44,487 for the years ended June 30, 2018 and 2017, respectively, are included in salary and related expenses in the accompanying statements of functional expenses.

Note 9—Advertising expenses

The Association's advertising efforts involved social media, printed marketing materials, booth sponsorships, outdoor, and magazine advertisements to the general public. Costs associated with the advertising totaled $12,514 and $17,180 for the years ended June 30, 2018 and 2017, respectively, and are included as advertising and promotion expenses in the accompanying statements of functional expenses.

Note 10—Lease commitments

The Association leases certain equipment under noncancellable operating leases. Future minimum lease payments under the noncancellable leases at June 30, 2018 are as follows:

Years Ending June 30,	
2019	$ 15,996
2020	15,996
2021	15,223
2022	6,349
2023	4,459
	$ 58,023

Total rental expense for the years ended June 30, 2018 and 2017 totaled $16,888 and $18,311, respectively.

Note 11—Subsequent event – Morning Star Sanctuary Acquisition (unaudited)

The boards of directors of Morning Star Sanctuary ("MSS") and the Association voted to combine the net assets and operations of MSS with those of the Association effective July 1, 2018. The board of directors of the Association believes the acquisition is in the best interest of its clients and the community it serves. Net assets were contributed by MSS to the Association as follows:

Assets transferred from MSS:	
Cash	$ 92,635
Grants receivable	56,599
Property and equipment	936,307
	1,085,541
Liabilities assumed from MSS:	
Accrued wages	4,993
Note payable	193,345
	198,338
Net assets contributed by MSS to the Association:	
Unrestricted	816,166
Temporarily restricted	71,037
	$ 887,203