

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

FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

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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, 2010 and 2009, 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, 2010 and 2009, 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.

Fraser, Dean & Howard, PLLC

May 26, 2011

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE) OF NASHVILLE
STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009**

	2010	2009
Assets		
Current assets:		
Cash	\$ 189,400	\$ 143,818
Investments	2,540,494	2,788,984
Accounts and pledges receivable	49,218	64,023
Prepaid expenses	24,308	25,111
Total current assets	2,803,420	3,021,936
Property and equipment, net	576,350	587,271
Investments, net of amounts shown as current	1,294,095	1,199,191
Total assets	\$ 4,673,865	\$ 4,808,398
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 17,295	\$ 20,294
Accrued expenses	76,123	72,250
Current portion of annuities payable	5,422	5,007
Total current liabilities	98,840	97,551
Annuities payable, excluding current portion	57,470	62,032
Total liabilities	156,310	159,583
Net assets:		
Unrestricted	3,282,432	3,516,533
Temporarily restricted	265,056	162,515
Permanently restricted	970,067	969,767
Total net assets	4,517,555	4,648,815
Total liabilities and net assets	\$ 4,673,865	\$ 4,808,398

See accompanying notes.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE) OF NASHVILLE
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2010 and 2009**

	2010	2009
Changes in unrestricted net assets:		
Public support:		
Individual support	\$ 576,662	\$ 636,861
Corporate support	224,217	248,843
Congregational support	207,999	212,385
Memorial gifts	47,070	37,383
Estate gifts	-	269,560
Total public support	1,055,948	1,405,032
Service revenue:		
Counseling fees	802,937	800,928
Adoption fees	74,067	83,414
Professional services fees	16,600	31,282
Foster care support	880	28,416
Total service revenue	894,484	944,040
Other revenue and gains:		
Investment gain	256,811	483,777
Miscellaneous income	4,140	2,577
Total other revenue and gains	260,951	486,354
Total public support, service and other revenue and gains	2,211,383	2,835,426
Expenses:		
Program services	1,948,168	2,156,013
Supporting services	497,316	493,343
Total expenses	2,445,484	2,649,356
(Decrease) increase in unrestricted net assets	(234,101)	186,070
Changes in temporarily restricted net assets:		
Investment gain	102,541	97,664
Increase in temporarily restricted assets	102,541	97,664
Changes in permanently restricted net assets:		
Contributions to endowment fund	300	525
Increase in permanently restricted net assets	300	525
(Decrease) increase in net assets	(131,260)	284,259
Net assets at beginning of year	4,648,815	4,364,556
Net assets at end of year	\$ 4,517,555	\$ 4,648,815

See accompanying notes.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE) OF NASHVILLE
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ (131,260)	\$ 284,259
Adjustments to reconcile change in net assets to cash flows used in operating activities:		
Depreciation	28,759	25,483
Net gain on investments	(295,811)	(534,797)
Permanently restricted contributions	(300)	(525)
Changes in operating assets and liabilities:		
Accounts and pledges receivable	14,805	(5,152)
State of Tennessee contract services receivable	-	7,617
Prepaid expenses	803	2,543
Accounts payable	(2,999)	(16,074)
Accrued expenses	3,873	13,417
Annuities payable	(4,147)	(3,913)
	<u>(386,277)</u>	<u>(227,142)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchases of property and equipment	(17,838)	(501)
Proceeds from sale of investments	2,036,610	2,174,202
Purchases of investments	(1,587,213)	(2,020,994)
	<u>431,559</u>	<u>152,707</u>
Net cash provided by investing activities		
Cash flows from financing activities:		
Permanently restricted contributions	300	525
	<u>300</u>	<u>525</u>
Net cash provided by financing activities		
Net increase (decrease) in cash	45,582	(73,910)
Cash at beginning of year	<u>143,818</u>	<u>217,728</u>
Cash at end of year	<u>\$ 189,400</u>	<u>\$ 143,818</u>

See accompanying notes.

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

Year Ended December 31, 2010

	Foster Care and Parental		Maternity Care and Adoption		Management and		Total		Grand Total
	Counseling	Education	Adoption	Program	General	Fundraising	Supporting		
Salaries and related expenses	\$ 804,709	\$ 292,228	\$ 170,981	\$ 1,267,918	\$ 102,867	\$ 173,762	\$ 276,629	\$ 1,544,547	
Psychiatric and clinical expenses	260,999	-	-	260,999	-	-	-	260,999	
Support payments - foster care	-	116,746	-	116,746	-	-	-	116,746	
Legal and professional	9,430	26,606	3,715	39,751	1,205	45,816	47,021	86,772	
Insurance	35,907	13,040	7,629	56,576	4,590	7,754	12,344	68,920	
Direct mail costs	90	33	19	142	11	68,039	68,050	68,192	
Travel	17,736	12,864	8,557	39,157	661	8,299	8,960	48,117	
Supplies and maintenance	22,397	10,936	5,493	38,826	2,756	6,139	8,895	47,721	
Advertising and promotion	-	151	38,561	38,712	-	-	-	38,712	
Golf tournament	-	-	-	-	-	31,592	31,592	31,592	
Depreciation	14,984	5,441	3,184	23,609	1,915	3,235	5,150	28,759	
Miscellaneous	11,240	3,821	2,235	17,296	1,345	2,272	3,617	20,913	
Utilities	10,874	3,949	2,310	17,133	1,390	2,348	3,738	20,871	
Telephone	8,307	4,525	2,128	14,960	913	3,320	4,233	19,193	
Annual dinner	-	-	-	-	-	18,012	18,012	18,012	
Postage	5,374	2,068	2,145	9,587	687	1,336	2,023	11,610	
Dues and subscriptions	2,116	1,426	2,331	5,873	86	1,193	1,279	7,152	
Annuity expense	-	-	-	-	-	5,773	5,773	5,773	
Adoption home study	-	-	883	883	-	-	-	883	
	<u>\$ 1,204,163</u>	<u>\$ 493,834</u>	<u>\$ 250,171</u>	<u>\$ 1,948,168</u>	<u>\$ 118,426</u>	<u>\$ 378,890</u>	<u>\$ 497,316</u>	<u>\$ 2,445,484</u>	

See accompanying notes.

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

Year Ended December 31, 2009

	Foster Care and Parental Education		Maternity Care and Adoption		Management and General		Fundraising		Total	
	Counseling	Education	Adoption	Program	General	Fundraising	Supporting	Total	Grand Total	
Salaries and related expenses	\$ 811,239	\$ 309,181	\$ 208,256	\$ 1,328,676	\$ 92,274	\$ 181,023	\$ 273,297	\$1,601,973		
Psychiatric and clinical expenses	300,984	-	-	300,984	-	-	-	300,984		
Support payments - foster care	-	161,283	-	161,283	-	-	-	161,283		
Legal and professional	8,893	37,138	14,180	60,211	1,012	42,119	43,131	103,342		
Insurance	42,887	16,345	11,010	70,242	4,878	9,570	14,448	84,690		
Travel	24,451	12,857	12,181	49,489	434	11,972	12,406	61,895		
Supplies and maintenance	26,145	13,169	8,620	47,934	2,757	6,007	8,764	56,698		
Direct mail costs	43	16	11	70	5	55,000	55,005	55,075		
Advertising and promotion	-	1,181	44,673	45,854	-	-	-	45,854		
Golf tournament	-	-	-	-	-	33,097	33,097	33,097		
Annual dinner	-	-	-	-	-	29,929	29,929	29,929		
Depreciation	12,905	4,918	3,313	21,136	1,468	2,879	4,347	25,483		
Telephone	11,250	6,497	3,063	20,810	872	3,207	4,079	24,889		
Utilities	9,939	3,788	2,551	16,278	1,130	2,218	3,348	19,626		
Miscellaneous	8,716	3,411	2,298	14,425	1,018	1,997	3,015	17,440		
Postage	5,177	2,049	2,134	9,360	589	932	1,521	10,881		
Dues and subscriptions	1,543	846	6,111	8,500	103	746	849	9,349		
Annuity expense	-	-	-	-	-	6,107	6,107	6,107		
Adoption home study	-	-	761	761	-	-	-	761		
	<u>\$1,264,172</u>	<u>\$ 572,679</u>	<u>\$ 319,162</u>	<u>\$2,156,013</u>	<u>\$ 106,540</u>	<u>\$ 386,803</u>	<u>\$ 493,343</u>	<u>\$2,649,356</u>		

See accompanying notes.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE) OF NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010 and 2009**

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 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.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE) OF NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009**

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, 2010 and 2009, 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, 2010 and 2009, 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. Generally accepted accounting principles 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.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE) OF NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009**

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.

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. 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.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE) OF NASHVILLE**
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

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 has adopted 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. This guidance must be applied to all existing tax positions upon initial adoption. Adoption of this guidance had no impact on the Association's financial statements. 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, 2007 through December 31, 2010. The Association had no uncertain tax positions at December 31, 2010 or 2009.

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.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE) OF NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009**

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 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

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.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE) OF NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Association evaluated subsequent events through May 26, 2011, 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

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

	2010 Quoted Prices in Active Markets for Identical Assets (Level 1)	2009 Quoted Prices in Active Markets for Identical Assets (Level 1)
Marketable equity securities	\$ 2,142,551	\$ 2,077,045
Government securities	869,587	844,326
Corporate bonds	566,772	763,905
Cash and short-term investments	190,221	234,122
Mutual funds	<u>65,458</u>	<u>68,777</u>
	3,834,589	3,988,175
Less amounts shown as current	<u>(2,540,494)</u>	<u>(2,788,984)</u>
	<u>\$ 1,294,095</u>	<u>\$ 1,199,191</u>

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009**

NOTE 4 – INVESTMENTS

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

	<u>2010</u>	<u>2009</u>
Dividend income	\$ 42,890	\$ 45,329
Interest income	66,695	75,202
Net gain on investments	295,811	534,797
Investment expenses	<u>(46,044)</u>	<u>(73,887)</u>
	<u>\$ 359,352</u>	<u>\$ 581,441</u>

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

	<u>2010</u>	<u>2009</u>
Unrestricted gain on investment	\$ 256,811	\$ 483,777
Temporarily restricted gain on investment	<u>102,541</u>	<u>97,664</u>
	<u>\$ 359,352</u>	<u>\$ 581,441</u>

NOTE 5 – PROPERTY AND EQUIPMENT

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

	<u>2010</u>	<u>2009</u>
Land	\$ 139,790	\$ 139,790
Buildings and improvements	801,258	801,258
Furniture and equipment	196,314	196,314
Transportation equipment	<u>34,146</u>	<u>23,556</u>
	1,171,508	1,160,918
Accumulated depreciation	<u>(595,158)</u>	<u>(573,647)</u>
	<u>\$ 576,350</u>	<u>\$ 587,271</u>

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE) OF NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009**

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 2010 and 2009. The present value of the estimated future payments (\$62,892 and \$67,039 at December 31, 2010 and 2009, 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, 2010 and 2009 of \$64,394 and \$71,916, 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:

	2010	2009
Board-designated:		
Estate gifts	\$ 917,719	\$ 841,510
Heffington	154,038	141,247
Kresge Foundation	104,108	95,462
	1,175,865	1,078,219
Undesignated	2,106,567	2,438,314
	\$ 3,282,432	\$ 3,516,533

Temporarily restricted net assets of \$265,056 and \$162,515 at December 31, 2010 and 2009, 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 \$970,067 and \$969,767 at December 31, 2010 and 2009, respectively, 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 generally accepted accounting principles, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009**

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, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 162,515	\$ 969,767	\$ 1,132,282
Investment return:				
Investment income	-	17,985	-	17,985
Net appreciation (realized and unrealized)	-	84,556	-	84,556
Total investment return	-	102,541	-	102,541
Contributions	-	-	300	300
Endowment net assets, end of year	\$ -	\$ 265,056	\$ 970,067	\$ 1,235,123

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009**

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

Changes in Endowment Net Assets for the Year Ended December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 64,851	\$ 969,242	\$ 1,034,093
Investment return:				
Investment income	-	7,835	-	7,835
Net appreciation (realized and unrealized)	-	89,829	-	89,829
Total investment return	-	97,664	-	97,664
Contributions	-	-	525	525
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 162,515</u>	<u>\$ 969,767</u>	<u>\$ 1,132,282</u>

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, 2010 and 2009.

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.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009**

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 – 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 \$17,100 in 2010 and \$59,154 in 2009 and are included in foster care support and professional service fees revenues in the accompanying statements of activities. The foster care contract agreement expired 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 percent of wages are matched by the Association. The Association's matching contributions of \$49,014 in 2010 and \$49,586 in 2009 are included in salary and related expenses in the accompanying statements of functional expenses.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009**

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 \$38,712 and \$45,854 for 2010 and 2009, respectively, and are included in adoption and foster care expenses in the accompanying statements of functional expenses.

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 renewed its 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, 2010 and 2009.