

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

FINANCIAL STATEMENTS

December 31, 2013 and 2012

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

TABLE OF CONTENTS

Independent Auditor's Report.....	2 – 3
Financial Statements:	
Statements of Financial Position	4
Statements of Activities.....	5
Statements of Cash Flows	6
Statements of Functional Expenses	7 – 8
Notes to the Financial Statements	9 – 20



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, 2013 and 2012, 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 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 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, 2013 and 2012, 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.

Froese, Den & Howard, PLLC

May 12, 2014

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE)
STATEMENTS OF FINANCIAL POSITION
December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 116,274	\$ 147,077
Investments	1,515,520	1,456,708
Accounts and pledges receivable	34,132	177,832
Prepaid expenses	19,816	17,333
Total current assets	1,685,742	1,798,950
Property and equipment, net	564,270	604,127
Investments, net of amounts shown as current	1,630,947	1,385,087
Total assets	<u>\$ 3,880,959</u>	<u>\$ 3,788,164</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 37,163	\$ 61,732
Accrued expenses	61,180	63,578
Current portion of annuities payable	6,883	6,357
Total current liabilities	105,226	131,667
Annuities payable, excluding current portion	41,184	47,236
Total liabilities	146,410	178,903
Net assets:		
Unrestricted	2,139,279	2,266,923
Temporarily restricted	624,178	371,246
Permanently restricted	971,092	971,092
Total net assets	3,734,549	3,609,261
Total liabilities and net assets	<u>\$ 3,880,959</u>	<u>\$ 3,788,164</u>

See accompanying notes.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE)
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Changes in unrestricted net assets:		
Public support:		
Individual support	\$ 499,750	\$ 602,873
Corporate support	197,548	248,852
Congregational support	200,347	210,366
Memorial gifts	53,325	74,295
Estate gifts	75,000	79,250
In-kind donations	5,713	-
Total public support	<u>1,031,683</u>	<u>1,215,636</u>
Service revenue:		
Counseling fees	821,457	835,265
Adoption fees	57,927	69,026
Professional service fees	19,997	12,760
Foster care support	6,521	8,005
Total service revenue	<u>905,902</u>	<u>925,056</u>
Other revenue and gains:		
Investment gain	276,859	178,548
Miscellaneous income	3,537	2,553
Total other revenue and gains	<u>280,396</u>	<u>181,101</u>
Total public support, service and other revenue and gains	<u>2,217,981</u>	<u>2,321,793</u>
Expenses:		
Program services	1,658,913	2,033,672
Supporting services	686,712	677,038
Total expenses	<u>2,345,625</u>	<u>2,710,710</u>
Decrease in unrestricted net assets	<u>(127,644)</u>	<u>(388,917)</u>
Changes in temporarily restricted net assets:		
Investment gain	<u>252,932</u>	<u>107,115</u>
Increase in temporarily restricted net assets	<u>252,932</u>	<u>107,115</u>
Change in net assets	125,288	(281,802)
Net assets at beginning of year	<u>3,609,261</u>	<u>3,891,063</u>
Net assets at end of year	<u><u>\$ 3,734,549</u></u>	<u><u>\$ 3,609,261</u></u>

See accompanying notes.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE)
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 125,288	\$ (281,802)
Adjustments to reconcile change in net assets to cash flows used in operating activities:		
Depreciation	42,681	41,122
Donated equipment	(5,713)	-
Net gain on investments	(511,709)	(251,804)
Loss on disposal of equipment	2,733	-
Changes in operating assets and liabilities:		
Accounts and pledges receivable	143,700	(128,641)
Prepaid expenses	(2,483)	(397)
Accounts payable	(24,569)	27,116
Accrued expenses	(2,398)	(10,419)
Annuities payable	(5,526)	(4,964)
Net cash used in operating activities	<u>(237,996)</u>	<u>(609,789)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(7,412)	(22,995)
Proceeds from disposal of equipment	7,568	-
Proceeds from sale of investments	1,698,417	2,937,432
Purchases of investments	<u>(1,491,380)</u>	<u>(2,265,335)</u>
Net cash provided by investing activities	<u>207,193</u>	<u>649,102</u>
Net (decrease) increase in cash and cash equivalents	(30,803)	39,313
Cash and cash equivalents at beginning of year	<u>147,077</u>	<u>107,764</u>
Cash and cash equivalents at end of year	<u><u>\$ 116,274</u></u>	<u><u>\$ 147,077</u></u>
Supplemental disclosure of noncash investing activities:		
Fair value of assets acquired	\$ 9,461	\$ -
Cash paid	(3,748)	-
Donated equipment	<u><u>\$ 5,713</u></u>	<u><u>\$ -</u></u>

See accompanying notes.

THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT AND EMPATHY (AGAPE)
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2013

	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	\$ 610,656	\$ 246,386	\$ 112,544	\$ 969,586	\$ 271,192	\$ 171,133	\$ 442,325	\$1,411,911
Psychiatric and clinical expenses	309,539	-	-	309,539	-	-	-	309,539
Support payments - foster care	-	112,505	-	112,505	-	-	-	112,505
Legal and professional	11,105	24,936	7,069	43,110	3,997	50,138	54,135	97,245
Insurance	32,154	10,082	5,430	47,666	11,879	8,823	20,702	68,368
Supplies and maintenance	27,024	7,940	4,542	39,506	8,397	8,616	17,013	56,519
Depreciation	20,073	6,294	3,390	29,757	7,416	5,508	12,924	42,681
Miscellaneous	14,529	9,536	2,623	26,688	5,130	4,183	9,313	36,001
Advertising and promotion	6,930	2,595	16,193	25,718	-	6,199	6,199	31,917
Golf tournament	-	-	-	-	-	28,022	28,022	28,022
Travel	7,139	6,747	3,369	17,255	8,762	1,697	10,459	27,714
Annual dinner	-	-	-	-	-	25,986	25,986	25,986
Direct mail costs	65	20	11	96	24	24,754	24,778	24,874
Utilities	9,255	2,902	1,563	13,720	3,419	2,540	5,959	19,679
Barn sale	-	-	-	-	-	18,258	18,258	18,258
Telephone	7,901	2,739	1,414	12,054	2,519	2,151	4,670	16,724
Postage	4,266	1,411	720	6,397	1,576	1,204	2,780	9,177
Annuity expense	2,161	677	365	3,203	798	593	1,391	4,594
Dues and subscriptions	976	967	-	1,943	1,318	480	1,798	3,741
Adoption home study	-	-	170	170	-	-	-	170
	<u>\$1,063,773</u>	<u>\$ 435,737</u>	<u>\$ 159,403</u>	<u>\$1,658,913</u>	<u>\$ 326,427</u>	<u>\$ 360,285</u>	<u>\$ 686,712</u>	<u>\$2,345,625</u>

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
	<u>\$1,198,903</u>	<u>\$ 583,682</u>	<u>\$ 251,087</u>	<u>\$2,033,672</u>	<u>\$ 225,491</u>	<u>\$ 451,547</u>	<u>\$ 677,038</u>	<u>\$2,710,710</u>

See accompanying notes.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE)
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012**

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.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012**

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, 2013 and 2012, 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, 2013 and 2012, 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.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012**

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.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012**

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, 2010 through December 31, 2013. The Association had no uncertain tax positions at December 31, 2013 and 2012.

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)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012**

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.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Association evaluated subsequent events through May 12, 2014, 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:

	<u>2013</u>	<u>2012</u>
Marketable equity securities	\$ 2,101,768	\$ 1,608,289
Government securities	447,206	565,353
Corporate bonds	288,882	286,515
Mutual funds	203,745	200,730
Cash and short-term investments	<u>104,866</u>	<u>180,908</u>
	3,146,467	2,841,795
Less amounts shown as current	<u>(1,515,520)</u>	<u>(1,456,708)</u>
	<u>\$ 1,630,947</u>	<u>\$ 1,385,087</u>

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012**

NOTE 4 – INVESTMENTS (Continued)

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

	<u>2013</u>	<u>2012</u>
Dividend income	\$ 21,135	\$ 40,044
Interest income	38,451	36,711
Net gain on investments	511,709	251,804
Investment expenses	<u>(41,504)</u>	<u>(42,896)</u>
	<u>\$ 529,791</u>	<u>\$ 285,663</u>

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

	<u>2013</u>	<u>2012</u>
Unrestricted gain on investment	\$ 276,859	\$ 178,548
Temporarily restricted gain on investment	<u>252,932</u>	<u>107,115</u>
	<u>\$ 529,791</u>	<u>\$ 285,663</u>

NOTE 5 – PROPERTY AND EQUIPMENT

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

	<u>2013</u>	<u>2012</u>
Land	\$ 139,790	\$ 139,790
Buildings and improvements	833,782	830,932
Furniture and equipment	206,488	255,391
Transportation equipment	<u>17,840</u>	<u>30,840</u>
	1,197,900	1,256,953
Accumulated depreciation	<u>(633,630)</u>	<u>(652,826)</u>
	<u>\$ 564,270</u>	<u>\$ 604,127</u>

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012**

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 2013 and 2012. The present value of the estimated future payments (\$48,067 and \$53,593 at December 31, 2013 and 2012, 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, 2013 and 2012 of \$42,560 and \$49,106, 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:

	<u>2013</u>	<u>2012</u>
Board-designated:		
Estate gifts	\$ 1,207,709	\$ 1,016,225
Heffington	192,589	162,054
Kresge Foundation	<u>97,047</u>	<u>83,284</u>
	1,497,345	1,261,563
Undesignated	<u>641,934</u>	<u>1,005,360</u>
	<u>\$ 2,139,279</u>	<u>\$ 2,266,923</u>

Temporarily restricted net assets of \$624,178 and \$371,246 at December 31, 2013 and 2012, 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, 2013 and 2012, 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.

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012**

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, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 371,246	\$ 971,092	\$ 1,342,338
Investment return:				
Investment income	-	9,317	-	9,317
Net appreciation (realized and unrealized)	-	243,615	-	243,615
Total investment return	-	252,932	-	252,932
Contributions	-	-	-	-
Endowment net assets, end of year	\$ -	\$ 624,178	\$ 971,092	\$ 1,595,270

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012**

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 264,131	\$ 971,092	\$ 1,235,223
Investment return:				
Investment income	-	13,775	-	13,775
Net depreciation (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

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, 2013 and 2012.

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
AND EMPATHY (AGAPE)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012**

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 \$45,736 in 2013 and \$51,259 in 2012 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 \$31,917 and \$22,492 for 2013 and 2012, 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, 2013 are as follows:

**THE ASSOCIATION FOR GUIDANCE, AID, PLACEMENT
AND EMPATHY (AGAPE)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012**

NOTE 11 – LEASE COMMITMENTS (Continued)

<u>Year Ending December 31,</u>	
2014	\$ 15,932
2015	16,144
2016	16,144
2017	9,300
2018	<u>1,227</u>
	<u>\$ 58,747</u>

Total rental expense for the years ended December 31, 2013 and 2012 was \$14,852 and \$16,306, respectively.