

LaVoie & Co., P.C.  
Certified Public Accountants

June 15, 2018

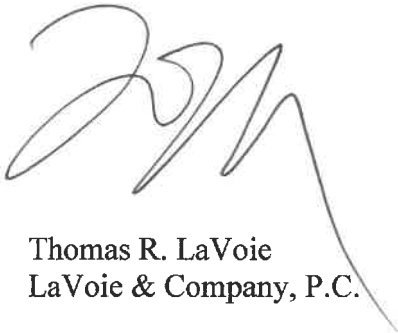
Pastor Steve Hanna  
Arizona Baptist Children's Services  
1779 N. Alvernon  
Tucson, Arizona 85712

Dear Steve:

Enclosed please find the audited financial statements of ABCS for the year ended December 31, 2017.

If you have any questions, please don't hesitate to call.

Sincerely,



Thomas R. LaVoie  
LaVoie & Company, P.C.

TRL/lf

Enclosures

**ARIZONA BAPTIST CHILDREN'S SERVICES**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 and 2016**

Arizona Baptist Children's Services

AUDITED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
Arizona Baptist Children's Services

We have audited the accompanying financial statements of Arizona Baptist Children's Services (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, 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 Arizona Baptist Children's Services as of December 31, 2017 and 2016, 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.

  
LaVoie & Company, P.C.  
Tucson, AZ  
June 15, 2018

Arizona Baptist Children's Services  
 STATEMENTS OF FINANCIAL POSITION  
 As of December 31,

	2017		2016	
	Unrestricted	Endowment Funds - Permanently Restricted	Unrestricted	Endowment Funds - Permanently Restricted
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 128,957	\$ 5,960	\$ 1,003,531	\$ 209,220
Accounts receivable, net - Note 2	563,519		711,128	
Promises to give - Note 3	161,997		155,909	
Prepaid expenses			23,604	
<b>Total Current Assets</b>	<b>854,473</b>	<b>5,960</b>	<b>1,894,172</b>	<b>209,220</b>
Investments - Note 4	491,226	1,078,650	692,182	849,206
Property and Equipment - Note 5	793,000		862,321	
Beneficial Interests In Trusts - Note 6	147,709		148,215	
Other Assets	73,623		5,000	
<b>Total Assets</b>	<b>\$ 2,360,031</b>	<b>\$ 1,084,610</b>	<b>\$ 3,601,890</b>	<b>\$ 1,058,426</b>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities:				
Line of credit	\$ 41,746			
Accounts payable	158,427		150,345	
Accrued payroll and taxes	119,298		144,034	
Accrued paid time off	186,547		202,174	
<b>Total Current Liabilities</b>	<b>506,018</b>		<b>496,553</b>	
<b>NET ASSETS - Restated, Note 6</b>	<b>1,854,507</b>	<b>\$ 1,084,116</b>	<b>3,105,337</b>	<b>\$ 1,058,426</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,360,525</b>	<b>\$ 1,084,116</b>	<b>\$ 3,601,890</b>	<b>\$ 1,058,426</b>

The accompanying notes are an integral part of these financial statements.

Arizona Baptist Children's Services

STATEMENTS OF ACTIVITIES

For The Years Ending December 31,

	2017			2016		
	Unrestricted	Permanently Restricted		Unrestricted	Permanently Restricted	
		Total	Total		Total	Total
<b>CHANGES IN NET ASSETS</b>						
Support and Revenue:						
State contracts	\$ 6,843,938		\$ 6,843,938	\$ 8,905,532		\$ 8,905,532
Public contributions	1,427,417		1,427,417	1,277,570	\$ 184,011	1,461,581
Private care	185,443		185,443	163,130		163,130
In-kind contributions	530,555		530,555	856,751		856,751
Other revenue	36,671		36,671	23,179		23,179
Net assets released from restriction	47,261	\$ (47,261)		7,029	(7,029)	
Total Support and Revenue	9,071,285	(47,261)	9,024,024	11,233,191	176,982	11,410,173
Expenses:						
Program services	8,694,868		8,694,868	9,803,509		9,803,509
Supporting services - Administration	1,771,785		1,771,785	2,018,924		2,018,924
Total Expenses	10,466,653		10,466,653	11,822,433		11,822,433
<b>(Decrease) Increase in Net Assets</b>						
Before Other Income (Loss)	(1,395,368)	(47,261)	(1,442,629)	(589,242)	176,982	(412,260)
Other Income (Loss) - Note 9	144,538	72,951	217,489	(17,937)	10,309	(7,628)
<b>(Decrease) Increase in Net Assets</b>	<b>(1,250,830)</b>	<b>25,690</b>	<b>(1,225,140)</b>	<b>(607,179)</b>	<b>187,291</b>	<b>(419,888)</b>
NET ASSETS BEGINNING OF YEAR	3,105,337	1,058,426	4,163,763	3,712,516	871,135	4,583,651
<b>NET ASSETS END OF YEAR</b>	<b>\$ 1,854,507</b>	<b>\$ 1,084,116</b>	<b>\$ 2,938,623</b>	<b>\$ 3,105,337</b>	<b>\$ 1,058,426</b>	<b>\$ 4,163,763</b>

The accompanying notes are an integral part of these financial statements.

Arizona Baptist Children's Services

STATEMENTS OF FUNCTIONAL EXPENSES

For The Years Ending December 31,

	2017			2016		
	Program Services	Supporting Services - Administration	Total	Program Services	Supporting Services - Administration	Total
Salaries and wages	\$ 5,121,250	\$ 1,097,249	\$ 6,218,499	\$ 5,521,353	\$ 1,105,989	\$ 6,627,342
Payroll taxes	422,064	70,824	492,888	444,215	74,895	519,110
Employee benefits	999,701	204,057	1,203,758	1,151,259	269,638	1,420,897
Advertising	2,785	48,931	51,716		88,254	88,254
Bad debt expense		13,065	13,065		17,750	17,750
Communications	150,827	23,696	174,523	151,527	22,100	173,627
Contributions to a 501(c)(3)	1,470	1,449	2,919			
Depreciation	66,847	11,674	78,521	88,573	13,490	102,063
Equipment rental	32,932	10,671	43,603	40,436	4,620	45,056
Insurance		104,133	104,133		84,279	84,279
Occupancy (rent and utilities)	243,186	16,847	260,033	237,899	18,181	256,080
Other	220,595	8,952	229,547	172,143	152,032	324,175
Postage	46	16,061	16,107		20,350	20,350
Printing	(546)	13,390	12,844		18,861	18,861
Professional services		16,519	16,519		15,049	15,049
Purchased services	34,227	8,503	42,730	42,376	13,103	55,479
Repairs and maintenance	47,906	74,322	122,228	91,766	78,000	169,766
Supplies	566,018	4,607	570,625	923,335	1,567	924,902
Vehicle costs	785,560	26,835	812,395	938,627	20,766	959,393
	<u>\$ 8,694,868</u>	<u>\$ 1,771,785</u>	<u>\$ 10,466,653</u>	<u>\$ 9,803,509</u>	<u>\$ 2,018,924</u>	<u>\$ 11,822,433</u>

The accompanying notes are an integral part of these financial statements.

Arizona Baptist Children's Services

STATEMENTS OF CASH FLOWS

For The Years Ending December 31,

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Decrease in Net Assets	\$ (1,225,140)	\$ (419,888)
Adjustments to reconcile the decrease in net assets to net cash (used) provided by operating activities:		
Bad debt expense	13,065	17,750
Depreciation	78,521	102,063
Split-interest agreements	506	(3,007)
Realized gains on investments	(23,815)	(1,511)
Unrealized losses on investments	147,461	39,489
(Increase) decrease in:		
Accounts receivable	134,544	281,396
Promises to give	(6,088)	1,169,885
Prepaid expenses	23,604	(16,302)
Other assets	(68,623)	56,100
Increase in:		
Accounts payable	8,082	(46,707)
Accrued payroll and taxes	(24,736)	(44,217)
Accrued paid time off	(15,627)	21,415
<b>Net Cash (Used) Provided By Operating Activities</b>	<u><b>(958,246)</b></u>	<u><b>1,156,466</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Redemptions of beneficial interest		595,939
Proceeds from sales of investments	3,402,024	390,405
Purchases of investments	(3,554,158)	(1,114,534)
Purchases of property and equipment	(9,200)	(11,249)
<b>Net Cash Used By Investing Activities</b>	<u><b>(161,334)</b></u>	<u><b>(139,439)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Line of credit, net	41,746	(250,000)
<b>Net Cash Provided (Used) By Financing Activities</b>	<u><b>41,746</b></u>	<u><b>(250,000)</b></u>
<b>(DECREASE) INCREASE IN CASH</b>	<b>(1,077,834)</b>	<b>767,027</b>
<b>CASH AT THE BEGINNING OF YEAR</b>	<u><b>1,212,751</b></u>	<u><b>445,724</b></u>
<b>CASH AT END OF YEAR</b>	<u><b>\$ 134,917</b></u>	<u><b>\$ 1,212,751</b></u>

The accompanying notes are an integral part of these financial statements.



Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

PURPOSE AND ORGANIZATION

Arizona Baptist Children's Services (ABCS) is a religious nonprofit corporation that provides services to Arizona families and children with family and behavioral problems. These services include: adoption services, parent aide, foster care services, outpatient counseling services, and crisis pregnancy services throughout the State of Arizona. The State of Arizona is represented by five regions located in Tucson, Yuma, Phoenix, Bullhead City and Snowflake. The administrative office is located in Tucson.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described below:

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Basis of Presentation - ABCS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These net assets classifications are described as follows:

Unrestricted Net Assets - not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes or locations by action of the Board of Directors.

Temporarily Restricted Net Assets - subject to donor-imposed stipulations that may be fulfilled by actions of ABCS to meet the stipulations or become unrestricted at the date specified by the donor.

Permanently Restricted Net Assets - subject to donor-imposed stipulations that they be retained and invested permanently.

Cash and Cash Equivalents - ABCS considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable - Accounts receivable are mostly from State government agencies for services rendered. Accounts receivable are not recorded until the related service is provided. Accounts receivable are stated at the amount management expects to collect. Management provides for estimated uncollectible amounts by providing a bad debt valuation allowance, based on its assessment of the collectability of the accounts. Management provided a bad debt allowance of \$20,000 at December 31, 2017 and 2016.

Promises to Give - Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional.

The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments - ABCS carries investments in marketable equity and debt securities with readily determinable fair values at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Investments are presented based on a fair value hierarchy as follows:

- Level 1 - Quoted prices in active markets for identical assets.
- Level 2 - ABCS does not use Level 2.
- Level 3 - Unobservable inputs when observable are not available.

Property and Equipment - Acquisitions or donations of property and equipment with a cost in excess of \$5,000 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

Donated Property and Equipment - Donations of property and equipment are recorded as contributions at fair market value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in restricted net assets. It is ABCS's policy to imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are not restricted as to their use by the donor. Accordingly, those donations are recorded as increases in temporarily restricted net assets.

Donated marketable securities and other noncash donations are recorded as contributions at their fair values at the date of donation. In-kind contributions consist of household items and clothing.

Support and Revenue - Support and revenue consists mainly of contributions from the public and a contract with the State of Arizona. Revenue from the contract with the State of Arizona is recorded as earned when services are rendered. Contribution revenue is recorded when promised by the donor.

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support whose restrictions are met in the same reporting period are reported as unrestricted support.

Donated Services - Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by ABCS. Volunteers also provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Investment Income and Gains - Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expense Allocation - The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying Statements of Functional Expenses. Directly identifiable expenses are charged to the respective programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services based on a rational estimation method.

Income Tax Status - ABCS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. ABCS will maintain its exempt status as long as its operations continue to comply with Internal Revenue Code. ABCS is not a private foundation. As of December 31, 2017 and 2016, ABCS has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Use of Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

NOTE 2 - ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2017 and 2016, are wholly from the Arizona Department of Economic Security for services provided, net of an allowance for doubtful accounts of \$20,000.

NOTE 3 – PROMISES TO GIVE

Promises to give are amounts issued by the donor before year end but received after year end.

NOTE 4 - INVESTMENTS

Level 1 fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions in major exchanges. Level 3 fair values are unobservable inputs because observable inputs are not available. Fair values of investments measured at December 31, 2017 are as follows:

	<u>Unrestricted</u>		<u>Endowment Funds - Permanently Restricted</u>	
	<u>Fair Value</u>	<u>Level 1</u>	<u>Fair Value</u>	<u>Level 1</u>
Money market funds	\$491,226	\$491,226	\$ 250,148	\$ 250,148
Equities			316,775	316,775
Fixed income			239,333	239,333
Mutual funds			272,394	272,394
	<u>\$491,226</u>	<u>\$491,226</u>	<u>\$1,078,650</u>	<u>\$1,078,650</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 4 - INVESTMENTS (Continued)

Fair values of investments measured at December 31, 2016 are as follows:

	Unrestricted		Endowment Funds - Permanently Restricted	
	Fair Value	Level 1	Fair Value	Level 1
Mutual funds	<u>\$692,182</u>	<u>\$692,182</u>	<u>\$849,206</u>	<u>\$849,206</u>

Investment income consisted of the following:

	Unrestricted		Permanently Restricted	
	2017	2016	2017	2016
Interest and dividends	\$ 35,081	\$20,708	\$ 8,308	\$9,657
Realized gains (losses)	23,815			(1,511)
Unrealized gains (losses)	<u>85,642</u>	<u>(38,645)</u>	<u>64,643</u>	<u>2,163</u>
Net investment income	<u>\$144,538</u>	<u>\$(17,937)</u>	<u>\$72,951</u>	<u>\$10,309</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2017	2016	Lives
Land	\$ 141,000	\$ 141,000	
Buildings and improvements	1,168,638	1,203,667	10 - 30
Furniture and equipment	70,401	70,401	3 - 7
Vehicles	<u>305,697</u>	<u>305,697</u>	5
	1,685,736	1,720,765	
Less accumulated depreciation	<u>(892,736)</u>	<u>(858,444)</u>	
	<u>\$ 793,000</u>	<u>\$ 862,321</u>	

NOTE 6 - BENEFICIAL INTERESTS IN TRUSTS

Irrevocable Remainder Trust - Unrestricted

In 2006, a revocable remainder trust naming ABCS as a remainder beneficiary became irrevocable due to the death of the donors. Under that trust document, ABCS will receive the remaining trust principal after the death of the income beneficiaries. The fair value of the remaining trust principal is estimated based on the future fair value of the trust assets, less payments to income beneficiaries, computed to a present value. Based on the income beneficiary's life expectancy and the 2.06% and 2% discount rates for 2017 and 2016, required by Internal Revenue Service rules, the present value of the future benefits expected to be received by ABCS under this trust is estimated to be \$147,709 and \$148,215 at December 31, 2017 and 2016, respectively.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 6 - BENEFICIAL INTERESTS IN TRUSTS (Continued)

Fair values of the assets in the above noted trust at December 31 are as follows:

	2017		2016	
	<u>Fair Value</u>	<u>Level 1</u>	<u>Fair Value</u>	<u>Level 1</u>
Money market funds	\$ 5,525	\$ 5,525	\$ 4,624	\$ 4,624
Equities	63,981	63,981	57,158	57,158
Fixed income	78,203	78,203	86,433	86,433
	<u>\$147,709</u>	<u>\$147,709</u>	<u>\$148,215</u>	<u>\$148,215</u>

Charitable Remainder Uni-Trusts – Permanently Restricted

ABCS was the beneficiary of two charitable remainder uni-trusts (Trusts) originally naming the Baptist Foundation of Arizona (BFA). When BFA filed bankruptcy in 1999, these Trusts were amended to name ABCS as a 45 percent beneficiary.

Both of these Trusts reached their stated 20-year terms during 2016.

Under the terms of the Trusts, the donor received a quarterly distribution (8.5% annually) based on the fair value of Trusts' assets. The principal and income earned on the Trusts' assets remained in the Trusts until the earlier of 2016 or the donor's death. At that time, the Trusts remaining assets were distributed to the remainder beneficiaries. ABCS received its entire distribution in 2016.

Restatement – In prior years, management established an endowment fund at BFA. When BFA filed for bankruptcy, these funds were transferred to the California Baptist Foundation as trustee. Upon reviewing files, management has determined that the funds were not restricted by a donor, but rather the Board. The Board has lifted the restriction and accordingly, these net assets have been moved to unrestricted. Total restricted net assets moved to unrestricted net assets at January 1, 2016 was \$622,532. The net change for 2016 was to reduce permanently restricted net assets by \$25,703, the net effect of income and transfers. Total net assets of ABCS did not change.

NOTE 7 - ENDOWMENT FUNDS – PERMANENTLY RESTRICTED

A. Interpretation of Relevant Law

The Board of Trustees of ABCS has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the historic dollar 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, ABCS 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

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 7 - ENDOWMENT FUNDS – PERMANENTLY RESTRICTED (Continued)

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 ABCS in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, ABCS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the organization and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the organization
- g. The investment policies of the organization

B. Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires ABCS to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2017 or 2016.

C. Return Objectives and Risk Parameters

ABCS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. ABCS expects its endowment funds, over time, to provide an average rate of return of 5 percent annually. Actual returns in any given year may vary from this amount.

D. Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, ABCS 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). ABCS targets a diversified asset allocation that places a greater emphasis on equity investments to achieve its long-term return objectives within prudent risk constraints.

E. Spending Policy and How the Investment Objectives Relate to Spending Policy

The Carnes Fund specifically provides that 85% of the income may be distributed each year. ABCS under the Smithey/Tulsa Fund distributes funds up to a 5 percent spending policy. Funds received under this policy are unrestricted.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 7 - ENDOWMENT FUNDS – PERMANENTLY RESTRICTED (Continued)

Fair values of endowment investments are listed under Note 4 Investments.

Changes in endowment permanently net assets are as follows (restatement, Note 6):

	<u>2017</u>	<u>2016</u>
Beginning of year	\$1,058,426	\$ 871,135
Contributions		184,011
Investment income	72,951	10,309
Appropriation of endowment assets for expenditure	<u>(47,261)</u>	<u>(7,029)</u>
End of year	<u>\$1,084,116</u>	<u>\$1,058,426</u>

The endowment funds consist of:

	<u>2017</u>	<u>2016</u>	<u>Distribution</u>
Carnes	\$ 277,683	\$ 276,437	85% of income
Smithy/Tulsa	<u>806,433</u>	<u>781,989</u>	Up to 5%
	<u>\$1,084,116</u>	<u>\$1,058,426</u>	

NOTE 8 - LEASES

ABCS leases various operating facilities under the provisions of long-term lease agreements classified as non-cancellable operating leases for accounting purposes. Rental expenses under the terms of the operating leases totaled \$182,000 and \$175,000 for 2017 and 2016, respectively. The operating leases have remaining non-cancelable lease terms from two to twelve years.

Future minimum rental payments under operating leases that have remaining terms in excess of one year as of December 31 are:

<u>Year</u>	<u>Amount</u>
2018	\$ 149,000
2019	124,000
2020	119,000
2021	119,000
2022	119,000
Thereafter	<u>404,000</u>
	<u>\$1,034,000</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 9 – OTHER INCOME (LOSS)

Other (loss) income consists of the following for 2017:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 35,081	\$8,308	\$43,389
Change in value of split-interests	(506)		(506)
Net realized and unrealized (losses) gains	<u>109,963</u>	<u>64,643</u>	<u>174,606</u>
	<u>\$144,538</u>	<u>\$72,951</u>	<u>\$217,489</u>

Other (loss) income consists of the following for 2016:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 20,708	\$9,657	\$30,365
Change in value of split-interests	3,007		3,007
Net realized and unrealized (losses) gains	<u>(41,652)</u>	<u>652</u>	<u>(41,000)</u>
	<u>\$(17,937)</u>	<u>\$10,309</u>	<u>\$( 7,628)</u>

NOTE 10 - CONCENTRATIONS

ABCS received 76% and 78% of its support and revenue for 2017 and 2016 from State of Arizona contracts. If these contracts were modified, reducing or eliminating these revenues, ABCS's finances could be materially adversely affected.

Financial instruments that potentially subject ABCS to concentrations of credit risk consist principally of cash in banks. ABCS usually limits the amount of credit exposure to any one financial institution by not exceeding federal deposit insurance amounts. At December 31, 2017, ABCS had no funds on deposit in excess of federal deposit insurance.

NOTE 11 - RETIREMENT PLAN

ABCS employees are included in a multi-employer defined contribution retirement plan established by the Southern Baptist Protection Program, Convention Annuity Plan. Employees with at least one year of service are eligible to participate in the plan. Employees may make an elective salary deferral up to the maximum allowed by law. ABCS matches the employee's salary reduction up to 3 percent. Employer contributions were \$53,000 and \$52,000 for 2017 and 2016, respectively.

ABCS directors are eligible to participate in a deferred compensation plan established by the Southern Baptist Convention. Directors may make an elective salary deferral up to the maximum allowed by law. ABCS matches the director's salary reduction up to 5 percent. Employer contributions were \$19,000 and \$18,000 for 2017 and 2016, respectively.



Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 12 – RELATED PARTY TRANSACTIONS

ABCS engaged an investment firm and the account executive is related by marriage to the ABCS chief financial officer. The investment firm earned \$9,500 in fees.

NOTE 12 - SUBSEQUENT EVENTS

ABCS did not have any subsequent events through June 15, 2018, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2017.