

ARIZONA BAPTIST CHILDREN'S SERVICES

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2015 and 2014

Arizona Baptist Children's Services

AUDITED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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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, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona Baptist Children's Services as of December 31, 2015 and 2014, 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
May 20, 2016

Arizona Baptist Children's Services

STATEMENTS OF FINANCIAL POSITION

As of December 31,

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets:		
Cash	\$ 401,510	\$ 557,275
Accounts receivable, net of allowance - Note 2	1,010,274	720,133
Promise to give - Note 3	1,325,794	
Prepaid expenses	7,302	7,302
Total Current Assets	<u>2,744,880</u>	<u>1,284,710</u>
Investments - Note 4	5,353	134,625
Property and Equipment - Note 5	949,505	796,486
Beneficial Interests In Trusts - Note 6	741,147	735,045
Endowment Funds - Note 7	897,728	925,307
Other Assets	61,100	
Total Assets	<u>\$ 5,399,713</u>	<u>\$ 3,876,173</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Line of credit	\$ 250,000	
Accounts payable	197,052	\$ 101,497
Accrued payroll and taxes	188,251	322,795
Accrued paid time off	180,759	163,169
Total Current Liabilities	<u>816,062</u>	<u>587,461</u>
 NET ASSETS		
Unrestricted net assets	3,685,923	2,363,405
Permanently restricted net assets - Note 7	897,728	925,307
	<u>4,583,651</u>	<u>3,288,712</u>
Total Liabilities and Net Assets	<u>\$ 5,399,713</u>	<u>\$ 3,876,173</u>

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,

	2015			2014		
	Unrestricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
CHANGES IN NET ASSETS						
Support and Revenue:						
State contracts	\$ 9,174,565		\$ 9,174,565	\$ 7,824,756		\$ 7,824,756
Public contributions	2,595,666		2,595,666	865,649		865,649
Private care	162,992		162,992	147,985		147,985
In-kind contributions	676,870		676,870	24,318		24,318
Other revenue	53,513		53,513	34,590		34,590
Net assets released from restriction	31,145	\$ (31,145)		30,915	\$ (30,915)	
Total Support and Revenue	12,694,751	(31,145)	12,663,606	8,928,213	(30,915)	8,897,298
Expenses:						
Program services	9,391,211		9,391,211	7,350,383		7,350,383
Supporting services - Administration	1,987,974		1,987,974	1,681,616		1,681,616
Total Expenses	11,379,185		11,379,185	9,031,999		9,031,999
Increase (Decrease) in Net Assets						
Before Other Income	1,315,566	(31,145)	1,284,421	(103,786)	(30,915)	(134,701)
Other Income - Note 9	6,952	3,566	10,518	90,938	44,205	135,143
Increase (Decrease) in Net Assets	1,322,518	(27,579)	1,294,939	(12,848)	13,290	442
NET ASSETS BEGINNING OF YEAR	2,363,405	925,307	3,288,712	2,376,253	912,017	3,288,270
NET ASSETS END OF YEAR	\$ 3,685,923	\$ 897,728	\$ 4,583,651	\$ 2,363,405	\$ 925,307	\$ 3,288,712

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,

	2015			2014		
	Program Services	Administration	Total	Program Services	Administration	Total
Salaries and wages	\$ 5,419,790	\$ 1,116,393	\$ 6,536,183	\$ 4,497,308	\$ 961,687	\$ 5,458,995
Payroll taxes	455,089	80,566	535,655	377,039	63,364	440,403
Employee benefits	1,219,610	194,512	1,414,122	949,715	167,079	1,116,794
Advertising		81,011	81,011	15,566	46,887	62,453
Bad debt expense		7,020	7,020		9,991	9,991
Communications	133,283	23,102	156,385	109,214	19,290	128,504
Contributions to a 501(c)(3)		21,300	21,300		21,719	21,719
Counseling				8,840		8,840
Depreciation	89,092	11,373	100,465	109,989	8,114	118,103
Equipment rental	36,029	6,716	42,745	30,699	4,620	35,319
Insurance		96,618	96,618		50,529	50,529
Occupancy (rent and utilities)	214,557	16,920	231,477	181,831	21,505	203,336
Other	119,805	155,205	275,010	114,062	103,423	217,485
Postage		17,819	17,819		18,786	18,786
Printing		17,755	17,755		38,027	38,027
Professional services		12,808	12,808		15,442	15,442
Purchased services	30,815	14,403	45,218	27,759	18,750	46,509
Repairs and maintenance	32,141	81,048	113,189	55,887	81,993	137,880
Supplies	721,405	2,523	723,928	78,550	2,076	80,626
Vehicle costs	919,595	30,882	950,477	793,924	28,334	822,258
	<u>\$ 9,391,211</u>	<u>\$ 1,987,974</u>	<u>\$ 11,379,185</u>	<u>\$ 7,350,383</u>	<u>\$ 1,681,616</u>	<u>\$ 9,031,999</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,

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 1,294,939	\$ 442
Adjustments to reconcile the increase in net assets to net cash provided (used) by operating activities:		
Bad debt expense	7,020	9,991
Depreciation	100,465	118,103
Split interest agreements	(6,102)	(16,693)
Gain on sale of property and equipment		(67,371)
Realized (gains) losses on investments	(12,516)	(1,432)
Unrealized (gains) losses on investments	31,613	9,873
(Increase) decrease in:		
Accounts receivable	(290,141)	(185,498)
Promise to give	(1,325,794)	
Other assets	(61,100)	
Increase in:		
Accounts payable	95,555	29,415
Accrued payroll and taxes	(134,544)	138,280
Accrued paid time off	17,590	33,683
Net Cash (Used) Provided By Operating Activities	(283,015)	68,793
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collection of note receivable		1,191
Proceeds from sales of investments	198,820	94,915
Purchases of investments	(68,086)	(113,353)
Purchases of property and equipment	(259,317)	(12,140)
Proceeds from sale of property and equipment	5,833	128,601
Net Cash (Used) Provided By Investing Activities	(122,750)	99,214
CASH FLOWS FROM FINANCING ACTIVITIES:		
Line of credit, net	250,000	
Net Cash Provided By Financing Activities	250,000	
(DECREASE) INCREASE IN CASH	(155,765)	168,007
CASH AT THE BEGINNING OF YEAR	557,275	389,268
CASH AT END OF YEAR	\$ 401,510	\$ 557,275

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

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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, 2015 and 2014.

Promise 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, 2015 and 2014

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.

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.

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. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

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, 2015 and 2014

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 has been classified as an organization other than a private foundation under Section 509(a)(2). As of December 31, 2015, 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 2015 and 2014, are wholly from the Arizona Department of Economic Security for services provided, net of an allowance for doubtful accounts of \$20,000.

NOTE 3 - PROMISE TO GIVE

During 2015 ABCS was notified it was a beneficiary of an estate. The estate was settled and ABCS received \$1,325,794 in 2016.

NOTE 4 - INVESTMENTS

Fair values of investments measured at December 31, 2015 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Investments- Money market funds	<u>\$5,353</u>	<u>\$5,353</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 4 - INVESTMENTS (Continued)

Fair values of investments measured at December 31, 2014 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Investments:		
Money market funds	\$ 10,043	\$ 10,043
Mutual funds	<u>124,582</u>	<u>124,582</u>
	<u>\$134,625</u>	<u>\$134,625</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions in major exchanges.

Investment income consisted of the following:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 964	\$2,605
Realized losses	(2,461)	
Unrealized gains	<u>2,225</u>	<u>4,736</u>
Net investment income	<u>\$ 728</u>	<u>\$7,341</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2015</u>	<u>2014</u>	<u>Lives</u>
Land	\$ 141,000	\$ 141,000	
Buildings and improvements	1,230,182	1,029,271	10 - 30
Furniture and equipment	64,043	64,043	3 - 7
Vehicles	<u>305,697</u>	<u>254,290</u>	5
	1,740,922	1,488,604	
Less accumulated depreciation and amortization	<u>(791,417)</u>	<u>(692,118)</u>	
	<u>\$ 949,505</u>	<u>\$ 796,486</u>	

NOTE 6 - BENEFICIAL INTERESTS IN TRUSTS

Charitable Remainder Uni-Trusts

ABCS is 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.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 6 - BENEFICIAL INTERESTS IN TRUSTS (Continued)

Under the terms of the Trusts, the donor receives a quarterly distribution (8.5% annually) based on the fair value of Trusts' assets. The principal and any excess income earned on the Trusts' assets remains in the Trusts until the earlier of 2016 or the donor's death. At that time, the Trusts are terminated and the remaining Trusts' assets are distributed to the remainder beneficiaries, including ABCS. Based on the donor's life expectancy and the 2% interest rates for 2015 and 2014, required by Internal Revenue Service rules, the present value of the future benefits expected to be received by ABCS is estimated to be \$595,939 and \$586,512 at December 31, 2015 and 2014, respectively.

Irrevocable Remainder Trust

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% discount rates for 2015 and 2014, 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 \$145,208 and \$148,533 at December 31, 2015 and 2014, respectively.

Fair values of the assets in the above noted trusts at December 31, 2015 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Beneficial interest in assets held in trust:			
Money market funds	\$ 7,282	\$ 7,282	
Equities	159,460	159,460	
International equities	45,021	45,021	
Fixed income	184,470	184,470	
Annuity	34,290		\$34,290
Mutual funds	<u>310,624</u>	<u>310,624</u>	
	<u>\$741,147</u>	<u>\$706,857</u>	<u>\$34,290</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 6 - BENEFICIAL INTERESTS IN TRUSTS (Continued)

Fair values of the assets in the above noted trusts at December 31, 2014 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Beneficial interest in assets held in trust:			
Money market funds	\$ 6,050	\$ 6,050	
Equities	164,902	164,902	
International equities	45,730	45,730	
Fixed income	187,195	187,195	
Annuity	37,294		\$37,294
Mutual funds	<u>293,874</u>	<u>293,874</u>	
	<u>\$735,045</u>	<u>\$697,751</u>	<u>\$37,294</u>

There were no distributions to ABCS during 2015 or 2014.

NOTE 7 - ENDOWMENT FUNDS

ABCS's endowments consist mostly of donor permanently restricted contributions held by the California Baptist Foundation as trustee.

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 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

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 7 - ENDOWMENT FUNDS (Continued)

- 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, 2015 or 2014.

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 California Baptist Foundation distributes funds to ABCS up to a 5 percent spending policy. Funds received under the policy are unrestricted.

Fair values of endowment investments measured at December 31, 2015 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Endowment funds:			
Money market funds	\$ 44,214	\$ 44,214	
Church bonds, mortgages	352,809		\$352,809
Mutual funds	<u>500,705</u>	<u>500,705</u>	
	<u>\$897,728</u>	<u>\$544,919</u>	<u>\$352,809</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 7 - ENDOWMENT FUNDS (Continued)

Fair values of endowment investments measured at December 31, 2014 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Endowment funds:			
Money market funds	\$ 26,346	\$ 26,346	
Church bonds, mortgages	389,036		\$389,036
Mutual funds	<u>509,925</u>	<u>509,925</u>	
	<u>\$925,307</u>	<u>\$536,271</u>	<u>\$389,036</u>

Fair values for endowment funds not traded in a major exchange were determined by the California Baptist Foundation's calculation of ABCS' share of pooled investments in Church bonds and mortgages. The value of the Church bonds and mortgages are noted as Level 3 above. ABCS recognizes transfers into and out of levels at the end of the reporting period.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

	<u>2015</u>	<u>2014</u>
Church bonds, mortgages:		
Beginning of year	\$389,036	\$438,864
Transfers to Level 1 assets	(25,735)	(48,960)
Realized and unrealized losses	<u>(10,492)</u>	<u>(868)</u>
End of year	<u>\$352,809</u>	<u>\$389,036</u>

Changes in Endowment Net Assets are as follows:

	<u>2015</u>	<u>2014</u>
Beginning of year	\$925,307	\$912,642
Investment income	22,543	55,657
Realized gains	14,962	1,432
Unrealized losses	(33,838)	(14,609)
Other	(101)	1,100
Appropriation of endowment assets for expenditure	<u>(31,145)</u>	<u>(30,915)</u>
End of year	<u>\$897,728</u>	<u>\$925,307</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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 \$178,000 and \$160,000 for 2015 and 2014, respectively. The operating leases have remaining non-cancelable lease terms from two to thirteen 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>
2016	\$ 128,000
2017	115,000
2018	115,000
2019	115,000
2020	115,000
Thereafter	<u>613,000</u>
	<u>\$1,201,000</u>

NOTE 9 - OTHER INCOME

Other income consists of the following for 2015:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 970	\$21,054	\$22,024
Change in value of split-interests	6,102		6,102
Net realized and unrealized (losses) gains	<u>(120)</u>	<u>(17,488)</u>	<u>(17,608)</u>
	<u>\$6,952</u>	<u>\$ 3,566</u>	<u>\$10,518</u>

Other income consists of the following for 2014:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 2,664	\$51,229	\$ 53,893
Change in value of split-interests	16,693		16,693
Gain on sale of fixed assets	67,371		
Net realized and unrealized gains	<u>4,210</u>	<u>(7,024)</u>	<u>(2,814)</u>
	<u>\$90,938</u>	<u>\$44,205</u>	<u>\$135,143</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 10 - CONCENTRATIONS

ABCS received 81% and 76% of its support and revenue for 2015 and 2014 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, 2015 ABCS had \$128,000 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 \$35,000 and \$22,000 for 2015 and 2014, 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 \$20,000 and \$18,000 for 2015 and 2014, respectively.

NOTE 12 - SUBSEQUENT EVENTS

ABCS did not have any subsequent events through May 20, 2016, 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, 2015.

