

**ARIZONA BAPTIST CHILDREN'S SERVICES**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 and 2017**

Arizona Baptist Children's Services

AUDITED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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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, 2018 and 2017, 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**

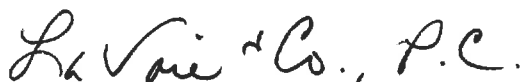
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2018 and 2017, 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, 2019

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

	2018		2017	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
<b>ASSETS</b>		<b>Total</b>		<b>Total</b>
Current Assets:				
Cash	\$ 372,804	\$ 372,804	\$ 128,957	\$ 134,917
Accounts receivable, net - Note 2	635,237	635,237	563,519	563,519
Promises to give - Note 3	114,101	114,101	161,997	161,997
<b>Total Current Assets</b>	<b>1,122,142</b>	<b>1,122,142</b>	<b>854,473</b>	<b>860,433</b>
Investments - Note 4	14,633	1,021,026	491,226	1,078,650
Property and Equipment - Note 5	1,328,860	1,328,860	793,000	793,000
Beneficial Interests In A Trust - Note 6	117,377	117,377	147,709	147,709
Other Assets	14,200	14,200	73,623	73,623
<b>Total Assets</b>	<b>\$ 2,597,212</b>	<b>\$ 3,618,238</b>	<b>\$ 2,360,031</b>	<b>\$ 3,444,641</b>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities:				
Line of credit	\$ 294,796	\$ 294,796	\$ 41,746	\$ 41,746
Accounts payable	227,005	227,005	158,427	158,427
Accrued payroll and taxes	130,228	130,228	119,298	119,298
Accrued paid time off	209,384	209,384	186,547	186,547
<b>Total Current Liabilities</b>	<b>861,413</b>	<b>861,413</b>	<b>506,018</b>	<b>506,018</b>
<b>NET ASSETS</b>				
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,735,799</b>	<b>\$ 2,756,825</b>	<b>\$ 1,854,507</b>	<b>\$ 2,938,623</b>
	<b>\$ 2,597,212</b>	<b>\$ 3,618,238</b>	<b>\$ 2,360,525</b>	<b>\$ 3,444,641</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,

	2018		2017	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
<b>CHANGES IN NET ASSETS</b>				
Support and Revenue:				
State contracts	\$ 7,350,205	\$ 7,350,205	\$ 6,843,938	\$ 6,843,938
Public contributions	1,365,216	1,372,572	1,427,417	1,427,417
Private care	169,294	169,294	185,443	185,443
In-kind contributions	1,127,347	1,127,347	530,555	530,555
Other revenue	96,329	96,329	36,671	36,671
Net assets released from restriction			47,261	(47,261)
Total Support and Revenue	10,108,391	10,115,747	9,071,285	9,024,024
Expenses:				
Program services	7,947,065	7,947,065	8,694,868	8,694,868
Supporting services - Administration	2,159,616	2,159,616	1,771,785	1,771,785
Total Expenses	10,106,681	10,106,681	10,466,653	10,466,653
<b>Increase (Decrease) in Net Assets Before Other Income (Loss)</b>	<b>1,710</b>	<b>7,356</b>	<b>(1,395,368)</b>	<b>(47,261)</b>
Other Income (Loss) - Note 9	(120,418)	(70,446)	144,538	72,951
<b>(Decrease) Increase in Net Assets</b>	<b>(118,708)</b>	<b>(63,090)</b>	<b>(1,250,830)</b>	<b>25,690</b>
NET ASSETS BEGINNING OF YEAR	1,854,507	1,084,116	3,105,337	1,058,426
<b>NET ASSETS END OF YEAR</b>	<b>\$ 1,735,799</b>	<b>\$ 1,021,026</b>	<b>\$ 1,854,507</b>	<b>\$ 1,084,116</b>
				<b>\$ 2,938,623</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,

	2018				2017			
	Program Services			Total	Supporting Services - Administration	Program Services	Supporting Services - Administration	Total
	Parent Aide	Foster Care	All Other Programs					
Salaries and wages	\$ 2,939,583	\$ 825,305	\$ 855,979	\$ 4,620,867	\$ 1,270,382	\$ 5,891,249	\$ 1,097,249	\$ 6,218,499
Payroll taxes	231,425	63,275	51,442	346,142	84,269	430,411	70,824	492,888
Employee benefits	675,046	190,629	155,941	1,021,616	251,343	1,272,959	204,057	1,203,758
Advertising	48	3,477	6,523	10,048	74,691	84,739	48,931	51,716
Bad debt expense					2,402	2,402	13,065	13,065
Communications	67,433	16,590	30,616	114,639	26,391	141,030	23,696	174,523
Contributions to a 501(c)(3)							1,449	2,919
Depreciation	34,826	8,933	19,268	63,027	16,327	79,354	11,674	78,521
Equipment rental	24,125	8,971	7,587	40,683	11,550	52,233	32,932	43,603
Insurance					106,968	106,968	104,133	104,133
Occupancy (rent, utilities)	96,723	37,203	94,518	228,444	23,677	252,121	16,847	260,033
Other	15,366	6,821	52,217	74,404	104,737	179,141	220,595	229,547
Postage	1,999	1,138	2,773	5,910	9,804	15,714	46	16,107
Printing		19		19	8,732	8,751	(546)	12,844
Professional services					18,954	18,954	16,519	16,519
Purchased services	34,104	15,059	7,581	56,744	40,254	96,998	34,227	42,730
Repairs and maintenance	4,245	3,555	24,682	32,482	74,095	106,577	47,906	122,228
Supplies	10,848	18,513	566,432	595,793	7,022	602,815	566,018	570,625
Vehicle costs	668,634	43,496	24,117	736,247	28,018	764,265	785,560	812,395
	<u>\$ 4,804,405</u>	<u>\$ 1,242,984</u>	<u>\$ 1,899,676</u>	<u>\$ 7,947,065</u>	<u>\$ 2,159,616</u>	<u>\$ 10,106,681</u>	<u>\$ 8,694,868</u>	<u>\$ 1,771,785</u>
								<u>\$ 10,466,653</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>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Decrease in Net Assets	\$ (181,798)	\$ (1,225,140)
Adjustments to reconcile the decrease in net assets to net cash used by operating activities:		
Bad debt expense	2,402	13,065
Depreciation	79,354	78,521
Contributions of property	(561,150)	
Split-interest agreements	30,332	506
Realized gains on investments	(6,562)	(23,815)
Unrealized losses on investments	81,994	147,461
Gain on sale of fixed assets	16,300	
(Increase) decrease in:		
Accounts receivable	(74,120)	134,544
Promises to give	47,896	(6,088)
Prepaid expenses		23,604
Other assets	59,423	(68,623)
Increase in:		
Accounts payable	68,578	8,082
Accrued payroll and taxes	10,930	(24,736)
Accrued paid time off	22,837	(15,627)
<b>Net Cash Used By Operating Activities</b>	<b><u>(403,584)</u></b>	<b><u>(958,246)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of investments	749,199	3,402,024
Purchases of investments	(314,212)	(3,554,158)
Proceeds from sales of property	7,500	
Purchases of property and equipment	(54,066)	(9,200)
<b>Net Cash Provided (Used) By Investing Activities</b>	<b><u>388,421</u></b>	<b><u>(161,334)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Line of credit, net	253,050	41,746
<b>Net Cash Provided By Financing Activities</b>	<b><u>253,050</u></b>	<b><u>41,746</u></b>
<b>INCREASE (DECREASE) IN CASH</b>	<b><u>237,887</u></b>	<b><u>(1,077,834)</u></b>
<b>CASH AT THE BEGINNING OF YEAR</b>	<b><u>134,917</u></b>	<b><u>1,212,751</u></b>
<b>CASH AT END OF YEAR</b>	<b><u>\$ 372,804</u></b>	<b><u>\$ 134,917</u></b>

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

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

PURPOSE AND ORGANIZATION

Arizona Baptist Children's Services (ABCS) is a religious nonprofit corporation that provides services to Arizona families and children. These services include: parent aide, foster care services, adoption services, outpatient counseling services, community resource centers 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 two classes of net assets: without donor restrictions and with donor restrictions. These net assets classifications are described as follows:

Without Donor Restrictions (previously known as "Unrestricted Net Assets") - not subject to donor-imposed restrictions. These net assets may be designated for specific purposes or locations by action of the Board of Directors.

With Donor Restrictions:

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, 2018 and 2017.

Promises to Give - Contributions are recognized when the donor makes a promise to give to ABCS that is, in substance, unconditional. ABCS 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. No bad debt allowance was provided for 2018 or 2017.



NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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.

Fair values of investments measured at December 31, 2018 are as follows:

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>	
	<u>Fair Value</u>	<u>Level 1</u>	<u>Fair Value</u>	<u>Level 1</u>
Money market funds	\$14,633	\$14,633	\$ 28,171	\$ 28,171
Equities			348,129	348,129
Fixed income			348,309	348,309
Mutual funds			296,417	296,417
	<u>\$14,633</u>	<u>\$14,633</u>	<u>\$1,021,026</u>	<u>\$1,021,026</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 4 - INVESTMENTS (Continued)

Fair values of investments measured at December 31, 2017 are as follows:

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</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>

Investment income consisted of the following:

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 118	\$ 35,081	\$ 20,323	\$ 8,308
Investment expenses			(15,230)	
Realized gains (losses)		23,815	6,455	
Unrealized gains (losses)	<u>(106,504)</u>	<u>85,642</u>	<u>(81,994)</u>	<u>64,643</u>
Net investment income	<u>\$(144,538)</u>	<u>\$144,538</u>	<u>\$(70,446)</u>	<u>\$72,951</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2018</u>	<u>2017</u>	<u>Lives</u>
Land	\$ 220,000	\$ 141,000	
Buildings and improvements	1,552,589	1,168,638	10 - 30
Furniture and equipment	52,387	70,401	3 - 7
Vehicles	<u>157,912</u>	<u>305,697</u>	5
	1,982,888	1,685,736	
Less accumulated depreciation	<u>(654,028)</u>	<u>(892,736)</u>	
	<u>\$1,328,860</u>	<u>\$ 793,000</u>	

NOTE 6 - BENEFICIAL INTERESTS IN A TRUST

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

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 6 - BENEFICIAL INTERESTS IN A TRUST (Continued)

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 3.6% and 2.6% discount rates for 2018 and 2017, 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 \$117,376 and \$147,709 at December 31, 2018 and 2017, respectively.

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

	2018		2017	
	Fair Value	Level 1	Fair Value	Level 1
Money market funds	\$ 5,415	\$ 5,415	\$ 5,525	\$ 5,525
Equities	45,883	45,883	63,981	63,981
Fixed income	<u>66,079</u>	<u>66,079</u>	<u>78,203</u>	<u>78,203</u>
	<u>\$117,377</u>	<u>\$117,377</u>	<u>\$147,709</u>	<u>\$147,709</u>

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 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

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 7 - ENDOWMENT FUNDS – PERMANENTLY RESTRICTED (Continued)

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, 2018 or 2017.

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.

Fair values of endowment investments are listed under Note 4 Investments. Changes in endowment net assets are as follows:

	<u>2018</u>	<u>2017</u>
Beginning of year	\$1,084,116	\$1,058,426
Contributions	7,356	
Investment income	(70,446)	72,951
Appropriation of endowment assets for expenditure		(47,261)
End of year	<u>\$1,021,026</u>	<u>\$1,084,116</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 7 - ENDOWMENT FUNDS – PERMANENTLY RESTRICTED (Continued)

The endowment funds consist of:

	<u>2018</u>	<u>2017</u>	<u>Distribution</u>
Carnes	\$ 275,349	\$ 277,683	85% of income
Wade	6,779		Income paid quarterly
Smithy/Tulsa	<u>738,898</u>	<u>806,433</u>	Up to 5%
	<u>\$1,021,026</u>	<u>\$1,084,116</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 \$177,000 and \$182,000 for 2018 and 2017, 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	\$109,000
2019	101,000
2020	101,000
2021	101,000
2022	101,000
Thereafter	<u>249,000</u>
	<u>\$762,000</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 9 – OTHER INCOME (LOSS)

Other (loss) income consists of the following for 2018:

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>	<u>Total</u>
Interest and dividends	\$ 118	\$ 20,323	\$ 20,441
Investment expenses		(15,230)	(15,230)
Change in value of split-interests	(30,332)		(30,332)
Gain on sale of fixed assets	16,300		16,300
Net realized and unrealized (losses) gains	<u>(106,504)</u>	<u>(75,539)</u>	<u>(182,043)</u>
	<u>\$(120,418)</u>	<u>\$(70,446)</u>	<u>\$(190,864)</u>

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

	<u>Unrestricted</u>	Permanently <u>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>

NOTE 10 - CONCENTRATIONS

ABCS received 73% and 76% of its support and revenue for 2018 and 2017 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, 2018, ABCS had \$103,000 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 may participate in the Plan immediately upon employment. Employees may make an elective salary deferral up to the maximum allowed by law. ABCS matches the employee's elective salary deferral up to 3 percent after one year of employment. Employer contributions were \$59,000 and \$50,000 for 2018 and 2017, respectively.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 11 - RETIREMENT PLAN (Continued)

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 4 percent. Employer contributions were \$5,000 and \$3,000 for 2018 and 2017, respectively.

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 \$15,200 and \$9,500 in fees for 2018 and 2017, respectively.

NOTE 13 – INFORMATION REGARDING LIQUIDITY AND AVAILABILITY

ABCS has significant exchange contracts with the State of Arizona requiring sufficient cash until the billed receivables are collected. ABCS also receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. ABCS manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. ABCS has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 30 days operating expenses. ABCS has a policy to target a year-end balance of reserves of unrestricted, undesignated net assets to meet 15 to 30 days of expected expenditures. To achieve these targets, the entity forecasts its future cash flows and monitors its liquidity quarterly, and monitors its reserves annually. During the years ended December 31, 2018 and 2017, the level of liquidity and reserves was managed within the policy requirements.

	<u>2018</u>	<u>2017</u>
Total financial assets	\$2,157,801	\$2,430,309
Donor-imposed restrictions:		
Cash		(5,960)
Investments	<u>(1,035,659)</u>	<u>(1,569,876)</u>
	<u>\$1,122,142</u>	<u>\$1,345,699</u>

NOTE 14 - SUBSEQUENT EVENTS

ABCS did not have any subsequent events through June 15, 2019, 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, 2018.