



**ARIZONA BAPTIST CHILDREN'S SERVICES**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 and 2018**

Arizona Baptist Children's Services

AUDITED FINANCIAL STATEMENTS

December 31, 2019 and 2018

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Mara G. Mann, CPA  
Certified Public Accountant

## 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 statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. The financial statements of Arizona Baptist Children's Services as of December 31, 2018 were audited by other auditors whose report dated June 15, 2019, expressed an unqualified opinion on those 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

  
Mara G. Mann, CPA  
Phoenix, AZ  
May 11, 2020

Arizona Baptist Children's Services  
 STATEMENTS OF ACTIVITIES  
 For The Years Ending December 31,

	2019		2018	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
<b>CHANGES IN NET ASSETS</b>				
Support and Revenue:				
State contracts	\$ 7,446,264	\$ 7,446,264	\$ 7,350,205	\$ 7,350,205
Public contributions	1,430,736	1,430,736	1,365,216	1,372,572
Private care	179,933	179,933	169,294	169,294
In-kind contributions	4,618,626	4,618,626	1,127,347	1,127,347
Other revenue	135,289	135,289	96,329	96,329
Net assets released from restriction				
Total Support and Revenue	13,810,848	13,810,848	10,108,391	10,115,747
Expenses:				
Program services	8,886,682	8,886,682	7,947,065	7,947,065
Supporting services - Administration	2,283,296	2,283,296	2,159,616	2,159,616
Total Expenses	11,169,978	11,169,978	10,106,681	10,106,681
Increase in Net Assets				
Before Other Income (Loss)	2,640,870	2,640,870	1,710	7,356
Other Income (Loss) - Note 9	56,388	129,544	(120,418)	(70,446)
Increase (Decrease) in Net Assets	2,697,258	2,826,802	(118,708)	(63,090)
NET ASSETS BEGINNING OF YEAR	1,735,799	1,021,026	1,854,507	1,084,116
NET ASSETS END OF YEAR	<u>\$ 4,433,057</u>	<u>\$ 1,150,570</u>	<u>\$ 1,735,799</u>	<u>\$ 1,021,026</u>
				<u>\$ 2,756,825</u>

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

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

	2019		2018	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 181,446	\$ 181,446	\$ 372,804	\$ 372,804
Accounts receivable, net - Note 2	576,390	576,390	635,237	635,237
Promises to give - Note 3	121,065	121,065	114,101	114,101
Total Current Assets	878,901	878,901	1,122,142	1,122,142
Investments - Note 4				
Property and Equipment - Note 5	\$ 1,150,570	1,150,570	14,633	\$ 1,021,026
Beneficial Interests In A Trust - Note 6	4,277,822	4,277,822	1,328,860	1,328,860
Other Assets	173,743	173,743	117,377	117,377
	11,500	11,500	14,200	14,200
<b>Total Assets</b>	<b>\$ 5,341,966</b>	<b>\$ 6,492,536</b>	<b>\$ 2,597,212</b>	<b>\$ 3,618,238</b>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities:				
Line of credit	\$ 295,230	\$ 295,230	\$ 294,796	\$ 294,796
Accounts payable	246,687	246,687	227,005	227,005
Accrued payroll and taxes	131,769	131,769	130,228	130,228
Accrued paid time off	235,223	235,223	209,384	209,384
Total Current Liabilities	908,909	908,909	861,413	861,413
<b>NET ASSETS</b>				
	4,433,057	5,583,627	1,735,799	2,756,825
<b>Total Liabilities and Net Assets</b>	<b>\$ 5,341,966</b>	<b>\$ 6,492,536</b>	<b>\$ 2,597,212</b>	<b>\$ 3,618,238</b>

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

Arizona Baptist Children's Services

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ending December 31, 2019

	Program Services				Supporting Services - Administration	Total
	Parent Aide	Foster Care	All Other Programs	Total		
Salaries and wages	\$ 2,924,572	\$ 787,548	\$ 892,877	\$ 4,604,997	\$ 1,319,486	\$ 5,924,483
Payroll taxes	230,134	61,126	51,782	343,042	89,200	432,242
Employee benefits	686,564	170,355	162,013	1,018,932	282,301	1,301,233
Advertising	488	2,352	7,592	10,432	32,019	42,451
Bad debt expense					12,382	12,382
Communications	54,544	13,438	26,048	94,030	24,179	118,209
Depreciation	11,368	8,933	30,546	50,847	48,066	98,913
Equipment rental	25,958	9,453	7,898	43,309	5,551	48,860
Insurance					104,255	104,255
Occupancy (rent, utilities)	43,087	17,640	71,268	131,995	28,520	160,515
Other	12,520	11,227	46,994	70,741	115,705	186,446
Postage	2,305	825	1,322	4,452	9,143	13,595
Printing	24	8	16	48	6,853	6,901
Professional services	3				14,701	14,701
Purchased services	43,344	21,494	6,603	71,441	42,410	113,851
Repairs and maintenance	9,962	22,063	29,151	61,176	114,110	175,286
Supplies	9,136	13,909	1,650,795	1,673,840	9,765	1,683,605
Vehicle costs	647,960	38,170	21,270	707,400	24,650	732,050
	<u>\$ 4,701,969</u>	<u>\$ 1,178,541</u>	<u>\$ 3,006,175</u>	<u>\$ 8,886,682</u>	<u>\$ 2,283,296</u>	<u>\$ 11,169,978</u>

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

Arizona Baptist Children's Services

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ending December 31, 2018

	Program Services			Total	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
Payroll taxes	231,425	63,275	51,442	346,142	84,269	430,411
Employee benefits	675,046	190,629	155,941	1,021,616	251,343	1,272,959
Advertising	48	3,477	6,523	10,048	74,691	84,739
Bad debt expense					2,402	2,402
Communications	67,433	16,590	30,616	114,639	26,391	141,030
Depreciation	34,826	8,933	19,268	63,027	16,327	79,354
Equipment rental	24,125	8,971	7,587	40,683	11,550	52,233
Insurance					106,968	106,968
Occupancy (rent, utilities)	96,723	37,203	94,518	228,444	23,677	252,121
Other	15,366	6,821	52,217	74,404	104,737	179,141
Postage	1,999	1,138	2,773	5,910	9,804	15,714
Printing		19		19	8,732	8,751
Professional services					18,954	18,954
Purchased services	34,104	15,059	7,581	56,744	40,254	96,998
Repairs and maintenance	4,245	3,555	24,682	32,482	74,095	106,577
Supplies	10,848	18,513	566,432	595,793	7,022	602,815
Vehicle costs	668,634	43,496	24,117	736,247	28,018	764,265
	<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>

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,

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase (Decrease) in Net Assets	\$ 2,826,802	\$ (181,798)
Adjustments to reconcile the decrease in net assets to net cash used by operating activities:		
Bad debt expense	12,382	2,402
Depreciation	98,913	79,354
Contributions of property	(3,191,053)	(561,150)
Split-interest agreements	(56,366)	30,332
Realized gains on investments	(135,456)	(6,562)
Unrealized losses on investments	10,809	81,994
Gain on sale of fixed assets		16,300
(Increase) decrease in:		
Accounts receivable	58,847	(74,120)
Promises to give	(6,964)	47,896
Other assets	2,700	59,423
Increase in:		
Accounts payable	19,682	68,578
Accrued payroll and taxes	1,541	10,930
Accrued paid time off	25,839	22,837
<b>Net Cash Used By Operating Activities</b>	<b>(332,324)</b>	<b>(403,584)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of investments	1,074,357	749,199
Purchases of investments	(933,825)	(314,212)
Proceeds from sales of property		7,500
Purchases of property and equipment		(54,066)
<b>Net Cash Provided By Investing Activities</b>	<b>140,532</b>	<b>388,421</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Line of credit, net	434	253,050
<b>Net Cash Provided By Financing Activities</b>	<b>434</b>	<b>253,050</b>
<b>(DECREASE) INCREASE IN CASH</b>	<b>(191,358)</b>	<b>237,887</b>
<b>CASH AT THE BEGINNING OF YEAR</b>	<b>372,804</b>	<b>134,917</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 181,446</b>	<b>\$ 372,804</b>

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



Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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, 2019 and 2018.

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 2019 or 2018.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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 inputs 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. During 2019, ABCS received contributions of real estate valued and recorded at \$3,191,000.

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. 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, 2019 and 2018

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. At December 31, 2019 and 2018, ABCS had 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, 2019 and 2018, 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, 2019 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			\$1,123,534	\$1,123,534
Equities			6,050	6,050
Mutual funds			20,986	20,986
			<u>\$1,150,570</u>	<u>\$1,150,570</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 4 - INVESTMENTS (Continued)

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>

Investment income consisted of the following:

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Interest and dividends		\$ 118	\$ 17,253	\$ 20,323
Investment expenses			(12,302)	(15,230)
Realized gains (losses)			135,456	6,455
Unrealized gains (losses)		(136,836)	(10,863)	(81,994)
Net investment income		<u>\$(136,836)</u>	<u>\$129,544</u>	<u>\$(70,446)</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2019</u>	<u>2018</u>	<u>Lives</u>
Land	\$ 857,000	\$ 220,000	
Buildings and improvements	3,858,192	1,552,589	10 - 30
Furniture and equipment	52,387	52,387	3 - 7
Vehicles	157,912	157,912	5
	4,925,491	1,982,888	
Less accumulated depreciation	<u>(647,669)</u>	<u>(654,028)</u>	
	<u>\$4,277,822</u>	<u>\$1,328,860</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, 2019 and 2018

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 2.0% and 3.6% discount rates for 2019 and 2018, 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 \$173,742 and \$117,376 at December 31, 2019 and 2018, respectively.

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

	2019		2018	
	Fair Value	Level 1	Fair Value	Level 1
Money market funds	\$ 6,587	\$ 6,587	\$ 5,415	\$ 5,415
Equities	69,217	69,217	45,883	45,883
Fixed income	97,938	97,938	66,079	66,079
	<u>\$173,742</u>	<u>\$173,742</u>	<u>\$117,377</u>	<u>\$117,377</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, 2019 and 2018

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, 2019 or 2018.

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>2019</u>	<u>2018</u>
Beginning of year	\$1,021,026	\$1,084,116
Contributions		7,356
Investment income	129,544	(70,446)
Appropriation of endowment assets for expenditure		
End of year	<u>\$1,150,570</u>	<u>\$1,021,026</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 7 - ENDOWMENT FUNDS – PERMANENTLY RESTRICTED (Continued)

The endowment funds consist of:

	<u>2019</u>	<u>2018</u>	<u>Distribution</u>
Carnes	\$ 285,290	\$ 275,349	85% of income
Wade	7,898	6,779	Income paid quarterly
Smithey/Tulsa	857,382	738,898	Up to 5%
	<u>\$1,150,570</u>	<u>\$1,021,026</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 \$68,000 and \$177,000 for 2019 and 2018, 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>
2020	\$ 35,000
2021	24,000
2022	23,000
2023	23,000
2024	23,000
Thereafter	<u>70,000</u>
	<u>\$198,000</u>

NOTE 9 – OTHER INCOME (LOSS)

Other (loss) income consists of the following for 2019:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Interest and dividends	\$ 22	\$ 17,253	\$ 17,275
Investment expenses		(12,302)	(12,302)
Change in value of split-interests	56,366		56,366
Net realized and unrealized gains		<u>124,593</u>	<u>124,593</u>
	<u>\$56,388</u>	<u>\$129,544</u>	<u>\$185,932</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 9 – OTHER INCOME (LOSS) (Continued)

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)	<u>(106,504)</u>	<u>(75,539)</u>	<u>(182,043)</u>
	<u>\$(120,418)</u>	<u>\$(70,446)</u>	<u>\$(190,864)</u>

NOTE 10 - CONCENTRATIONS

ABCS received 54% and 73% of its support and revenue for 2019 and 2018 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, 2019, ABCS did not have deposits 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 \$58,800 and \$59,500 for 2019 and 2018, 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 4 percent. Employer contributions were \$5,000 and \$4,800 for 2019 and 2018, respectively.



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NOTES TO FINANCIAL STATEMENTS

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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 \$12,300 and \$15,200 in fees for 2019 and 2018, 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, 2019 and 2018, the level of liquidity and reserves was managed within the policy requirements.

	<u>2019</u>	<u>2018</u>
Total financial assets	\$2,029,471	\$2,157,801
Donor-imposed restrictions:		
Cash		
Investments	<u>(1,150,570)</u>	<u>(1,035,659)</u>
	<u>\$ 878,901</u>	<u>\$1,122,142</u>

NOTE 14 - SUBSEQUENT EVENTS

ABCS did not have any subsequent events through May 11, 2020, 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, 2019.