



Mara G. Mann, CPA  
Certified Public Accountant

June 16, 2021

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

Dear Mr. Hanna:

Enclosed please find the audited financial statements of ABCS for the years ended December 31, 2020 and 2019.

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

Sincerely,

Mara G. Mann, CPA

Enclosures

**ARIZONA BAPTIST CHILDREN'S SERVICES**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2020 and 2019**

Arizona Baptist Children's Services

AUDITED FINANCIAL STATEMENTS

December 31, 2020 and 2019

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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 statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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, 2020, 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  
June 16, 2021  
Arizona Baptist Children's Services

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

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash	\$ 1,031,359		\$ 1,031,359	\$ 181,446		\$ 181,446
Accounts receivable, net - Note 2	509,015		509,015	576,390		576,390
Promises to give - Note 3	564,341		564,341	121,065		121,065
Total Current Assets	2,104,715		2,104,715	878,901		878,901
Investments - Note 4		\$ 1,155,818	1,155,818		\$ 1,150,570	1,150,570
Property and Equipment - Note 5	4,296,808		4,296,808	4,277,822		4,277,822
Beneficial Interests In A Trust - Note 6	240,270		240,270	173,743		173,743
Other Assets	5,000		5,000	11,500		11,500
<b>Total Assets</b>	<b>\$ 6,646,793</b>	<b>\$ 1,155,818</b>	<b>\$ 7,802,611</b>	<b>\$ 5,341,966</b>	<b>\$ 1,150,570</b>	<b>\$ 6,492,536</b>
<b>LIABILITIES AND NET ASSETS</b>						
<b>Current Liabilities:</b>						
Line of credit				\$ 295,230		\$ 295,230
Accounts payable	\$ 193,990		\$ 193,990	246,687		246,687
Accrued payroll and taxes	132,323		132,323	131,769		131,769
Accrued paid time off	207,360		207,360	235,223		235,223
Total Current Liabilities	533,673		533,673	908,909		908,909
<b>NET ASSETS</b>	<u>6,113,120</u>	<u>\$ 1,155,818</u>	<u>7,268,938</u>	<u>4,433,057</u>	<u>\$ 1,150,570</u>	<u>5,583,627</u>
<b>Total Liabilities and Net Assets</b>	<b>\$ 6,646,793</b>	<b>\$ 1,155,818</b>	<b>\$ 7,802,611</b>	<b>\$ 5,341,966</b>	<b>\$ 1,150,570</b>	<b>\$ 6,492,536</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,

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>CHANGES IN NET ASSETS</b>						
<b>Support and Revenue:</b>						
State contracts	\$ 6,522,314		\$ 6,522,314	\$ 7,446,264		\$ 7,446,264
Public contributions	2,041,049		2,041,049	1,430,736		1,430,736
Paycheck Protection Program - Note 14	1,367,246		1,367,246			
Private care	160,600		160,600	179,933		179,933
In-kind contributions	2,154,721		2,154,721	4,618,626		4,618,626
Other revenue	171,171		171,171	135,289		135,289
Net assets released from restriction	<u>51,760</u>	<u>\$ (51,760)</u>				
<b>Total Support and Revenue</b>	<b>12,468,861</b>	<b>(51,760)</b>	<b>12,417,101</b>	<b>13,810,848</b>		<b>13,810,848</b>
<b>Expenses:</b>						
Program services	8,619,891		8,619,891	8,886,682		8,886,682
Supporting services - Administration	<u>2,247,730</u>		<u>2,247,730</u>	<u>2,283,296</u>		<u>2,283,296</u>
<b>Total Expenses</b>	<b>10,867,621</b>		<b>10,867,621</b>	<b>11,169,978</b>		<b>11,169,978</b>
<b>Increase in Net Assets Before Other Income</b>	<b>1,601,240</b>		<b>1,549,480</b>	<b>2,640,870</b>		<b>2,640,870</b>
Other Income - Note 9	<u>78,823</u>	<u>\$ 57,008</u>	<u>135,831</u>	<u>56,388</u>	<u>\$ 129,544</u>	<u>185,932</u>
<b>Increase in Net Assets</b>	<b>1,680,063</b>	<b>57,008</b>	<b>1,685,311</b>	<b>2,697,258</b>	<b>129,544</b>	<b>2,826,802</b>
<b>NET ASSETS BEGINNING OF YEAR</b>	<u>4,433,057</u>	<u>1,150,570</u>	<u>5,583,627</u>	<u>1,735,799</u>	<u>1,021,026</u>	<u>2,756,825</u>
<b>NET ASSETS END OF YEAR</b>	<b><u>\$ 6,113,120</u></b>	<b><u>\$ 1,155,818</u></b>	<b><u>\$ 7,268,938</u></b>	<b><u>\$ 4,433,057</u></b>	<b><u>\$ 1,150,570</u></b>	<b><u>\$ 5,583,627</u></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, 2020

	Program Services				Supporting Services -	
	Parent Aide	Foster Care	All Other Programs	Total	Administration	Total
Salaries and wages	\$ 2,558,977	\$ 844,031	\$ 777,010	\$ 4,180,018	\$ 1,400,382	\$ 5,580,400
Payroll taxes	184,770	62,560	47,864	295,194	96,027	391,221
Employee benefits	582,995	182,593	122,357	887,945	207,379	1,095,324
Advertising	130	3,822	5,033	8,985	26,753	35,738
Bad debt expense					20,424	20,424
Communications	32,241	10,883	20,205	63,329	24,850	88,179
Depreciation	62,537	8,933	40,626	112,096	16,251	128,347
Equipment rental	26,893	9,805	8,405	45,103	6,409	51,512
Insurance					123,696	123,696
Occupancy (rent, utilities)	44,460	21,193	71,931	137,584	22,589	160,173
Other	5,178	4,509	32,040	41,727	104,179	145,906
Postage	1,746	541	5,212	7,499	11,690	19,189
Printing	374	131	304	809	1,735	2,544
Professional services					16,956	16,956
Purchased services	39,577	20,935	7,477	67,989	51,198	119,187
Repairs and maintenance	15,081	8,538	60,716	84,335	81,426	165,761
Supplies	9,502	13,515	2,165,364	2,188,381	13,414	2,201,795
Vehicle costs	464,574	19,307	15,016	498,897	22,372	521,269
	<u>\$ 4,029,035</u>	<u>\$ 1,211,296</u>	<u>\$ 3,379,560</u>	<u>\$ 8,619,891</u>	<u>\$ 2,247,730</u>	<u>\$ 10,867,621</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, 2019

	Program Services				Supporting Services -	
	Parent Aide	Foster Care	All Other Programs	Total	Administration	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 CASH FLOWS

For The Years Ending December 31,

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in Net Assets	\$ 1,685,311	\$ 2,826,802
Adjustments to reconcile the increase in net assets to net cash provided (used) by operating activities:		
Bad debt expense	20,424	12,382
Depreciation	128,347	98,913
Contributions of property		(3,191,053)
Split-interest agreements	(66,527)	(56,366)
Realized gains on investments	4,393	(135,456)
Unrealized (gains) losses on investments	(50,303)	10,809
Gain on sale of fixed assets	(12,227)	
Decrease (increase) in:		
Accounts receivable	67,375	58,847
Promises to give	(443,276)	(6,964)
Other assets	6,500	2,700
(Decrease) increase in:		
Accounts payable	(52,697)	19,682
Accrued payroll and taxes	554	1,541
Accrued paid time off	(27,863)	25,839
<b>Net Cash Provided (Used) By Operating Activities</b>	<b><u>1,260,011</u></b>	<b><u>(332,324)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of investments		1,074,357
Purchases of investments		(933,825)
Proceeds from sales of property	18,068	
Purchases of property and equipment	(132,936)	
<b>Net Cash (Used) Provided By Investing Activities</b>	<b><u>(114,868)</u></b>	<b><u>140,532</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Line of credit, net	(295,230)	434
<b>Net Cash (Used) Provided By Financing Activities</b>	<b><u>(295,230)</u></b>	<b><u>434</u></b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>849,913</b>	<b>(191,358)</b>
CASH AT THE BEGINNING OF YEAR	<u>181,446</u>	<u>372,804</u>
<b>CASH AT END OF YEAR</b>	<b><u>\$ 1,031,359</u></b>	<b><u>\$ 181,446</u></b>

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

## NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

### 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, 2020 and 2019.

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 2020 or 2019.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, 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

Included in promises to give is a residual trust settled to the benefit of ABCS in the amount of \$450,000 which was received by ABCS in 2021.

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.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 4 - INVESTMENTS (Continued)

Fair values of investments measured at December 31, 2020 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			\$422,787	\$422,787
Equities			260,719	260,719
Fixed income			348,996	348,996
Mutual funds			<u>123,316</u>	<u>123,316</u>
			<u>\$1,155,818</u>	<u>\$1,155,818</u>

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			<u>20,986</u>	<u>20,986</u>
			<u>\$1,150,570</u>	<u>\$1,150,570</u>

Investment income consisted of the following:

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Interest and dividends			\$ 2,533	\$ 17,253
Investment expenses			(220)	(12,302)
Realized gains			4,393	135,456
Unrealized gains (losses)			<u>50,303</u>	<u>(10,863)</u>
Net investment income			<u>\$57,009</u>	<u>\$129,544</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2020</u>	<u>2019</u>	<u>Lives</u>
Land	\$ 857,000	\$ 857,000	
Buildings and improvements	3,910,192	3,858,192	10 - 30
Furniture and equipment	52,387	52,387	3 - 7
Vehicles	<u>180,678</u>	<u>157,912</u>	5
	5,000,257	4,925,491	
Less accumulated depreciation	<u>(723,449)</u>	<u>(647,669)</u>	
	<u>\$4,296,808</u>	<u>\$4,277,822</u>	

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 6 - BENEFICIAL INTERESTS IN A TRUST

Irrevocable Remainder Trusts - Unrestricted

In 2006, a revocable remainder trust naming ABCS as a remainder beneficiary became irrevocable due to the death of the donors. Under that trust document, ABCS will receive the remaining trust principal after the death of the income beneficiaries. The fair value of the remaining trust principal is estimated based on the future fair value of the trust assets, less payments to income beneficiaries, computed to a present value. Based on the income beneficiary's life expectancy and the .6% and 2.0% discount rates for 2020 and 2019, 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 \$240,269 and \$173,742 at December 31, 2020 and 2019, respectively.

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

	<u>2020</u>		<u>2019</u>	
	<u>Fair Value</u>	<u>Level 1</u>	<u>Fair Value</u>	<u>Level 1</u>
Money market funds	\$ 8,209	\$ 8,209	\$ 6,587	\$ 6,587
Equities	108,629	108,629	69,217	69,217
Fixed income	<u>123,431</u>	<u>123,431</u>	<u>97,938</u>	<u>97,938</u>
	<u>\$240,269</u>	<u>\$240,269</u>	<u>\$173,742</u>	<u>\$173,742</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, 2020 and 2019

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, 2020 or 2019.

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>2020</u>	<u>2019</u>
Beginning of year	\$1,150,570	\$1,021,026
Contributions		
Investment income	57,008	129,544
Appropriation of endowment assets for expenditure	<u>(51,760)</u>	
End of year	<u>\$1,155,818</u>	<u>\$1,150,570</u>

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NOTES TO FINANCIAL STATEMENTS

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NOTE 7 - ENDOWMENT FUNDS – PERMANENTLY RESTRICTED (Continued)

The endowment funds consist of:

	<u>2020</u>	<u>2019</u>	<u>Distribution</u>
Carnes	\$ 304,562	\$ 285,290	85% of income
Wade	8,187	7,898	Income paid quarterly
Smithey/Tulsa	<u>843,069</u>	<u>857,382</u>	Up to 5%
	<u>\$1,155,818</u>	<u>\$1,150,570</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 \$59,000 and \$68,000 for 2020 and 2019, 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>
2021	\$ 35,000
2022	25,000
2023	25,000
2024	25,000
2025	25,000
Thereafter	<u>50,000</u>
	<u>\$185,000</u>

NOTE 9 – OTHER INCOME (LOSS)

Other income consists of the following for 2020:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Change in value of split-interests	\$66,487		\$66,487
Investment income, net	109	\$57,008	57,117
Gain on sale of assets	<u>12,227</u>		<u>12,227</u>
	<u>\$78,823</u>	<u>\$57,008</u>	<u>\$135,831</u>



Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 9 – OTHER INCOME (LOSS) (Continued)

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

	Without Donor <u>Restriction</u>	With Donor <u>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 (losses)		<u>124,593</u>	<u>124,593</u>
	<u>\$56,388</u>	<u>\$129,544</u>	<u>\$185,932</u>

NOTE 10 - CONCENTRATIONS

ABCS received 55% and 54% of its support and revenue for 2020 and 2019 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, 2020, ABCS had deposits in excess of federal deposit insurance in the amount of \$589,000.

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 \$60,400 and \$58,800 for 2020 and 2019, 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 \$5,100 and \$5,000 for 2020 and 2019, respectively.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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 for 2019.

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, 2020 and 2019, the level of liquidity and reserves was managed within the policy requirements.

	<u>2020</u>	<u>2019</u>
Total financial assets	\$3,260,533	\$2,029,471
Donor-imposed restrictions:		
Cash		
Investments	<u>(1,155,818)</u>	<u>(1,150,570)</u>
	<u>\$2,104,715</u>	<u>\$ 878,901</u>

NOTE 14 – PAYCHECK PROTECTION PROGRAM

ABCS was granted a loan pursuant to the Paycheck Protection Program (“PPP”) under the CARES Act. Principal and interest were forgivable after a 24-week period as long as ABCS used the funds for eligible purposes, including payroll, benefits, rent, debt payments, interest and utilities, and maintained its payroll levels. ABCS met the criteria for forgiveness and its application for forgiveness was approved. The forgiven amount is recorded as support and revenue on the Statement of Activities as Paycheck Protection Program.

NOTE 16 - SUBSEQUENT EVENTS

ABCS did not have any subsequent events through June 15, 2021, 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, 2020.