



Mara G. Mann, CPA  
Certified Public Accountant

June 2, 2022

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, 2021 and 2020.

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, 2021 and 2020**

Arizona Baptist Children's Services

AUDITED FINANCIAL STATEMENTS

December 31, 2021 and 2020

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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, 2021, 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**

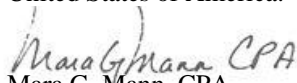
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2021, 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 2, 2022  
Arizona Baptist Children's Services

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

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash	\$ 435,180	\$ 359,992	\$ 795,172	\$ 1,031,359	\$ 422,787	\$ 1,454,146
Accounts receivable, net - Note 2	394,014		394,014	509,015		509,015
Promises to give - Note 3	118,112		118,112	564,341		564,341
<b>Total Current Assets</b>	<b>947,306</b>		<b>1,307,298</b>	<b>2,104,715</b>		<b>2,527,502</b>
Investments - Note 4	86,451	908,608	995,059		733,031	733,031
Property and Equipment - Note 5	4,415,344		4,415,344	4,296,808		4,296,808
Beneficial Interests In A Trust - Note 6	220,962		220,962	240,270		240,270
Other Assets	5,000		5,000	5,000		5,000
<b>Total Assets</b>	<b>\$ 5,675,063</b>	<b>\$ 1,268,600</b>	<b>\$ 6,943,663</b>	<b>\$ 6,646,793</b>	<b>\$ 1,155,818</b>	<b>\$ 7,802,611</b>
<b>LIABILITIES AND NET ASSETS</b>						
<b>Current Liabilities:</b>						
Accounts payable	\$ 163,900		\$ 163,900	\$ 193,990		\$ 193,990
Accrued payroll and taxes	109,359		109,359	132,323		132,323
Accrued paid time off	195,396		195,396	207,360		207,360
Current portion long-term debt - Note 12	24,000		24,000			
<b>Total Current Liabilities</b>	<b>492,655</b>		<b>492,655</b>	<b>533,673</b>		<b>533,673</b>
Long-Term Debt - Note 12	206,000		206,000			
	698,655		698,655			
<b>NET ASSETS</b>	<b>4,976,408</b>	<b>\$ 1,268,600</b>	<b>6,245,008</b>	<b>6,113,120</b>	<b>\$ 1,155,818</b>	<b>7,268,938</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 5,675,063</b>	<b>\$ 1,268,600</b>	<b>\$ 6,943,663</b>	<b>\$ 6,646,793</b>	<b>\$ 1,155,818</b>	<b>\$ 7,802,611</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,

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>CHANGES IN NET ASSETS</b>						
Support and Revenue:						
State contracts	\$ 4,831,635		\$ 4,831,635	\$ 6,522,314		\$ 6,522,314
Public contributions	1,711,698		1,711,698	2,041,049		2,041,049
Paycheck Protection Program - Note 14	64,101		64,101	1,367,246		1,367,246
Private care	147,909		147,909	160,600		160,600
In-kind contributions	2,656,844		2,656,844	2,154,721		2,154,721
Other revenue	141,728		141,728	171,171		171,171
Net assets released from restriction	299	\$ (299)		51,760	\$ (51,760)	
<b>Total Support and Revenue</b>	<b>9,554,214</b>	<b>(299)</b>	<b>9,553,915</b>	<b>12,468,861</b>	<b>(51,760)</b>	<b>12,417,101</b>
Expenses:						
Program services	8,347,309		8,347,309	8,619,891		8,619,891
Supporting services - Administration	2,331,374		2,331,374	2,247,730		2,247,730
<b>Total Expenses</b>	<b>10,678,683</b>		<b>10,678,683</b>	<b>10,867,621</b>		<b>10,867,621</b>
<b>(Decrease) Increase in Net Assets Before Other Income</b>	<b>(1,124,469)</b>		<b>(1,124,768)</b>	<b>1,601,240</b>		<b>1,549,480</b>
Other (Expense) Income - Note 9	(12,243)	\$ 113,081	100,838	78,823	\$ 57,008	135,831
<b>(Decrease) Increase in Net Assets</b>	<b>(1,136,712)</b>	<b>113,081</b>	<b>(1,023,930)</b>	<b>1,680,063</b>	<b>57,008</b>	<b>1,685,311</b>
<b>NET ASSETS BEGINNING OF YEAR</b>	<b>6,113,120</b>	<b>1,155,818</b>	<b>7,268,938</b>	<b>4,433,057</b>	<b>1,150,570</b>	<b>5,583,627</b>
<b>NET ASSETS END OF YEAR</b>	<b>\$ 4,976,408</b>	<b>\$ 1,268,600</b>	<b>\$ 6,245,008</b>	<b>\$ 6,113,120</b>	<b>\$ 1,155,818</b>	<b>\$ 7,268,938</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, 2021

	Program Services				Supporting Services -	
	Parent Aide	Foster Care	All Other Programs	Total	Administration	Total
Salaries and wages	\$ 1,952,534	\$ 764,765	\$ 815,016	\$ 3,532,315	\$ 1,432,358	\$ 4,964,673
Payroll taxes	172,203	67,948	55,897	296,048	110,143	406,191
Employee benefits	424,359	166,679	120,009	711,047	244,309	955,356
Advertising	39	3,657	5,332	9,028	31,244	40,272
Bad debt expense					308	308
Communications	25,363	12,653	22,224	60,240	18,367	78,607
Depreciation	61,901	8,933	48,424	119,258	26,061	145,319
Equipment rental	19,619	7,181	7,157	33,957	7,680	41,637
Insurance					137,408	137,408
Occupancy (rent, utilities)	47,830	22,267	68,620	138,717	22,405	161,122
Other	1,983	11,553	14,584	28,120	92,288	120,408
Postage	267	212	6,259	6,738	11,900	18,638
Printing	22		22	44	597	641
Professional services					8,216	8,216
Purchased services	38,264	36,825	21,554	96,643	45,217	141,860
Repairs and maintenance	16,820	39,306	85,485	141,611	104,629	246,240
Supplies	8,949	10,080	2,689,015	2,708,044	9,743	2,717,787
Vehicle costs	430,918	18,382	16,199	465,499	28,501	494,000
	<u>\$ 3,201,071</u>	<u>\$ 1,170,441</u>	<u>\$ 3,975,797</u>	<u>\$ 8,347,309</u>	<u>\$ 2,331,374</u>	<u>\$ 10,678,683</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, 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 CASH FLOWS

For The Years Ending December 31,

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
(Decrease) Increase in Net Assets	\$ (1,023,930)	\$ 1,685,311
Adjustments to reconcile the (decrease) increase in net assets to net cash provided (used) by operating activities:		
Bad debt expense	308	20,424
Depreciation	145,319	128,347
Split-interest agreements	19,308	(66,527)
Realized losses (gains) on investments	(62,427)	4,393
Unrealized (gains) losses on investments	35,160	(50,303)
Gain on sale of fixed assets		(12,227)
Decrease (increase) in:		
Accounts receivable	115,001	67,375
Promises to give	446,229	(443,276)
Other assets		6,500
(Decrease) increase in:		
Accounts payable	(30,090)	(52,697)
Accrued payroll and taxes	(22,964)	554
Accrued paid time off	(11,964)	(27,863)
<b>Net Cash (Used) Provided By Operating Activities</b>	<b><u>(390,050)</u></b>	<b><u>1,260,011</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of investments	896,113	1,136,540
Purchases of investments	(1,121,182)	(713,753)
Proceeds from sales of property		18,068
Purchases of property and equipment	(33,855)	(132,936)
<b>Net Cash (Used) Provided By Investing Activities</b>	<b><u>(258,924)</u></b>	<b><u>307,919</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Line of credit, net		(295,230)
Principal payments on long-term debt	(10,000)	
<b>Net Cash Used By Financing Activities</b>	<b><u>(10,000)</u></b>	<b><u>(295,230)</u></b>
<b>(DECREASE) INCREASE IN CASH</b>	<b><u>(658,974)</u></b>	<b><u>1,272,700</u></b>
CASH AT THE BEGINNING OF YEAR	<u>1,454,146</u>	<u>181,446</u>
<b>CASH AT END OF YEAR</b>	<b><u>\$ 795,172</u></b>	<b><u>\$ 1,454,146</u></b>

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

## NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

### 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, 2021 and 2020.

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 2021 or 2020.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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. There was \$240,000 of debt financed purchases in 2021.

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.

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, 2021 and 2020

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, 2021 and 2020, ABCS had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax returns are subject to examination for up to three years from filing.

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, 2021 and 2020, 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

At December 31, 2020, included in promises to give is a residual trust settled to the benefit of ABCS in the amount of \$450,000 received 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, 2021 and 2020

NOTE 4 - INVESTMENTS (Continued)

Fair values of investments measured at December 31, 2021 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			\$359,992	\$359,992
Equities	\$86,451	\$86,451	191,963	191,963
Fixed income			567,788	567,788
Mutual funds			148,857	148,857
	<u>\$86,451</u>	<u>\$86,451</u>	<u>\$1,268,600</u>	<u>\$1,268,600</u>

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			123,316	123,316
			<u>\$1,155,818</u>	<u>\$1,155,818</u>

Investment income consisted of the following:

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 8,317		\$ 6,260	\$ 2,533
Investment expenses			(300)	(220)
Realized gains	66,262		4,447	4,392
Unrealized losses gains	(67,514)		102,674	50,303
Net investment income	<u>\$ 7,065</u>		<u>\$113,081</u>	<u>\$57,008</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2021</u>	<u>2020</u>	<u>Lives</u>
Land	\$ 905,000	\$ 857,000	
Buildings and improvements	4,126,047	3,910,192	10 - 30
Furniture and equipment	72,387	52,387	3 - 7
Vehicles	180,678	180,678	5
	5,284,112	5,000,257	
Less accumulated depreciation	(868,768)	(723,449)	
	<u>\$4,415,344</u>	<u>\$4,296,808</u>	

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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 1.52% and .6% discount rates for 2021 and 2020, 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 \$220,961 and \$240,269 at December 31, 2021 and 2020, respectively.

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

	<u>2021</u>		<u>2020</u>	
	<u>Fair Value</u>	<u>Level 1</u>	<u>Fair Value</u>	<u>Level 1</u>
Cash and equivalents	\$ 13,999	\$ 13,999	\$ 8,209	\$ 8,209
Equities	100,872	100,872	108,629	108,629
Fixed income	<u>106,091</u>	<u>106,091</u>	<u>123,432</u>	<u>123,432</u>
	<u>\$220,962</u>	<u>\$220,962</u>	<u>\$240,270</u>	<u>\$240,270</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, 2021 and 2020

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, 2021 or 2020.

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>2021</u>	<u>2020</u>
Beginning of year	\$1,155,818	\$1,150,570
Contributions		
Investment income	113,081	57,008
Appropriation of endowment assets for expenditure	<u>(299)</u>	<u>(51,760)</u>
End of year	<u>\$1,268,600</u>	<u>\$1,155,818</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 7 - ENDOWMENT FUNDS – PERMANENTLY RESTRICTED (Continued)

The endowment funds consist of:

	<u>2021</u>	<u>2020</u>	<u>Distribution</u>
Carnes	\$ 359,531	\$ 304,562	85% of income
Wade	8,877	8,187	Income paid quarterly
Smithey/Tulsa	<u>900,192</u>	<u>843,069</u>	Up to 5%
	<u>\$1,268,600</u>	<u>\$1,155,818</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 \$59,000 for 2021 and 2020, 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>
2022	\$ 32,000
2023	31,000
2024	31,000
2025	30,000
2026	25,000
Thereafter	<u>27,000</u>
	<u>\$176,000</u>

NOTE 9 – OTHER INCOME (LOSS)

Other income consists of the following for 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Change in value of split-interests	\$(19,308)		\$(19,308)
Investment income, net	<u>7,065</u>	<u>\$113,081</u>	<u>120,146</u>
	<u>\$(12,243)</u>	<u>\$113,081</u>	<u>\$100,838</u>



Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

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NOTE 9 – OTHER INCOME (LOSS) (Continued)

Other income consists of the following for 2020:

	Without Donor <u>Restriction</u>	With Donor <u>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>

NOTE 10 - CONCENTRATIONS

ABCS received 51% and 53% of its support and revenue for 2021 and 2020 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, 2021, ABCS had deposits in excess of federal deposit insurance in the amount of \$163,000.

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 \$31,900 and \$60,400 for 2021 and 2020, 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 \$25,200 and \$5,100 for 2021 and 2020, respectively.

NOTE 12 – LONG-TERM DEBT

During 2021, ABCS purchased an administrative office for \$240,000. The seller is carrying back the note in the amount of \$240,000, interest rate 0%, 120 monthly payments of \$2,00. Principal portions the next five years and thereafter are: 2022 - \$24,000, 2023 - \$24,000, 2024 - \$24,000, 2025 - \$24,000, 2026 - \$24,000, and thereafter \$110,000.

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December 31, 2021 and 2020

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, 2021 and 2020, the level of liquidity and reserves was managed within the policy requirements.

	<u>2021</u>	<u>2020</u>
Total financial assets	\$2,302,357	\$3,260,533
Donor-imposed restrictions:		
Cash	(359,992)	
Investments	<u>(908,608)</u>	<u>(1,155,818)</u>
	<u>\$1,033,757</u>	<u>\$2,104,715</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 15 - SUBSEQUENT EVENTS

ABCS did not have any subsequent events through June 2, 2022, 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, 2021.