



Mara G. Mann, CPA
Certified Public Accountant

May 22, 2024

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

Dear Pastor Hanna:

Enclosed please find the audited financial statements of ABCS for the years ended December 31, 2023 and 2022.

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, 2023 and 2022

Arizona Baptist Children's Services

AUDITED FINANCIAL STATEMENTS

December 31, 2023 and 2022

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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, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility


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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona Baptist Children's Services as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


Mara G. Mann, CPA
Phoenix, AZ
May 22, 2024

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

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS						
Current Assets:						
Cash	\$ 278,859		\$ 278,859	\$ 114,950	\$ 20,973	\$ 135,923
Accounts receivable, net - Note 2	264,986		264,986	327,060		327,060
Promises to give - Note 3	<u>105,458</u>		<u>105,458</u>	<u>142,822</u>		<u>142,822</u>
Total Current Assets	649,303		649,303	584,832		605,805
Investments - Note 4	1,389,643	\$ 1,308,846	2,698,489	3	1,160,720	1,160,723
Property and Equipment - Note 5	3,951,579		3,951,579	4,266,748		4,266,748
Beneficial Interest In A Trust - Note 6				110,154		110,154
Other Assets	<u>5,000</u>		<u>5,000</u>	<u>5,000</u>		<u>5,000</u>
Total Assets	<u>\$ 5,995,525</u>	<u>\$ 1,308,846</u>	<u>\$ 7,304,371</u>	<u>\$ 4,966,737</u>	<u>\$ 1,181,693</u>	<u>\$ 6,148,430</u>
LIABILITIES AND NET ASSETS						
Current Liabilities:						
Line of credit - Note				\$ 276,936		\$ 276,936
Accounts payable	\$ 113,428		\$ 113,428	185,990		185,990
Accrued payroll and taxes	73,746		73,746	80,945		80,945
Accrued paid time off	171,517		171,517	180,736		180,736
Current portion long-term debt - Note 12	<u>24,000</u>		<u>24,000</u>	<u>24,000</u>		<u>24,000</u>
Total Current Liabilities	382,691		382,691	748,607		748,607
Long-Term Debt - Note 12	<u>160,000</u>		<u>160,000</u>	<u>184,000</u>		<u>184,000</u>
Total Liabilities	542,691		542,691	932,607		932,607
NET ASSETS	<u>5,452,834</u>	<u>\$ 1,308,846</u>	<u>6,761,680</u>	<u>4,034,130</u>	<u>\$ 1,181,693</u>	<u>5,215,823</u>
Total Liabilities and Net Assets	<u>\$ 5,995,525</u>	<u>\$ 1,308,846</u>	<u>\$ 7,304,371</u>	<u>\$ 4,966,737</u>	<u>\$ 1,181,693</u>	<u>\$ 6,148,430</u>

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

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

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
CHANGES IN NET ASSETS						
Support and Revenue:						
State contracts	\$ 2,923,499		\$ 2,923,499	\$ 3,765,091		\$ 3,765,091
Public contributions	1,826,302		1,826,302	1,984,898		1,984,898
Paycheck Protection Program - Note 14	25,640		25,640			-
Private care	204,585		204,585	189,068		189,068
In-kind contributions	4,771,873		4,771,873	3,091,838		3,091,838
Other revenue	2,981,201		2,981,201	144,090		144,090
Net assets released from restriction	309	\$ (309)		510	\$ (510)	
Total Support and Revenue	12,733,409	(309)	12,733,100	9,175,495	(510)	9,174,985
Expenses:						
Program services	8,858,867		8,858,867	7,872,723		7,872,723
Supporting services - Administration	2,736,409		2,736,409	2,126,117		2,126,117
Total Expenses	11,595,276		11,595,276	9,998,840		9,998,840
Increase (Decrease) in Net Assets Before Other Income (Loss)	1,138,133		1,137,824	(823,345)		(823,855)
Other Income (Loss)- Note 9	280,571	\$ 127,462	408,033	(118,933)	\$ (86,397)	(205,330)
Increase (Decrease) in Net Assets	1,418,704	127,462	1,545,857	(942,278)	(86,397)	(1,029,185)
NET ASSETS BEGINNING OF YEAR	4,034,130	1,181,693	5,215,823	4,976,408	1,268,600	6,245,008
NET ASSETS END OF YEAR	\$ 5,452,834	\$ 1,308,846	\$ 6,761,680	\$ 4,034,130	\$ 1,181,693	\$ 5,215,823

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, 2023

	Program Services				Supporting Services -	
	Parent Aide	Foster Care	All Other Programs	Total	Administration	Total
Salaries and wages	\$ 1,190,264	\$ 561,083	\$ 699,401	\$ 2,450,748	\$ 1,251,921	\$ 3,702,669
Payroll taxes	97,892	45,435	46,112	189,439	90,155	279,594
Employee benefits	269,498	134,856	116,272	520,626	236,492	757,118
Advertising	228	233	8,325	8,786	29,418	38,204
Bad debt expense				-	3,250	3,250
Communications	17,828	7,185	18,630	43,643	15,548	59,191
Depreciation	61,265		49,472	110,737	24,275	135,012
Equipment rental	24,244	8,986	8,490	41,720	9,167	50,887
Insurance				-	155,996	155,996
Occupancy (rent, utilities)	52,735	25,070	82,750	160,555	22,076	182,631
Other	549	933	1,676	3,158	83,700	86,858
Postage	363	60	1,031	1,454	9,668	11,122
Printing				-		-
Professional services				-	8,200	8,200
Purchased services	57,803	50,116	25,590	133,509	698,381	831,890
Repairs and maintenance	13,226	3,757	55,899	72,882	72,543	145,425
Supplies	5,343	1,961	4,814,923	4,822,227	4,813	4,827,040
Vehicle costs	249,356	12,414	37,613	299,383	20,806	320,189
	<u>\$ 2,040,594</u>	<u>\$ 852,089</u>	<u>\$ 5,966,184</u>	<u>\$ 8,858,867</u>	<u>\$ 2,736,409</u>	<u>\$ 11,595,276</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, 2022

	Program Services				Supporting Services -	
	Parent Aide	Foster Care	All Other Programs	Total	Administration	Total
Salaries and wages	\$ 1,415,283	\$ 658,457	\$ 851,577	\$ 2,925,317	\$ 1,288,876	\$ 4,214,193
Payroll taxes	114,782	53,398	51,854	220,034	94,718	314,752
Employee benefits	324,768	135,886	133,383	594,037	261,304	855,341
Advertising	26	1,702	7,215	8,943	34,600	43,543
Bad debt expense					12,727	12,727
Communications	19,704	10,489	21,345	51,538	18,006	69,544
Depreciation	61,265	8,933	49,471	119,669	28,926	148,595
Equipment rental	21,874	7,932	7,917	37,723	8,938	46,661
Insurance					142,357	142,357
Occupancy (rent, utilities)	51,137	26,006	71,706	148,849	23,684	172,533
Other	1,598	2,500	21,404	25,502	86,645	112,147
Postage	175	183	1,036	1,394	10,760	12,154
Printing						-
Professional services					8,261	8,261
Purchased services	45,320	57,020	31,440	133,780	35,493	169,273
Repairs and maintenance	6,513	7,095	40,539	54,147	42,920	97,067
Supplies	6,075	2,819	3,145,354	3,154,248	5,649	3,159,897
Vehicle costs	360,062	13,235	24,245	397,542	22,253	419,795
	<u>\$ 2,428,582</u>	<u>\$ 985,655</u>	<u>\$ 4,458,486</u>	<u>\$ 7,872,723</u>	<u>\$ 2,126,117</u>	<u>\$ 9,998,840</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>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in Net Assets	\$ 1,545,857	\$ (1,029,185)
Adjustments to reconcile the increase (decrease) in net assets to net cash provided (used) by operating activities:		
Bad debt expense	3,250	12,727
Depreciation	135,012	148,595
Beneficial interest in a trust, loss in value		110,808
Realized (gains) on investments	(9,761)	(1,032)
Unrealized (gains) losses on investments	(116,029)	124,761
Realized gain on sale of fixed assets	(248,718)	
Decrease (increase) in:		
Accounts receivable	62,074	66,954
Promises to give	37,364	(24,710)
Beneficial interest in a trust	110,154	
(Decrease) increase in:		
Accounts payable	(72,562)	22,090
Accrued payroll and taxes	(7,199)	(28,414)
Accrued paid time off	(9,219)	(14,660)
Net Cash Provided (Used) By Operating Activities	<u>1,430,223</u>	<u>(612,066)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	1,325,799	470,223
Purchases of investments	(2,741,024)	(772,342)
Proceeds from sales of property	428,874	
Net Cash (Used) By Investing Activities	<u>(986,351)</u>	<u>(302,119)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Line of credit, net	(276,936)	276,936
Principal payments of long-term debt	(24,000)	(22,000)
Net Cash (Used) Provided By Financing Activities	<u>(300,936)</u>	<u>254,936</u>
INCREASE (DECREASE) IN CASH	<u>142,936</u>	<u>(659,249)</u>
CASH AT THE BEGINNING OF YEAR	<u>135,923</u>	<u>795,172</u>
CASH AT END OF YEAR	<u>\$ 278,859</u>	<u>\$ 135,923</u>

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

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

PURPOSE AND ORGANIZATION

Arizona Baptist Children's Services (ABCS) is a faith-based 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, 2023 and 2022.

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 2023 or 2022.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

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 - Other than quoted prices included in Level 1 that are observable for the asset.

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 \$10,000 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.

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, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, all promises to give were collected within days of 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.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE 4 - INVESTMENTS (Continued)

Fair values of investments measured at December 31, 2023 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	\$1,389,643	\$1,389,643	\$ 344,307	\$ 344,307
Equities			362,444	362,444
Fixed income			462,140	462,140
Mutual funds			139,955	139,955
	<u>\$1,389,643</u>	<u>\$1,389,643</u>	<u>\$1,308,846</u>	<u>\$1,308,846</u>

Fair values of investments measured at December 31, 2022 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	\$ 3	\$ 3		
Equities			\$ 298,622	\$ 298,622
Fixed income			736,184	736,184
Mutual funds			125,914	125,914
	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$1,160,720</u>	<u>\$1,160,720</u>

Investment income consisted of the following:

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 7,892	\$ 12	\$ 27,827	\$ 10,696
Investment expenses		(15)	(350)	(150)
Realized gains (losses)	272,679	(7,921)	1,073	8,953
Unrealized gains (losses)		<u>(110,808)</u>	<u>98,912</u>	<u>(105,896)</u>
Net investment income	<u>\$280,571</u>	<u>\$(118,732)</u>	<u>\$127,462</u>	<u>\$(86,397)</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2023</u>	<u>2022</u>	<u>Lives</u>
Land	\$ 838,000	\$ 905,000	
Buildings and improvements	3,858,047	4,126,047	10 - 30
Furniture and equipment	72,387	72,387	3 - 7
Vehicles	<u>180,678</u>	<u>180,678</u>	5
	4,949,112	5,284,112	
Less accumulated depreciation	<u>(997,533)</u>	<u>(1,008,432)</u>	
	<u>\$3,951,579</u>	<u>\$4,275,680</u>	

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE 6 - BENEFICIAL INTEREST IN A TRUST

Irrevocable Remainder Trusts - Unrestricted

This trust was fully settled in 2023.

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 would receive any remaining trust principal after the death of the income beneficiaries. The fair value of the remaining trust principal was estimated based on the fair value of the trust assets, computed to a present value. Based on the income beneficiary's life expectancy and the 5.2% discount rate for 2022, required by Internal Revenue Service rules, the present value of the future benefits expected to be received under this trust was estimated to be \$110,153 at December 31, 2022.

Fair values of the assets in the above noted trust at December 31, 2022 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>
Cash and equivalents	\$ 2,254	\$ 2,254
Equities	104,575	104,575
Fixed income	<u>3,325</u>	<u>3,325</u>
	<u>\$110,154</u>	<u>\$110,154</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, 2023 and 2022

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, 2023 or 2022.

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>2023</u>	<u>2022</u>
Beginning of year	\$1,181,693	\$1,268,600
Contributions		
Investment income (loss)	127,462	(86,397)
Appropriation of endowment assets for expenditure	<u>(309)</u>	<u>(510)</u>
End of year	<u>\$1,308,846</u>	<u>\$1,181,693</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE 7 - ENDOWMENT FUNDS – PERMANENTLY RESTRICTED (Continued)

The endowment funds consist of:

	<u>2023</u>	<u>2022</u>	<u>Distribution</u>
Carnes	\$ 353,505	\$ 301,334	85% of income
Wade	8,331	7,628	Income paid quarterly
Smithey/Tulsa	<u>947,010</u>	<u>872,731</u>	Up to 5%
	<u>\$1,308,846</u>	<u>\$1,181,693</u>	

NOTE 8 - LEASES

ABCS leases various operating facilities mostly under the provisions of month-to-month lease agreements. Future minimum rental payments are not material. Rental expenses under the terms of the operating leases totaled \$59,000 and \$62,000 for 2023 and 2022, respectively.

NOTE 9 – OTHER INCOME (LOSS)

Other income (loss) consists of the following for 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Investment income, net	\$ 17,117	\$127,462	\$144,579
Gain on sale of fixed assets	<u>263,454</u>	<u> </u>	<u>263,454</u>
	<u>\$280,571</u>	<u>\$127,462</u>	<u>\$408,033</u>

Other income (loss) consists of the following for 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Change in value of split-interests	\$(110,808)	<u> </u>	\$(110,808)
Investment income, net	<u>(8,125)</u>	\$(86,897)	(94,146)
	<u>\$(118,933)</u>	<u>\$(86,897)</u>	<u>\$(205,330)</u>

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NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE 10 - CONCENTRATIONS

ABCS received 23% and 41% of its support and revenue for 2023 and 2022 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. At December 31, 2023, ABCS had deposits in excess of federal deposit insurance in the amount of \$1,408,000.

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 \$25,800 and \$33,300 for 2023 and 2022, 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 \$28,800 and \$27,000 for 2023 and 2022, 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 \$2,000. Principal portions for each of the next five years is \$24,000 per year and thereafter \$64,000.

NOTE 13 – IN-KIND CONTRIBUTIONS

In-kind contributions are contributed nonfinancial assets which are in the form of food, household items, clothing and children's supplies.

Food is provided by local grocery stores and food banks and is valued at \$1.70 and \$1.53 per pound for 2023 and 2022, respectively. All food is utilized by program services. The amount of food recognized as in-kind donations for 2023 and 2022 was \$4,411,546 and \$2,844,491 respectively.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

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NOTE 13 – IN-KIND CONTRIBUTIONS (Continued)

Household items, clothing and children's supplies are valued at the market value of similar items for sale online or at other charities. All household items, clothing and children's supplies are utilized by program services. The amount recognized as in-kind donations for 2023 and 2022 was \$360,327 and \$247,347, respectively.

None of the contributions were donor restricted for 2023 or 2022.

NOTE 14 – 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, 2023 and 2022, the level of liquidity and reserves was managed within the policy requirements.

	<u>2023</u>	<u>2022</u>
Total financial assets	\$3,347,792	\$1,766,528
Donor-imposed restrictions:		
Cash		(20,973)
Investments	<u>(1,308,846)</u>	<u>(1,160,720)</u>
	<u>\$2,038,946</u>	<u>\$ 584,835</u>

NOTE 15 - SUBSEQUENT EVENTS

ABCS did not have any subsequent events through May 22, 2024, 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, 2023.