

ARIZONA BAPTIST CHILDREN'S SERVICES

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2013 and 2012

Arizona Baptist Children's Services

AUDITED FINANCIAL STATEMENTS

December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Arizona Baptist Children's Services

We have audited the accompanying financial statements of Arizona Baptist Children's Services (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, 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

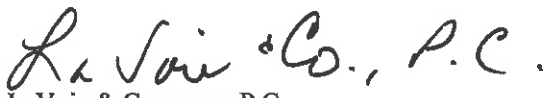
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


LaVoie & Company, P.C.
Tucson, AZ
May 20, 2014

Arizona Baptist Children's Services

STATEMENTS OF FINANCIAL POSITION

As of December 31,

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets:		
Cash	\$ 389,268	\$ 272,612
Accounts receivable, net of allowance	534,635	808,027
Prepaid expenses	7,302	7,302
Notes receivable	1,191	
Total Current Assets	<u>932,396</u>	<u>1,087,941</u>
Investments - Note 2	147,284	249,948
Property and Equipment - Note 3	963,679	1,081,286
Beneficial Interests In Trusts - Note 4	718,352	662,830
Endowment Funds - Note 5	912,642	867,477
Total Assets	<u>\$ 3,674,353</u>	<u>\$ 3,949,482</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 72,082	\$ 63,531
Accrued payroll and taxes	184,515	174,763
Accrued paid time off	129,486	126,505
Total Current Liabilities	<u>386,083</u>	<u>364,799</u>
NET ASSETS		
Unrestricted net assets	2,375,628	2,717,746
Permanently restricted net assets - Note 5	912,642	866,937
	<u>3,288,270</u>	<u>3,584,683</u>
Total Liabilities and Net Assets	<u>\$ 3,674,353</u>	<u>\$ 3,949,482</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,

	2013			2012		
	Unrestricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
CHANGES IN NET ASSETS						
Support and Revenue:						
State contracts	\$ 5,525,488		\$ 5,525,488	\$ 5,778,100		\$ 5,778,100
Public contributions	773,936		773,936	631,355		631,355
Private care	125,316		125,316	120,690		120,690
In-kind contributions	27,544		27,544	29,229		29,229
Other revenue	91,299		91,299	33,938		33,938
Net assets released from restriction	<u>33,045</u>	<u>\$ (33,045)</u>		<u>36,734</u>	<u>\$ (36,734)</u>	
Total Support and Revenue	6,576,628	(33,045)	6,543,583	6,630,046	(36,734)	6,593,312
Expenses:						
Program services	5,609,176		5,609,176	5,444,941		5,444,941
Supporting services - Administration	<u>1,362,036</u>		<u>1,362,036</u>	<u>1,360,594</u>	<u>625</u>	<u>1,361,219</u>
Total Expenses	6,971,212		6,971,212	6,805,535	625	6,806,160
Decrease in Net Assets						
Before Other Income	(394,584)	(33,045)	(427,629)	(175,489)	(37,359)	(212,848)
Other Income - Note 7	<u>52,466</u>	<u>78,750</u>	<u>131,216</u>	<u>29,183</u>	<u>34,369</u>	<u>63,552</u>
(Decrease) Increase in Net Assets	(342,118)	45,705	(296,413)	(146,306)	(2,990)	(149,296)
NET ASSETS BEGINNING OF YEAR	<u>2,717,746</u>	<u>866,937</u>	<u>3,584,683</u>	<u>2,864,052</u>	<u>869,927</u>	<u>3,733,979</u>
NET ASSETS END OF YEAR	<u>\$ 2,375,628</u>	<u>\$ 912,642</u>	<u>\$ 3,288,270</u>	<u>\$ 2,717,746</u>	<u>\$ 866,937</u>	<u>\$ 3,584,683</u>

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

Arizona Baptist Children's Services

STATEMENTS OF FUNCTIONAL EXPENSES

For The Years Ending December 31,

	2013			2012		
	Program Services	Supporting Services - Administration	Total	Program Services	Supporting Services - Administration	Total
Salaries and wages	\$ 3,331,413	\$ 774,537	\$ 4,105,950	\$ 3,396,801	\$ 690,557	\$ 4,087,358
Payroll taxes	266,732	47,143	313,875	283,292	43,819	327,111
Employee benefits	605,523	158,712	764,235	695,809	158,370	854,179
Advertising	1,564	69,349	70,913		78,665	78,665
Bad debt expense		6,153	6,153		20,003	20,003
Communications	86,708	17,973	104,681	88,461	17,839	106,300
Contributions to a 501(c)(3)		21,906	21,906			
Counseling	22,509		22,509	31,634		31,634
Depreciation	124,541	17,067	141,608	103,683	39,009	142,692
Equipment rental	31,637	4,620	36,257	27,976	3,850	31,826
Insurance		55,248	55,248		52,269	52,269
Occupancy (rent and utilities)	167,446	14,554	182,000	141,958	23,477	165,435
Other	91,572	41,983	133,555	145,981	76,089	222,070
Postage	24	18,279	18,303		15,430	15,430
Printing		43,560	43,560		35,824	35,824
Professional services		14,468	14,468		17,718	17,718
Purchased services	17,322	6,724	24,046	23,916	10,258	34,174
Repairs and maintenance	181,949	846	182,795	107,092	10,162	117,254
Supplies	68,645	5,644	74,289	77,703	22,783	100,486
Travel	4,424	24,691	29,115		30,075	30,075
Vehicle costs	607,167	18,579	625,746	320,635	15,022	335,657
	<u>\$ 5,609,176</u>	<u>\$ 1,362,036</u>	<u>\$ 6,971,212</u>	<u>\$ 5,444,941</u>	<u>\$ 1,361,219</u>	<u>\$ 6,806,160</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>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in Net Assets	\$ (296,413)	\$ (149,296)
Adjustments to reconcile the decrease in net assets to net cash provided (used) by operating activities:		
Donated land	(24,000)	
Realized losses (gains) on investments	137	(26,154)
Unrealized gains (losses) on investments	(50,402)	16,201
Split interest agreements		(18,111)
Bad debt expense	6,153	20,003
Depreciation	141,608	142,692
(Increase) decrease in:		
Accounts receivable	267,239	(149,977)
Prepaid expenses		(600)
Increase in:		
Accounts payable	8,551	34,951
Accrued payroll and taxes	9,752	52,369
Accrued paid time off	2,981	17,987
Net Cash Provided (Used) By Operating Activities	<u>65,606</u>	<u>(59,935)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Issuance) collections of notes receivable, net	(1,191)	5,241
Purchases of investments	(158,749)	(54,898)
Proceeds from sale of investments	210,990	171,934
Purchases of property and equipment		(308,994)
Net Cash Provided (Used) By Investing Activities	<u>51,050</u>	<u>(186,717)</u>
INCREASE (DECREASE) IN CASH	116,656	(246,652)
CASH AT THE BEGINNING OF YEAR	<u>272,612</u>	<u>519,264</u>
CASH AT END OF YEAR	<u>\$ 389,268</u>	<u>\$ 272,612</u>

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

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

PURPOSE AND ORGANIZATION

Arizona Baptist Children's Services (ABCS) is a religious nonprofit corporation that provides services to Arizona families and children with family and behavioral problems. These services include: adoption services, parent aide, foster care services, outpatient counseling services, 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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These net assets classifications are described as follows:

Unrestricted Net Assets - not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes or locations by action of the Board of Directors.

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, 2013 and 2012.

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.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment - Acquisitions or donations of property and equipment with a cost in excess of \$5,000 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

Donated Property and Equipment - Donations of property and equipment are recorded as contributions at fair market value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in restricted net assets. It is ABCS's policy to imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are not restricted as to their use by the donor. Accordingly, those donations are recorded as increases in temporarily restricted net assets.

Donated marketable securities and other noncash donations are recorded as contributions at their fair values at the date of donation.

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. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

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.

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.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 has been classified as an organization other than a private foundation under Section 509(a)(2). As of December 31, 2013, ABCS has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Use of Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

NOTE 2 - INVESTMENTS

Fair values of investments measured at December 31, 2013 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Investments:		
Money market funds	\$ 30,041	\$ 30,041
Mutual funds	<u>117,243</u>	<u>117,243</u>
	<u>\$147,284</u>	<u>\$147,284</u>

Fair values of investments measured at December 31, 2012 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Investments:		
Money market funds	\$ 30,038	\$ 30,038
Mutual funds	<u>219,910</u>	<u>219,910</u>
	<u>\$249,948</u>	<u>\$249,948</u>

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, 2013 and 2012

NOTE 2 - INVESTMENTS (Continued)

Investment income consisted of the following:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$2,380	\$ 7,226
Realized gains	1,196	15,395
Unrealized losses	<u>(6,240)</u>	<u>(12,048)</u>
Net investment (loss) income	<u>\$(2,664)</u>	<u>\$10,573</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2013</u>	<u>2012</u>	<u>Lives</u>
Land	\$ 161,000	\$ 137,000	
Buildings and improvements	1,123,813	1,132,631	10 - 30
Furniture and equipment	97,205	112,053	5 - 7
Vehicles	<u>247,290</u>	<u>247,290</u>	5
	1,629,308	1,628,974	
Less accumulated depreciation and amortization	<u>(665,629)</u>	<u>(547,688)</u>	
	<u>\$ 963,679</u>	<u>\$1,081,286</u>	

NOTE 4 - BENEFICIAL INTERESTS IN TRUSTS

Charitable Remainder Uni-Trusts

ABCS is the beneficiary of two charitable remainder uni-trusts (Trusts) originally naming the Baptist Foundation of Arizona (BFA). When BFA filed bankruptcy in 1999, these Trusts were amended to name ABCS as a 45 percent beneficiary.

Under the terms of the Trusts, the donor receives a quarterly distribution (8.5% annually) based on the fair value of Trusts' assets. The principal and any excess income earned on the Trusts' assets remains in the Trusts until the earlier of 2016 or the donor's death. At that time, the Trusts are terminated and the remaining Trusts' assets are distributed to the remainder beneficiaries, including ABCS. Based on the donor's life expectancy and the 2% and 1.2% interest rates for 2013 and 2012, respectively, required by Internal Revenue Service rules, the present value of the future benefits expected to be received by ABCS is estimated to be \$572,810 and \$505,260 at December 31, 2013 and 2012, respectively.

Revocable Remainder Trust

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

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 4 - BENEFICIAL INTERESTS IN TRUSTS (Continued)

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 2% and 1.2% discount rates for 2013 and 2012, respectively, 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 \$145,542 and \$157,570 at December 31, 2013 and 2012, respectively.

Fair values of the assets in the above noted trusts at December 31, 2013 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Beneficial interest in assets held in trust:			
Money market funds	\$ 13,685	\$ 13,685	
Equities	207,279	207,279	
Fixed income	174,270	174,270	
Annuity	40,434		\$40,434
Mutual funds	<u>282,684</u>	<u>282,684</u>	
	<u>\$718,352</u>	<u>\$677,918</u>	<u>\$40,434</u>

Fair values of the assets in the above noted trusts at December 31, 2012 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Beneficial interest in assets held in trust:			
Money market funds	\$ 5,574	\$ 5,574	
Equities	187,569	187,569	
Fixed income	174,444	174,444	
Annuity	41,006		\$41,006
Mutual funds	<u>254,237</u>	<u>254,237</u>	
	<u>\$662,830</u>	<u>\$621,824</u>	<u>\$41,006</u>

There were no distributions to ABCS during 2013 or 2012.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 5 - ENDOWMENTS

ABCS's endowments consist of donor permanently restricted contributions made to its foundation, held by the trustee.

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

B. Funds with Deficiencies

From time to time, the fair values 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, 2013 or 2012.

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.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 5 - ENDOWMENTS (Continued)

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

ABCS has a permanently restricted endowment fund with the California Baptist Foundation (CBF). Funds are distributed to ABCS up to a 5 percent spending policy. Funds received under the policy are unrestricted.

Fair values of endowment investments measured at December 31, 2013 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Endowment funds:			
Money market funds	\$ 13,610	\$ 13,610	
Church bonds, mortgages	438,864		\$438,864
Mutual funds	<u>460,168</u>	<u>460,168</u>	
	<u>\$912,642</u>	<u>\$473,778</u>	<u>\$438,864</u>

Fair values of endowment investments measured at December 31, 2012 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Endowment funds:			
Money market funds	\$ 2,819	\$ 2,819	
Church bonds, mortgages	546,593		\$546,593
Mutual funds	<u>318,065</u>	<u>318,065</u>	
	<u>\$867,477</u>	<u>\$320,884</u>	<u>\$546,593</u>

Fair values for endowment funds not traded in a major exchange were determined by the California Baptist Foundation's calculation of ABCS' share of pooled investments in Church bonds and mortgages. The value of the Church bonds and mortgages are noted as Level 3 above. ABCS recognizes transfers into and out of levels at the end of the reporting period.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 5 - ENDOWMENTS (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

	<u>2013</u>	<u>2012</u>
Church bonds, mortgages:		
Beginning of year	\$546,593	\$570,375
Transfers to Level 1 assets	(108,194)	(23,782)
Other	465	
End of year	<u>\$438,864</u>	<u>\$546,593</u>

Changes in Endowment Net Assets are as follows:

	<u>2013</u>	<u>2012</u>
Beginning of year	\$867,477	\$869,927
Investment income	22,901	38,522
Realized losses	(4,129)	
Unrealized gains (losses)	59,438	(4,153)
Other		(85)
Appropriation of endowment assets for expenditure	<u>(33,045)</u>	<u>(36,734)</u>
End of year	<u>\$912,642</u>	<u>\$867,477</u>

NOTE 6 - 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 \$144,000 and \$146,000 for 2013 and 2012, respectively. The operating leases have remaining non-cancelable lease terms from two to fifteen 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>
2014	\$ 94,000
2015	83,000
2016	19,000
2017	19,000
2018	19,000
Thereafter	<u>189,000</u>
	<u>\$423,000</u>

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 7 - OTHER INCOME (LOSS)

Other income consists of the following for 2013:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$2,528	\$22,902	\$25,430
Change in value of split-interests	55,522		55,522
Net realized and unrealized (losses) gains	<u>(5,584)</u>	<u>55,848</u>	<u>50,264</u>
	<u>\$52,466</u>	<u>\$78,750</u>	<u>\$131,216</u>

Other income consists of the following for 2012:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 7,725	\$27,719	\$35,444
Change in value of split-interests	18,111		18,111
Net realized and unrealized gains	<u>3,347</u>	<u>6,650</u>	<u>9,997</u>
	<u>\$29,183</u>	<u>\$34,369</u>	<u>\$63,552</u>

NOTE 8 - CONCENTRATIONS

ABCS received 72% and 88% of its support and revenue for 2013 and 2012 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, 2013 ABCS had \$148,000 on deposit in excess of federal deposit insurance.