

ARIZONA SOUTHERN BAPTIST CONVENTION

Financial Statements
December 31, 2019
With Independent Auditors' Report

JDS professional
group
certified public accountants, consultants and advisors



INDEPENDENT AUDITORS' REPORT

Convention Council
Arizona Southern Baptist Convention

We have audited the accompanying financial statements of the Arizona Southern Baptist Convention (a not for profit corporation), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' 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 auditors' 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 qualified audit opinion.

Basis for Qualified Opinion

As discussed in NOTE 6 to the financial statements, the Arizona Southern Baptist Convention has not consolidated in its financial statements a related not for profit organization. In our opinion, accounting principles generally accepted in the United States of America require consolidated financial statements. It is unknown what the effect of consolidation would be on the financial statements of the Arizona Southern Baptist Convention for the year then ended December 31, 2019.

Members:

American Institute of Certified Public Accountants

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Qualified Opinion

In our opinion, except for the effects of not consolidating the organization, as discussed in Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Arizona Southern Baptist Convention as of December 31, 2019, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

JDS Professional Group

Certified Public Accountants, Consultants and Advisors, LLC

July 28, 2020

ARIZONA SOUTHERN BAPTIST CONVENTION
Statement of Financial Position
December 31, 2019

ASSETS

Cash and cash equivalents	\$ 1,723,870
Investments	5,252,663
Investments - other	380,498
Receivables	34,693
Prepaid expenses	14,935
Cash and cash equivalents restricted for endowments	104
Investments restricted for endowments	1,941,038
Property and equipment, less accumulated depreciation	518,633
Other assets	<u>1,041,885</u>
Total assets	<u>\$ 10,908,319</u>

LIABILITIES

Accounts payable	\$ 16,208
Accrued expenses	
Payroll and related benefits	127,403
Postretirement benefits	1,843,675
Deferred revenue	909
Agency funds	<u>112,777</u>
Total liabilities	<u>2,100,972</u>

NET ASSETS

Without donor restrictions	
Undesignated	2,450,706
Designated	2,825,732
Investment in property and equipment	<u>518,633</u>
Total without donor restrictions	<u>5,795,071</u>
With donor restrictions	
Restricted by purpose or time	1,071,134
Restricted in perpetuity	<u>1,941,142</u>
Total with donor restrictions	<u>3,012,276</u>
Total net assets	<u>8,807,347</u>
Total liabilities and net assets	<u>\$ 10,908,319</u>

The accompanying notes are an integral part of this statement

ARIZONA SOUTHERN BAPTIST CONVENTION
Statement of Activities
For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 3,766,968	\$ 2,578,141	\$ 6,345,109
Non-cash contributions	1,214,760	0	1,214,760
North American Missions Board	797,850	0	797,850
Lifeway	50,413	0	50,413
Publications	37,603	0	37,603
Interest and dividends	127,405	34,652	162,057
Oil and mineral rights royalties	19,190	0	19,190
Events and other activities	562,340	0	562,340
Realized/unrealized gains on investments, net of fees	772,728	52,652	825,380
Change in postretirement benefits	(236,717)	0	(236,717)
Change in value of oil and mineral rights	(58,566)	0	(58,566)
Other	11,302	0	11,302
Net assets released from restrictions:			
Satisfaction of program restrictions	2,509,789	(2,509,789)	0
Total revenues and other support	9,575,065	155,656	9,730,721
EXPENSES			
Program services			
Church life	729,995	0	729,995
Church planting	649,238	0	649,238
Hispanic ministries	222,025	0	222,025
Missions	2,902,708	0	2,902,708
Associational administration	24,474	0	24,474
Christian Challenge	1,061,717	0	1,061,717
Arizona Baptist Children's Services	240,379	0	240,379
Gateway Seminary	275,297	0	275,297
Communications	290,441	0	290,441
Historical Commission	19,798	0	19,798
Executive Board	41,126	0	41,126
Convention administration	158,957	0	158,957
Events	493,288	0	493,288
Retiree benefits	54,551	0	54,551
Total program services	7,163,994	0	7,163,994
Supporting activities			
General and administrative	688,119	0	688,119
Promotion	54,001	0	54,001
Total supporting activities	742,120	0	742,120
Total expenses	7,906,114	0	7,906,114
CHANGE IN NET ASSETS	1,668,951	155,656	1,824,607
NET ASSETS, beginning of year, as previously stated	4,179,067	2,856,620	7,035,687
Prior Period Adjustment	(52,947)	0	(52,947)
NET ASSETS, beginning of year, as restated	4,126,120	2,856,620	6,982,740
NET ASSETS, end of year	\$ 5,795,071	\$ 3,012,276	\$ 8,807,347

The accompanying notes are an integral part of this statement

ARIZONA SOUTHERN BAPTIST CONVENTION
Statement of Functional Expenses
For the Year Ended December 31, 2019

	Supporting Activities				Total
	Program Services	General and Administrative	Promotion	Total Supporting Activities	
Salaries and benefits	\$ 1,187,620	\$ 463,144	\$ 0	\$ 463,144	\$ 1,650,764
Outside services	198,202	2,747	0	2,747	200,949
Events and camps	536,050	0	0	0	536,050
Advertising and promotion	3,761	0	54,001	54,001	57,762
Conferences, meetings and training	172,934	805	0	805	173,739
Travel	85,891	1,189	0	1,189	87,080
Insurance	0	10,583	0	10,583	10,583
Grants and distributions	4,350,805	0	0	0	4,350,805
Supplies	107,339	8,282	0	8,282	115,621
Repairs and maintenance	9,643	31,438	0	31,438	41,081
Bank and other fees	775	9,156	0	9,156	9,931
Professional fees	0	47,144	0	47,144	47,144
Postage	29,430	1,395	0	1,395	30,825
Staff and volunteer development	0	433	0	433	433
Dues and subscriptions	29,303	2,602	0	2,602	31,905
Printing	70,504	1,981	0	1,981	72,485
Telephone	25,136	0	0	0	25,136
Occupancy	241,765	64,678	0	64,678	306,443
Depreciation	60,285	42,542	0	42,542	102,827
Retiree benefits	54,551	0	0	0	54,551
Total expenses	\$ 7,163,994	\$ 688,119	\$ 54,001	\$ 742,120	\$ 7,906,114

The accompanying notes are an integral part of this statement

ARIZONA SOUTHERN BAPTIST CONVENTION
Statement of Cash Flows
For the Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	<u>\$ 1,824,607</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	102,827
Interest restricted for endowment	(1,669)
Unrealized gains on investments	(744,477)
Loss on sale of property	2,280
Change in postretirement benefits	236,717
Change in value in oil and mineral rights	58,566
Donated property	(1,040,000)
Decrease in assets:	
Receivables	44,409
Prepaid expenses	10,896
Increase (decrease) in liabilities:	
Accounts payable	(103,323)
Accrued payroll and related benefits	38,667
Deferred revenue	(12)
Agency funds	(35,589)
Total adjustments	<u>(1,430,708)</u>
Net cash provided by operating activities	<u>393,899</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(66,312)
Proceeds on sale of equipment	2,500
Purchase/sale of investments, net	(657,182)
Purchase/sale and reinvested earnings on investments - other	622,059
Purchase of investments restricted for endowments	<u>(116,329)</u>
Net cash (used) by investing activities	<u>(215,264)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Interest restricted for endowment	<u>1,669</u>
Net cash provided by financing activities	<u>1,669</u>
 NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	 <u>180,304</u>
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR, AS PREVIOUSLY STATED	 1,540,124
 PRIOR YEAR RESTRICTED CASH	 <u>3,546</u>
 CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR, AS RESTATED	 <u>1,543,670</u>
 CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	 <u>\$ 1,723,974</u>

The accompanying notes are an integral part of this statement

ARIZONA SOUTHERN BAPTIST CONVENTION
Notes to Financial Statements
December 31, 2019

NOTE 1 - Description of Organization and Summary of Significant Accounting Policies

Description of Organization

The Arizona Southern Baptist Convention (AZSBC) was incorporated in 1943 under the laws of the State of Arizona. The mission of the AZSBC is working together to make disciples of all peoples in Arizona and around the world.

The AZSBC receives substantial support and revenue from Arizona Southern Baptist churches in Arizona through the Cooperative Program. Through its budget, these Cooperative Program contributions are disbursed to other related parties of the AZSBC and are also used for its operations. In addition, contributions are received by the AZSBC, which are restricted and used to support other Southern Baptist programs.

Basis of Presentation

The AZSBC reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the AZSBC, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. The Convention Council has designated, from net assets without donor restrictions, net assets for church planting and other programs.

Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual, such as those that the donor stipulates that resources be maintained in perpetuity.

The AZSBC's unspent contributions are reported in net assets with donor restrictions if the donor limited their use, as are promised contributions that are not yet due. Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. These restrictions expire when the assets are placed in service.

The AZSBC's donor-restricted endowment funds, including unspent appreciation of the endowment fund and the portion of the AZSBC's donor-restricted endowment funds that the AZSBC is committed to maintaining in perpetuity, are classified in net assets with donor restrictions.

New Accounting Pronouncements

The AZSBC has adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This pronouncement requires that the statement of cash flows explain the change during the year in the total of cash, cash equivalents and amounts generally described as restricted cash and cash equivalents. Restricted cash and cash equivalents are included with cash and cash equivalents when reconciling the beginning of year and

ARIZONA SOUTHERN BAPTIST CONVENTION
Notes to Financial Statements
December 31, 2019

NOTE 1 - Description of Operations and Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

end of the year amounts shown on the statement of cash flows. The effect of the implementation of the pronouncement is that the amount reported as cash and cash equivalents, beginning of the year on the statement of cash flows has been restated to include restricted cash at December 31, 2018, of \$3,546.

FASB's ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, has been adopted by the AZSBC. This pronouncement applies to all entities that receive or make contributions. The criteria for evaluating whether contributions received are unconditional (and thus recognized immediately in income) or conditional (for which income recognition is deferred) have been clarified. The focus is whether a gift or grant agreement both (1) specifies a "barrier or hurdle" that the recipient must overcome to be entitled to the resources, and (2) releases the donor from its obligation to transfer resources (or if assets are advanced, a right to demand their return) if the barrier or hurdle is not achieved. An agreement that contains both is a conditional contribution. An agreement that omits one or both is an unconditional contribution. For grants/contributions made, donors will use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/release) to determine whether gifts or grants are conditional or unconditional. The presentation and disclosures of revenue have been enhanced under the standard.

The AZSBC has adopted FASB's ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, as management believes the standard improves the usefulness and understandability of the AZSBC's financial reporting. Analysis of various provisions of this standard resulted in no significant changes in the way the AZSBC recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced under the standard.

Income Taxes

The AZSBC is a not for profit corporation under Internal Revenue Code Section 501(c)(3) and comparable state law. Contributions to the AZSBC are tax-deductible within the limitations described in the Code.

As of December 31, 2019, the AZSBC had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The AZSBC will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax if incurred. The AZSBC had no unrelated business income and therefore, has not filed unrelated business income tax returns. Consequently, all tax years remain subject to examination for federal and state income tax purposes.

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. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

ARIZONA SOUTHERN BAPTIST CONVENTION
Notes to Financial Statements
December 31, 2019

NOTE 1 - Description of Operations and Summary of Significant Accounting Policies (continued)

Donated Assets, Property and Equipment

Donations of assets, property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. During the year ended December 31, 2019, the AZSBC received donated real property with a fair value of \$1,040,000.

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 the AZSBC. There were no donated services for the year ended December 31, 2019.

A significant number of unpaid volunteers regularly make contributions of their time to the AZSBC's programs. However, these services do not fully meet the recognition criteria for inclusion in these financial statements.

Donated Use of Facilities

Donated use of facilities is recorded at fair value. During the year, the AZSBC recorded \$174,760 in donated rent for its office in Phoenix, Arizona, and the three Christian Challenge properties in Tempe, Tucson and Flagstaff, Arizona.

Cash Flow Statement – Supplemental Information

There was no cash paid for interest, excise taxes, or income taxes during the year.

Fair Value Measurements

The financial reporting includes a three-tier fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

ARIZONA SOUTHERN BAPTIST CONVENTION
Notes to Financial Statements
December 31, 2019

NOTE 1 - Description of Operations and Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's assumptions, as there is little, if any, related market activity.

In instances where the determination of fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Cash, Cash Equivalents and Restricted Cash

Cash, cash equivalents and restricted cash consist of amounts deposited in financial institutions and foundations. Deposits at financial institutions are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC) and may exceed the insurance amounts provided by the FDIC. Deposits held by foundations are not insured or protected.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statement of financial position that sums to the total of the same amounts shown in the statement of cash flows:

Cash and cash equivalents	\$ 1,723,870
Cash and cash equivalents restricted for endowments	<u>104</u>
Total cash, cash equivalents, and restricted cash reported in the statement of cash flows	<u>\$ 1,723,974</u>

Investments

Investments, except for oil and mineral rights, are reported in the financial statements at fair value on a recurring basis using the market approach under the fair value hierarchy that is based on quoted market prices. Oil and mineral rights are reported in the financial statements at appraised fair value on a recurring basis using the income approach under the fair value hierarchy that is based on future cash flow generation.

Unrealized gains are included in the change in net assets in the accompanying statement of activities. Investment fees of \$43,531 are included in net unrealized gains.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would material affect account balances and the amounts reported in the financial statements.

Investments – Other

Investments – other consists of certificates of deposit, which are presented in the financial statements at market value. The balances are valued at cost, plus accrued interest, which approximates market value. The investments – other are insured by the FDIC.

ARIZONA SOUTHERN BAPTIST CONVENTION
Notes to Financial Statements
December 31, 2019

NOTE 1 - Description of Operations and Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost. The cost of maintenance and repairs is expensed as incurred; significant acquisitions and improvements with costs greater than \$5,000 and useful lives greater than one year are capitalized. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets.

Buildings	15 years
Leasehold improvements	5 years
Furniture and equipment	3 – 10 years
Vehicles	5 years

Other Assets

Other assets include donated church property in Glendale, Arizona, with a fair value of \$1,040,000 on the date of donation and deposits of \$1,885. In February 2020, the property was sold to another not for profit organization.

Agency Funds

AZSBC receives and disburses funds for other Baptist groups and agencies in which the AZSBC manages the funds for these organizations.

Revenue and Revenue Recognition

Contributions - The AZSBC recognizes contributions when cash, securities, or other assets; an unconditional promise to give or a notification of beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met.

Program Activities and Events - The AZSBC recognizes program activities and event revenue during the year when the related activity or event takes place. Amounts paid in advance are deferred to the year when the program or event takes place. Deferred revenue consists of event registrations at December 31, 2019.

The following table provides information about changes in the contract assets related to receivables for the year ended December 31, 2019:

Receivables, beginning of year	\$ 79,102
Revenue recognized that was included in receivables at the beginning of the year	(79,102)
Increase in receivables due to billings during the year	<u>34,693</u>
Receivables, end of year	<u>\$ 34,693</u>

ARIZONA SOUTHERN BAPTIST CONVENTION
Notes to Financial Statements
December 31, 2019

NOTE 1 - Description of Operations and Summary of Significant Accounting Policies (continued)

Revenue and Revenue Recognition (continued)

The following table provides information about changes in the contract liabilities related to deferred revenue for the year ended December 31, 2019:

Deferred revenue, beginning of year	\$	921
Revenue recognized that was included in deferred revenue at the beginning of the year		(921)
Increase in deferred revenue due to cash received during the year		<u>909</u>
Deferred revenue, end of year	\$	<u>909</u>

Functional Expenses

The cost of providing program services and supporting activities has been summarized on a functional basis in the accompanying statement of activities. The statement of functional expenses presents the natural classification of expenses by function. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Directly identifiable expenses are charged to program services and supporting activities. Expenses related to more than one function are charged to program services and supporting activities based on periodic time and expense studies. General administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the AZSBC.

NOTE 2 - Investments

The investment portfolio under the fair value hierarchy consists of the following at December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 378,870	\$ 0	\$ 0	\$ 378,870
Marketable securities	2,763,492	0	0	2,763,492
Bonds	1,114,912	0	0	1,114,912
Government notes	0	275,344	0	275,344
Oil and mineral rights	0	0	502,861	502,861
Real estate investment trusts	0	39,898	0	39,898
Hedge fund	0	59,867	0	59,867
Common pooled funds	<u>0</u>	<u>2,058,457</u>	<u>0</u>	<u>2,058,457</u>
Total	<u>\$ 4,257,274</u>	<u>\$ 2,433,566</u>	<u>\$ 502,861</u>	<u>\$ 7,193,701</u>

ARIZONA SOUTHERN BAPTIST CONVENTION
Notes to Financial Statements
December 31, 2019

NOTE 2 - Investments (continued)

The activity in level 3 investments for oil and mineral rights was as follows for the year ended December 31, 2019:

	<u>Oil and Mineral Rights</u>
Investments, beginning of year	\$ 561,427
Income	19,190
Distributions	(19,190)
Change in value	<u>(58,566)</u>
Investments, end of year	<u>\$ 502,861</u>

The investments are recorded on the statement of financial position as follows at December 31, 2019:

Unrestricted	\$ 5,252,663
Restricted for endowments	<u>1,941,038</u>
Balance December 31, 2019	<u>\$ 7,193,701</u>

NOTE 3 - Endowments

The AZSBC's endowments consist of individual funds established for a variety of purposes. Its endowments include funds without and with donor restrictions as required by the trust agreements. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Arizona has enacted a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The AZSBC has interpreted UPMIFA as requiring the preservation of the fair 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, the AZSBC classifies as net assets with donor restrictions, determined by the AZSBC's beneficiary percentage, (a) the original value of gifts on the date received by the AZSBC, (b) the original value of subsequent gifts on the date received by the AZSBC and (c) accumulations to the permanent endowment made under 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 the permanently restricted net assets is classified as net assets with donor restrictions and net assets without donor restrictions until those amounts are appropriated for expenditure by the AZSBC in a manner consistent with the standard of prudence prescribed by UPMIFA. Under UPMIFA, the AZSBC considers the following factors in determining to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the AZSBC and, (7) the endowment trustee's investment policies.

The AZSBC's endowment funds are held in specified accounts and by trustees who have adopted investment and spending policies and disburse earnings based on those policies. The investment strategy is

ARIZONA SOUTHERN BAPTIST CONVENTION
Notes to Financial Statements
December 31, 2019

NOTE 3 - Endowments (continued)

a risk-managed approach consistent with moderate to long term growth. The diversified asset allocation is periodically rebalanced to ensure that the funds are maximizing returns within acceptable risk tolerances. While managing the portfolio's risk, there is also a focus on the long term growth while achieving a maximum total return. The goals of the investment strategy are to provide long term growth with market inflation and deflation over the long-term (3+ years) and maintain the buying power of the assets under management with market inflation and deflation over the long-term (3+ years).

The corpus of the endowment funds, plus any required accumulation of earnings, must be maintained in perpetuity because of donor restrictions. As a result, the AZSBC's spending policy is to disburse earnings when received from the individual endowment funds and use it in a manner consistent with the donors' intentions.

Changes in endowment net assets are as follows for the year ended December 31, 2019:

	<u>Unrestricted</u>	<u>Restricted by Purpose</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 530,967	\$ 9,154	\$ 1,886,821	\$ 2,426,942
Contributions	0	0	0	0
Investment income, net of fees	160,042	32,295	54,321	246,658
Expenditures	<u>(30,144)</u>	<u>(25,072)</u>	<u>0</u>	<u>(55,216)</u>
 Endowment net assets, end of year	 <u>\$ 660,865</u>	 <u>\$ 16,377</u>	 <u>\$ 1,941,142</u>	 <u>\$ 2,618,384</u>

The fair value of assets associated with one donor-restricted endowment fund fell below the level that the donor requires to be retained in perpetuity. The deficiency was \$395 and resulted from unfavorable market conditions occurring in 2019. During 2019, the endowment funds recovered \$53,047 in deficiencies from the prior year.

NOTE 4 - Property and Equipment

Property and equipment consist of the following at December 31, 2019:

Land	\$ 79,900
Buildings	149,000
Leasehold improvements	87,760
Disaster relief equipment	276,758
Furniture and equipment	156,743
Vehicles	252,429
Christian Challenge furniture and equipment	<u>123,985</u>
	1,126,575
Less accumulated depreciation	<u>(607,942)</u>
	<u>\$ 518,633</u>

ARIZONA SOUTHERN BAPTIST CONVENTION
Notes to Financial Statements
December 31, 2019

NOTE 5 - Postretirement Benefit Plans

The AZSBC contributes to retirement plans for its employees and shares in the cost of the plans of employees of participating Arizona Southern Baptist churches. All such costs are charged to operations in the year paid. The AZSBC incurs no additional liabilities to the retirement plan, which is administered by GuideStone, a Southern Baptist entity. Required contributions by the AZSBC were \$56,905 in 2019.

The AZSBC provides postretirement health and life insurance for all active participants provided they remain employed until disability or retirement and have fifteen years of service. The AZSBC provides 100% of the postretirement health care cost for the employee and 75% for the employee's dependents for the remainder of their lives. Life insurance is provided for the employee only. The prescription benefit coverage is equivalent to the coverage provided by Medicare part D. Retired participants receiving health insurance through the plan are assumed to qualify for the Medicare Supplement and reduces the premiums paid by the AZSBC.

The AZSBC has recorded the actuarially calculated postretirement benefit liability. The AZSBC reports the current economic status (the overfunded or underfunded status) of its defined benefit postretirement plan and additional disclosures about the plan.

The reconciliation of the unfunded status of the plan is as follows at December 31, 2019:

Accumulated postretirement benefit obligation	\$ 1,843,675
Plan assets at fair value	<u>0</u>
	1,843,675
Unrecognized net gain	264,307
Unrecognized prior service cost	0
Unrecognized transition asset at date of initial application	<u>0</u>
Accrued postretirement benefit cost	2,107,982
Impact on net assets without donor restrictions	<u>(264,307)</u>
Net recognized cost	<u>\$ 1,843,675</u>

Net periodic postretirement benefit cost for 2019:

Service	\$ 52,338
Interest cost	69,264
Expected return on plan assets	0
Amortization of unrecognized prior service cost	0
Gain or loss to the extent recognized	(35,796)
Amortization of unrecognized transition asset at the date of initial application	<u>0</u>
Net periodic pension costs	<u>\$ 85,806</u>

ARIZONA SOUTHERN BAPTIST CONVENTION
Notes to Financial Statements
December 31, 2019

NOTE 5 - Postretirement Benefit Plans (continued)

The reconciliation of the accrued benefit cost is as follows for the year ended December 31, 2019:

December 31, 2018 accrued postretirement benefit cost	\$ 1,606,958
Net periodic postretirement benefit expense for 2019	85,806
2019 benefits paid	<u>(56,905)</u>
December 31, 2019, accrued postretirement benefit cost	1,635,859
Change in net assets without donor restrictions	<u>207,816</u>
Net recognized costs	<u>\$ 1,843,675</u>

The assumed health care cost trend rate used to measure the expected cost of benefits covered by the plan

For the 2019 calendar year:	
Pre-65 (Medical/Rx)	6.8%/7.1%
Post-65 (Medical/Rx)	3.8%/5.9%
Expected long-term rate:	
Pre-65 (Medical/Rx)	4.75%/5.25%
Post-65 (Medical/Rx)	3.8%/5.25%

There are no planned contributions for 2020.

The projected ten-year expected benefits payments are as follows:

2020	\$	61,957
2021		66,278
2022		70,727
2023		71,832
2024		78,074
2025 – 2029		510,065

NOTE 6 - Related Organizations

A not for profit corporation, the Arizona Student Ministries Charitable Trust (Trust), is a related organization of the AZSBC. The Arizona Student Ministries Charitable Trust owns the properties used by the Christian Challenge ministry that are located close to university and community college campuses in Arizona. The AZSBC is paying for the maintenance and upkeep of the properties and is a beneficiary of this Trust. The terms of the Trust specify that one trustee shall be the executive director of the AZSBC, another trustee shall be the president of the AZSBC and the third trustee shall be selected by the other two trustees. Because of the AZSBC's financial interest and control, the activity of the Trust should be consolidated with the AZSBC. Management has elected not to consolidate this organization with the AZSBC's financial statements. Contributed rent of \$106,000 has been recorded for the year ended December 31, 2019.

ARIZONA SOUTHERN BAPTIST CONVENTION
Notes to Financial Statements
December 31, 2019

NOTE 6 - Related Organizations (continued)

Another related organization, Arizona Christian Ministries Charitable Trust (ACMCT), owns the property in Phoenix, Arizona, where the AZSBC had its offices. The property was purchased by ACMCT in December 2018, and in January 2019, AZSBC entered into a lease agreement with ACMCT to lease the property through December 2029, at no cost. AZSBC paid expenses of \$613,192 related to the renovations of this property of which \$612,307 were reimbursed by ACMCT as of December 31, 2019. AZSBC is responsible for the maintenance and upkeep of the property. Contributed rent of \$68,760 has been recorded by AZSBC for the year ended December 31, 2019. AZSBC is only a beneficiary of ACMCT and therefore, consolidation is not required at December 31, 2019.

NOTE 7 - Operating Leases

The AZSBC leased office equipment under an operating lease that required monthly payments of \$598 through May 2018, then continued on a month-to-month basis through September 2019. A new twenty-four-month lease for office equipment that began in October 2019 requires monthly payments of \$351. The AZSBC also leased telephone and internet service through February 2020 requiring payments of \$849. This lease was amended through January 2023 and requires monthly payments of \$792. Rent expense was \$16,270 on the leases for the year ended December 31, 2019.

Future minimum lease payments are as follows:

2020	\$	13,776
2021		12,665
2022		9,503
2023		792

In addition, the AZSBC leases office space for the Historical Commission for \$1,000 per month on a month-to-month basis. This lease terminated in May 2020.

NOTE 8 - Contingency

The AZSBC has issued credit cards to employees for AZSBC-related business purchases with a total credit limit of \$103,800.

NOTE 9 - Designated Net Assets

The board of AZSBC has designated funds of \$2,825,732 to be used for church planting and other programs and events of the AZSBC.

ARIZONA SOUTHERN BAPTIST CONVENTION

Notes to Financial Statements

December 31, 2019

NOTE 10 - Donor-Restricted Net Asset Activity

Donor-restricted net asset activity is as follows for the year ended December 31, 2019:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending Balance</u>
Donor-restricted by purpose:				
Church planting	\$ 465,010	\$ 33,152	\$ (46,726)	\$ 451,436
Mission projects	430,279	1,791,252	(1,683,482)	538,049
Church ministries	15,900	3,565	(889)	18,576
Christian Challenge	52,862	735,737	(752,796)	35,803
Evangelism	1,720	0	0	1,720
Other	4,028	47,418	(25,896)	25,550
	<u>969,799</u>	<u>2,611,124</u>	<u>(2,509,789)</u>	<u>1,071,134</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Investment Gains</u>	<u>Ending Balance</u>
Donor-restricted in perpetuity:				
Church planting	161,113	0	6,315	167,428
Arizona mission offering	4,153	0	0	4,153
Mission projects	287,714	0	25,101	312,815
Christian Challenge	745	0	0	745
Seminary scholarships	83,754	0	7,124	90,878
Cooperative Program	509,600	0	1,947	511,547
Charitable organizations	117,432	0	8,409	125,841
AZSBC operations and programs	722,310	1,669	3,756	727,735
	<u>1,886,821</u>	<u>1,669</u>	<u>52,652</u>	<u>1,941,142</u>
	<u>\$ 2,856,620</u>	<u>\$ 2,059,426</u>	<u>\$ (1,918,790)</u>	<u>\$ 3,012,276</u>

NOTE 11 - Liquidity and Funds Available

AZSBC manages its liquidity and reserves by operating under an adopted budget for expenses that is reviewed and approved by the Convention Council. AZSBC is primarily supported by contributions without donor restrictions to the Cooperative Program. The AZSBC also received donor-restricted contributions that require resources to be used in a particular manner or in a future period. The AZSBC must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for expenditures within one year. The Convention Council also has the authority to use funds previously designated for specific purposes should the need arise.

As a part of the AZSBC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. In addition, the AZSBC invests cash in excess of 90 days normal operating expenses in certificates of deposit or other short-term investments.

ARIZONA SOUTHERN BAPTIST CONVENTION
Notes to Financial Statements
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NOTE 11 - Liquidity and Funds Available (continued)

The following table reflects the AZSBC's financial assets at December 31, 2019, reduced by amounts not available for general expenditures within one year of the statement of financial position date:

Financial assets:	
Cash	\$ 1,723,974
Investments	7,193,701
Investments – other	380,498
Receivables	<u>34,693</u>
	<u>9,332,866</u>
Less those unavailable for general expenditures within one year due to:	
Agency funds	112,777
Board designated	2,825,732
Donor-restricted	<u>3,012,276</u>
	<u>5,950,785</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,382,081</u>

NOTE 12 - Prior Period Adjustment

A prior period adjustment was recorded for \$52,947 to reduce net assets without donor restrictions and increase accounts payable for a 2017 overpayment received from the North American Mission Board that was reimbursed to them in 2019.

NOTE 13 - Subsequent Events

Management has evaluated subsequent events through the report date, which is the date the financial statements were available to be issued.

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic, which soon afterward was declared a national emergency in the United States. It is anticipated that the AZSBC's operations will be impacted as a result of this global event. Due to the uncertainty of the pandemic's duration and the full events to the AZSBC, the financial impact on the AZSBC's operations is unknown.

In 2020, the AZSBC entered into an agreement to sell the donated property for \$900,000. The terms of the promissory note receivable, at zero interest, are an initial payment of \$6,000, twenty-one monthly payments of \$2,000, thirty-six monthly payments of \$4,000 and the remainder due on February 1, 2025. The note receivable is secured by a deed of trust on the property.