DETROIT BAPTIST UNION

FINANCIAL REPORT

DECEMBER 31, 2012

DETROIT BAPTIST UNION

FINANCIAL REPORT

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HUNGERFORD & CO. Certified Public Accountants

A Professional Corporation

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Detroit Baptist Union

We have audited the accompanying financial statements of Detroit Baptist Union (a nonprofit organization) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to 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 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 of 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 statement 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 Detroit Baptist Union as of December 31, 2012 and 2011, and the changes in its assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hungerford & Co.

Southgate, MI
March 7, 2013

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Members - American Institute of Certified Public Accountants - Michigan Association of Certified Public Accountants

DETROIT BAPTIST UNION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31,

	2012	2011
ASSETS		
Cash and Cash Equivalents	$ 51,397	$ 78,661
Investments	609,117	703,999
Interest Receivable	4,830	4,572
Notes Receivable	778,142	650,076
Prepaid Insurance	1,739	1,747
TOTAL ASSETS	$ 1,445,225	$ 1,439,055
LIABILITIES		
Payables	$ 1,375	$ 3,125
Accrued Expenses	683	756
Total Liabilities	2,058	3,881
NET ASSETS		
Unrestricted	1,443,167	1,435,174
TOTAL LIABILITIES AND NET ASSETS	$ 1,445,225	$ 1,439,055

See notes to financial statements.

DETROIT BAPTIST UNION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31,

	2012 Unrestricted	2011 Unrestricted
REVENUE, GAINS AND OTHER SUPPORT		
Interest and Dividend Income	$ 53,896	$ 48,942
Loan Fees and Charges	3,914	25
Realized Gain on Investments	9,438	19,580
Unrealized Gain on Investments	31,704	-
Total Revenue, Gains and Other Support	98,952	68,547
EXPENSES		
Administrative	37,496	25,869
Advisor Fees	6,006	5,968
Property Expense	415	3,503
Grants	29,000	34,595
Facing the Challenges Grants	16,295	18,183
Insurance	1,747	1,700
Total Expense	90,959	89,818
LOSSES		
Unrealized Losses on Investments	-	35,309
Provision for Loan Losses	-	5,000
Total Losses	-	40,309
INCREASE (DECREASE) IN NET ASSETS	7,993	(61,580)
NET ASSETS AT BEGINNING OF YEAR	1,435,174	1,496,754
NET ASSETS AT END OF YEAR	$ 1,443,167	$ 1,435,174

See notes to financial statements.

DETROIT BAPTIST UNION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	$ 7,993	$ (61,580)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Used by Operating Activities		
Realized and Unrealized Gain on Investments	(41,142)	(19,580)
Realized and Unrealized Losses on Investments	-	35,309
Provision for Loan Losses	-	5,000
(Increase) Decrease in		
Interest Receivable	(258)	(2,491)
Prepaid Insurance	8	(38)
Payables	(1,750)	(1,938)
Accrued Expenses	(74)	7
Net Cash Used by Operating Activities	(35,223)	(45,311)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of Investments	136,025	80,238
Loan Advances - Notes Receivable	(177,126)	(239,000)
Loan Repayments - Notes Receivable	49,060	92,551
Net Cash Provided (Used) by Investing Activities	7,959	(66,211)
Net Decrease in Cash and Equivalents	(27,264)	(111,522)
CASH AND EQUIVALENTS - BEGINNING OF YEAR	78,661	190,183
CASH AND EQUIVALENTS - END OF YEAR	$ 51,397	$ 78,661

See notes to financial statements.

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION'S ACTIVITY -

Detroit Baptist Union (the "Organization") is a Michigan nonprofit organization. The Organization makes loans and receives payments on mortgage loans and notes receivable. The money received is invested to produce income for other Baptist organizations under the Organization's tax-exempt purpose.

FINANCIAL STATEMENT PRESENTATION -

The Organization reports 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. The Organization has no net assets temporarily restricted or permanently restricted.

PROMISES TO GIVE -

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

CONTRIBUTED SERVICES -

The value of contributed services did not meet the requirements for recognition in the financial statements.

CONTRIBUTIONS -

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

STATEMENT OF CASH FLOWS -

For the purpose of the presentation of the Statement of Cash Flows, the Organization considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

INVESTMENTS -

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values based on quoted prices in active markets (all Level I measurements) in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

NOTES RECEIVABLE -

Notes receivable are reported at their outstanding principal balances. A provision for losses on loans is charged to earnings when, in the opinion of management, such losses may occur. In making that determination, management evaluated the financial condition of the borrowers, the estimated value of the underlying collateral, and current economic conditions. Notes Receivable are placed on a nonaccrual basis when management believes, after considering economic conditions, business conditions, and collection effort that the loans are impaired or collection of interest is doubtful. While management uses the best information available to make evaluations, adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the evaluations.

USE OF ESTIMATES -

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

SUBSEQUENT EVENTS -

The Organization has evaluated subsequent events through March 7, 2013, the date which the financial statements were available to be issued.

NOTE 2 - CASH AND CASH EQUIVALENTS

At December 31, 2012 and 2011, the bank balances (without recognition of outstanding checks or deposits in transit) were $55,237 and $85,794, respectively, of which $46,496 and $84,188, respectively, was covered by the Federal Depository Insurance Corporation.

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible the Organization attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted market prices in active markets for identical assets or liabilities

Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3 – Unobservable inputs that are not corroborated by market data

DETROIT BAPTIST UNION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

Fair value of assets measured on a recurring basis at December 31, 2012 and 2011 are as follows:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	$ 148,905	$ 153,634	$ 146,309	$ 144,559
US Government Securities	120,135	122,925	150,300	155,411
Debt Securities	81,788	88,932	97,067	101,697
Equity Securities	202,631	243,626	287,383	302,332
Total	$ 553,459	$ 609,117	$ 681,059	$ 703,999

Investment income is composed of the following for the years ended December, 31, 2012 and 2011, respectively:

	2012	2011
Interest and Dividends	$ 17,576	$ 14,962
Net Realized Gain	9,438	20,920
Net Unrealized Gain (Loss)	31,704	(35,309)
	$ 58,718	$ 573

The following tabulation summarized the relationship between cost and fair values of the investment assets:

	Cost	Fair Value	Excess of Fair Value Over Cost
Balance at Beginning of Year	$ 681,059	$ 703,999	$ 22,940
Balance at End of Year	553,459	609,117	55,658

NOTE 4 - NOTES RECEIVABLE

	2012	2011
First Mortgage Loans	$ 495,284	$ 269,484
Other Secured Loans	25,988	39,569
Land Contracts	248,779	261,176
Unsecured Loans	13,091	84,847
	783,142	655,076
Allowance for Losses on Loans	(5,000)	(5,000)
	$ 778,142	$ 650,076

NOTE 5 - INCOME TAX STATUS

The Organization is a non-profit corporation exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE 6 - CONTINGENT RECEIVABLE

During 2011 the American Baptist Churches of Michigan deeded the Camp Lael property back to the Organization and the Organization discharged its $700,000 first mortgage loan. At a simultaneous closing, the Organization deeded the Camp Lael property to Camp Lael. The Organization now has a contingent receivable from Camp Lael. There is a non-interest bearing promissory note for $1,250,000 secured by a first mortgage on the Camp Lael property. The promissory note provides for payment only if Camp Lael transfers its total or partial interest in the mortgaged property, goes out of existence, fails to maintain adequate insurance, violates any Federal or State of Michigan laws, ceases its affiliation with the American Baptist Churches of Michigan or the Organization, fails to maintain the camp in good condition and repair, or discontinues the camp programming.

In addition the Organization has several other contingent receivables based on reversionary clauses of deeds of certain properties.

NOTE 7 - RELATED PARTY TRANSACTIONS

Members of the Board of Directors must also be a member of a church who is part of the Metropolitan Detroit Association of American Baptist Churches. Notes include loans made to churches that have a member who is also a member of the Board of Directors.

NOTE 8 – SUBSEQUENT EVENT

On February 7, 2013, the Organization entered into a purchase agreement with a financial institution for the purchase of one of its branch buildings for $100,000. The Organization intends to lease the building to nonprofit organizations.