

DETROIT BAPTIST UNION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

with

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

DETROIT BAPTIST UNION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Detroit Baptist Union

Report on the Financial Statements

We have audited the accompanying financial statements of Detroit Baptist Union (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 Detroit Baptist Union as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Carnaghi + Schwark, PLLC

August 9, 2019
Roseville, MI

DETROIT BAPTIST UNION
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS

	<u>2018</u>
Current assets:	
Cash and cash equivalents	\$ 32,633
Investments	789,912
Interest receivable	8,451
Notes receivable	529,977
Prepaid insurance	<u>1,138</u>
Total current assets	<u>1,362,111</u>
 Total Assets	 <u><u>\$ 1,362,111</u></u>

LIABILITIES AND NET ASSETS

	<u>2018</u>
Liabilities:	
Payables	\$ 342
Scholarship fund	<u>3,750</u>
Total Liabilities	4,092
 Net Assets:	
Unrestricted	<u>1,358,019</u>
 Total Liabilities and Net Assets	 <u><u>\$ 1,362,111</u></u>

See accompanying notes.

**DETROIT BAPTIST UNION
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2018**

	2018 Unrestricted
Revenue, Gains and Other Support	
Interest on notes receivable	\$ 27,463
Interest and dividend income	60,058
Other donation	1,098
Realized gain on investments	8,767
Total Revenue, Gain and Other Support	97,386
Expenses	
Administrative	11,746
Advisor fees	8,889
Audit	7,400
Grants	72,000
Special project grants	7,749
Insurance	1,098
Total Expenses	108,882
Losses	
Unrealized loss on investments	123,342
Total Losses	123,342
Decrease in net assets	(134,838)
Net assets at beginning of year	1,492,857
Net assets at end of year	\$ 1,358,019

See accompanying notes.

**DETROIT BAPTIST UNION
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2018**

	<u>Amount 2018</u>
Cash flows from operating activities	
Increase (Decrease) in net assets	\$ (134,838)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used by) operating activities	
Realized and unrealized gain on investments	114,576
Provision for loan losses	-
(Increase) Decrease in	
Interest receivable	(1,319)
Prepaid insurance	(40)
Increase (Decrease) in	
Payables	-
Scholarship fund	2,250
Net cash provided by (used by) operating activities	<u>(19,371)</u>
Cash flows from investing activities	
Sale of investments	(61,257)
Loan advances - notes receivable	-
Loan repayments - notes receivable	83,788
Net cash provided by (used by) investing activities	<u>22,531</u>
Net increase (decrease) in cash and cash equivalents	3,160
Cash and cash equivalents at beginning of year	<u>29,473</u>
Cash and cash equivalents at end of year	<u>\$ 32,633</u>

See accompanying notes.

DETROIT BAPTIST UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

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 accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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 or permanently restricted.

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.

Promise 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 maturity of three months or less to be cash equivalents.

DETROIT BAPTIST UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018
(Continued)

Note 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 1 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.

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, 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.

During the year 2018, the land contract with New Beginnings Recovery Church was delinquent in its payments. Attempts to remedy this situation were ongoing in 2018. Accrued interest on the late payments in the amount of \$6,927 is included in Interest receivable on the Statement of Financial Position.

Subsequent Events

The Organization has evaluated subsequent events through August 9, 2019, the date which the financial statements were available to be issued.

In April 2019, the property associated with the delinquent land contract with New Beginnings Recovery Church was sold and the Organization received \$227,253 for the balance of unpaid principal and accrued interest.

Note 2 – CASH AND CASH EQUIVALENTS

At December 31, 2018, the bank balances (without recognition of outstanding checks or deposits in transit) was \$38,764, of which \$38,764 was covered by the Federal Depository Insurance Corporation.

DETROIT BAPTIST UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018
(Continued)

Note 3 – FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a 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) and the lowest priority to unobservable inputs (Level 3). The three levels of the hierarchy under FASB ASC 820 are described as follows:

- Level 1 inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities in active markets that the Plan has the ability to access.
- Level 2 inputs to the methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

	Quoted Prices In Active Markets For Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017			
Short-Term Investments	\$ 17,109	\$ -	\$ -
Debt Securities	237,341	-	-
Equity Securities	535,462	-	-
	<u>\$ 789,912</u>	<u>\$ -</u>	<u>\$ -</u>

DETROIT BAPTIST UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018
(Continued)

Note 3 – FAIR VALUE MEASUREMENTS (Continued)

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

	Cost	Fair Value	Excess of Cost over Fair Value
Balance at End of Year	\$ 846,741	\$ 789,912	\$ (56,829)

Note 4 – NOTES RECEIVABLE

The Organization makes loans to various churches. The breakdown of the loans by type are as follows:

	2018
First Mortgage Loans	\$ 329,430
Other Secured Loans	-
Land Contracts	210,670
Unsecured Loans	4,877
	544,977
Allowance for Losses on Loans	(15,000)
Total Notes Receivable	\$ 529,977

DETROIT BAPTIST UNION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018
(Continued)

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.

The Organization has evaluated its tax positions for all open tax years. However, the Organization is not currently under audit nor has the Organization been contacted by any jurisdiction. Based on the evaluation of the Organization's tax positions, management believes all tax positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions have been recorded for the year ended December 31, 2018.

The Organization's tax returns are subject to examination generally up to four years after the filing date.

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 a member of the Board of Directors.