

CBMC, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011



**HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC**

CBMC, INC.

INDEX TO REPORT

DECEMBER 31, 2012 AND 2011

	PAGE
INDEPENDENT AUDITOR'S REPORT	1-2
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4-5
STATEMENTS OF FUNCTIONAL EXPENSES	6-7
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9-17



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
CBMC, Inc.
Chattanooga, Tennessee

We have audited the accompanying financial statements of CBMC, Inc. (a nonprofit organization) as of December 31, 2012 and 2011, and related statement 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 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 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 CBMC, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Chattanooga, Tennessee
April 2, 2013

Henderson Hutcherson

CBMC, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

ASSETS		
	2012	2011
Cash and cash equivalents	\$ 1,474,375	\$ 1,449,787
Accounts receivable, net	116	363
Inventories	96,031	107,125
Prepayments	31,579	20,657
Investments	2,033,260	1,421,348
Property held for sale	5,000	5,000
Property and equipment, net	69,430	36,742
Intangible assets, net of amortization	177,720	40,028
Cash surrender value of life insurance policies	<u>182,564</u>	<u>173,086</u>
TOTAL ASSETS	<u>\$ 4,070,075</u>	<u>\$ 3,254,136</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 246,083	\$ 108,039
Accrued salaries, benefits, and compensated absences	177,649	166,850
Annuity obligations	<u>4,354</u>	<u>26,053</u>
Total liabilities	<u>428,086</u>	<u>300,942</u>
NET ASSETS		
Unrestricted	1,426,266	1,180,979
Temporarily restricted	<u>2,215,723</u>	<u>1,772,215</u>
Total net assets	<u>3,641,989</u>	<u>2,953,194</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,070,075</u>	<u>\$ 3,254,136</u>

CBMC, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	\$ 2,396,305	\$ 3,766,961	\$ -	\$ 6,163,266
Support service fee	380,014	-	-	380,014
Sales	123,610	-	-	123,610
Material and event support	15,575	-	-	15,575
Investment income	107,351	6,233	-	113,584
Other revenues	35,852	275,566	-	311,418
Net assets released from restriction	<u>3,605,252</u>	<u>(3,605,252)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>6,663,959</u>	<u>443,508</u>	<u>-</u>	<u>7,107,467</u>
EXPENSES AND LOSSES				
Program services				
Field ministry	3,618,269	-	-	3,618,269
Forums	604,921	-	-	604,921
Ministry tools	230,675	-	-	230,675
Leadership development and training	189,131	-	-	189,131
Outreach and conference events	<u>269,146</u>	<u>-</u>	<u>-</u>	<u>269,146</u>
Total program expenses	<u>4,912,142</u>	<u>-</u>	<u>-</u>	<u>4,912,142</u>
Supporting services				
General and administrative	860,578	-	-	860,578
Fund raising	<u>644,432</u>	<u>-</u>	<u>-</u>	<u>644,432</u>
Total supporting services	<u>1,505,010</u>	<u>-</u>	<u>-</u>	<u>1,505,010</u>
Changes and payments for annuity obligations	<u>1,520</u>	<u>-</u>	<u>-</u>	<u>1,520</u>
Total expenses and losses	<u>6,418,672</u>	<u>-</u>	<u>-</u>	<u>6,418,672</u>
CHANGE IN NET ASSETS	245,287	443,508	-	688,795
Net assets - beginning of year	<u>1,180,979</u>	<u>1,772,215</u>	<u>-</u>	<u>2,953,194</u>
Net assets - end of year	<u>\$ 1,426,266</u>	<u>\$ 2,215,723</u>	<u>\$ -</u>	<u>\$ 3,641,989</u>

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

CBMC, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	\$ 1,943,414	\$3,160,437	\$ -	\$ 5,103,851
Sales	142,569	-	-	142,569
Material and event support	13,400	237,304	-	250,704
Investment income	84,581	-	-	84,581
Other revenues	33,060	-	-	33,060
Net assets released from restriction	<u>3,465,829</u>	<u>(3,465,829)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>5,682,853</u>	<u>(68,088)</u>	<u>-</u>	<u>5,614,765</u>
EXPENSES AND LOSSES				
Program services				
Field ministry	3,301,782	-	-	3,301,782
Forums	578,952	-	-	578,952
Ministry tools	291,724	-	-	291,724
Leadership development and training	156,120	-	-	156,120
Outreach and conference events	<u>283,729</u>	<u>-</u>	<u>-</u>	<u>283,729</u>
Total program expenses	<u>4,612,307</u>	<u>-</u>	<u>-</u>	<u>4,612,307</u>
Supporting services				
General and administrative	606,677	-	-	606,677
Fund raising	<u>509,222</u>	<u>-</u>	<u>-</u>	<u>509,222</u>
Total supporting services	<u>1,115,899</u>	<u>-</u>	<u>-</u>	<u>1,115,899</u>
Changes and payments for annuity obligations	<u>(87,280)</u>	<u>-</u>	<u>-</u>	<u>(87,280)</u>
Total expenses and losses	<u>5,640,926</u>	<u>-</u>	<u>-</u>	<u>5,640,926</u>
CHANGE IN NET ASSETS	41,927	(68,088)	-	(26,161)
Net assets - beginning of year	<u>1,139,052</u>	<u>1,840,303</u>	<u>-</u>	<u>2,979,355</u>
Net assets - end of year	<u>\$ 1,180,979</u>	<u>\$ 1,772,215</u>	<u>\$ -</u>	<u>\$ 2,953,194</u>

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

CBMC, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012

	Program Services					Supporting Services		
	Field Ministry	Forums	Ministry Tools	Leadership and Development Training	Outreach and Conference Events	General and Administrative	Fund Raising	Total
Salaries	\$ 1,962,193	\$ 333,240	\$ 85,542	\$ 79,696	\$ 88,695	\$ 285,174	\$ 126,181	\$ 2,960,721
Payroll taxes	153,611	25,818	6,437	5,913	6,572	21,188	9,317	228,856
Other benefits	341,810	57,165	30,810	17,693	20,429	77,985	27,941	573,833
Total salaries and benefits	<u>2,457,614</u>	<u>416,223</u>	<u>122,789</u>	<u>103,302</u>	<u>115,696</u>	<u>384,347</u>	<u>163,439</u>	<u>3,763,410</u>
Automobile	188,708	14,136	1,867	2,725	2,793	7,425	11,805	229,459
Travel	104,056	5,059	4,333	8,604	8,469	21,311	35,819	187,651
Meals	70,775	5,303	1,208	1,898	1,910	4,378	8,799	94,271
Meetings	309,994	20,305	1,740	8,805	42,162	13,057	118,678	514,741
Rent and utilities	65,741	8,702	5,693	5,693	11,386	62,622	11,386	171,223
Telephone	91,316	15,762	2,984	4,446	5,335	18,171	6,192	144,206
Supplies	14,772	1,480	1,013	481	607	2,151	1,283	21,787
Materials	56,138	12,323	27,081	3,207	3,372	2,657	9,303	114,081
Support service fee	37,998	18,999	18,999	18,999	37,998	208,990	37,998	379,981
Printing	11,179	1,640	1,089	1,263	2,609	10,210	65,336	93,326
Equipment	20,691	11,240	2,398	3,789	4,257	12,440	7,626	62,441
Data processing	3,635	3,956	667	1,333	1,333	3,246	4,820	18,990
Professional fees	45,786	39,911	6,264	6,970	7,920	24,537	96,223	227,611
Postage	22,126	1,176	18,650	985	1,597	6,873	26,239	77,646
Insurance	7,671	797	536	536	957	4,708	919	16,124
Depreciation	3,638	1,819	1,819	1,819	3,638	20,007	3,638	36,378
Other	<u>106,431</u>	<u>26,090</u>	<u>11,545</u>	<u>14,276</u>	<u>17,107</u>	<u>53,448</u>	<u>34,929</u>	<u>263,826</u>
 Total functional expenses	 <u>\$ 3,618,269</u>	 <u>\$ 604,921</u>	 <u>\$ 230,675</u>	 <u>\$ 189,131</u>	 <u>\$ 269,146</u>	 <u>\$ 860,578</u>	 <u>\$ 644,432</u>	 <u>\$ 6,417,152</u>

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

CBMC, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2011

	Program Services					Supporting Services		
	Field Ministry	Forums	Ministry Tools	Leadership and Development Training	Outreach and Conference Events	General and Administrative	Fund Raising	Total
Salaries	\$ 1,886,518	\$ 340,886	\$ 81,133	\$ 74,557	\$ 84,390	\$ 273,974	\$ 93,906	\$ 2,835,364
Payroll taxes	147,333	26,828	6,075	5,489	6,227	20,735	6,495	219,182
Other benefits	<u>327,806</u>	<u>47,781</u>	<u>30,678</u>	<u>17,853</u>	<u>19,950</u>	<u>74,690</u>	<u>24,145</u>	<u>542,903</u>
Total salaries and benefits	2,361,657	415,495	117,886	97,899	110,567	369,399	124,546	3,597,449
Automobile	166,017	14,065	1,480	2,414	3,243	8,770	7,047	203,036
Travel	86,287	5,772	3,162	6,690	7,220	17,103	18,934	145,168
Meals	59,244	6,833	938	1,761	1,655	3,876	4,062	78,369
Meetings	270,677	30,966	1,321	3,406	101,003	9,331	117,304	534,008
Rent and utilities	67,108	6,771	4,999	4,999	9,999	54,992	9,999	158,867
Telephone	85,995	15,580	2,873	4,160	5,221	18,071	4,507	136,407
Supplies	13,409	1,281	1,231	299	742	2,703	440	20,105
Materials	58,395	11,169	120,149	6,386	2,520	1,530	3,572	203,721
Printing	9,769	800	1,177	646	3,267	6,777	67,445	89,881
Equipment	18,912	5,102	1,761	2,397	3,424	11,387	5,686	48,669
Data processing	2,197	2,052	459	788	797	1,910	111	8,314
Professional fees	30,674	47,083	7,925	9,573	13,562	28,779	94,269	231,865
Postage	16,827	1,793	16,430	734	1,272	6,265	21,846	65,167
Insurance	7,531	1,478	1,201	1,201	2,402	13,212	2,402	29,427
Depreciation	2,747	1,373	1,373	1,373	2,747	15,107	2,747	27,467
Other	<u>44,336</u>	<u>11,339</u>	<u>7,359</u>	<u>11,394</u>	<u>14,088</u>	<u>37,465</u>	<u>24,305</u>	<u>150,286</u>
Total functional expenses	<u>\$ 3,301,782</u>	<u>\$ 578,952</u>	<u>\$ 291,724</u>	<u>\$ 156,120</u>	<u>\$ 283,729</u>	<u>\$ 606,677</u>	<u>\$ 509,222</u>	<u>\$ 5,728,206</u>

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

CBMC, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 688,795	\$ (26,161)
Adjustment to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	36,377	27,467
Change in value of annuity obligation	(1,520)	(87,280)
Non-cash donations of investments	(162,752)	-
Investment income	(113,584)	(84,581)
Change in assets and liabilities:		
Accounts receivable, net	247	136
Inventories	11,094	(6,275)
Prepayments	(10,922)	(898)
Accounts payable and accrued expenses	(11,956)	65,711
Accrued salaries, benefits, and compensated absences	10,799	13,611
Net cash from operating activities	<u>446,578</u>	<u>(98,270)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(500,000)	(596,976)
Proceeds from sale of investments	164,424	62,522
Change in cash surrender value of life insurance policies	(9,478)	(10,588)
Purchases of property and equipment	<u>(56,757)</u>	<u>(22,807)</u>
Net cash from investing activities	<u>(401,811)</u>	<u>(567,849)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes and payments to annuitants	<u>(20,179)</u>	<u>(18,073)</u>
Net cash from financing activities	<u>(20,179)</u>	<u>(18,073)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	24,588	(684,192)
Cash and cash equivalents - beginning of year	<u>1,449,787</u>	<u>2,133,979</u>
Cash and cash equivalents - end of year	<u>\$ 1,474,375</u>	<u>\$ 1,449,787</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest during the year	<u>\$ -</u>	<u>\$ -</u>
--	-------------	-------------

NON-CASH TRANSACTIONS

During 2012, CBMC acquired an intangible asset for \$150,000.
The entire \$150,000 was paid in 2013.

CBMC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 1 – NATURE OF OPERATIONS

CBMC, Inc. (CBMC) is a nonprofit charitable organization incorporated under the laws of the State of Delaware in 1939. CBMC's mission is to present Jesus Christ as Savior and Lord to business and professional men, and to develop Christian business and professional men to carry out The Great Commission. CBMC has many affiliated local teams that conduct meetings and are active in their communities independent of this organization. The financial statements of the local teams are not required to be and have not been combined with the financial statements of CBMC.

CBMC is classified as an organization exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and has been classified as a publicly supported organization which is not a private foundation under Section 509(a) of the Code.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

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

Financial Statement Presentation

Financial statement presentation follows the recommendations of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958. Under FASB ASC Topic 958, net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If net assets were released from restrictions by incurring expenses satisfying the purpose of the grant or contribution within the same reporting period, those net assets have been classified as unrestricted.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

(Continued)

CBMC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

CBMC considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and money market accounts held in investment accounts are not considered cash equivalents by CBMC, as they are being held for the purpose of purchasing additional investments.

Promises to Give

Unconditional promises to give are recognized as support when received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Amounts expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Inventories

Inventories consist of publications and other merchandise available for resale and are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Investments

Investments in marketable securities traded on a national securities exchange are stated at fair market value based on the last reported sales price on the valuation date. Other investments consist of insurance annuity contracts and certificates of deposit with original maturities of greater than three months, and are stated at cost. Net appreciation, or depreciation, in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation or depreciation of those investments, is reported in the Statements of Activities.

Investment securities donated to CBMC are typically sold upon receipt or shortly thereafter and contribution income is recognized for the net proceeds.

Property held for sale is recorded at estimated fair value and consists of donated real estate.

Property and Equipment

Expenditures for property and equipment in excess of \$1,500 are capitalized at cost. Donated materials, supplies, and equipment, where significant in amount, are recorded as support at their estimated fair value.

Depreciation is provided on the straight-line method based on the following estimated useful lives of depreciable assets:

Furniture and equipment	3-10 years
Vehicles	3-5 years

(Continued)

CBMC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Annuity Obligations

The liability for annuities is estimated based on the present value of expected future payments considering the beneficiaries' life expectancies and applicable discount rates based upon federal tables. An adjustment to the liability is recognized in the Statements of Activities for changes in the value.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Merchandise Sales

CBMC engages in the selling of publications to customers as an additional way to raise revenue throughout the year. Revenue on the sale of these publications are recorded when the requirements of a sale have taken place, and are recorded on the accrual basis congruent with generally accepted accounting principles.

Donated Services

CBMC receives various donated services that range from limited participation of individuals in fundraising and other activities to active participation in program services and administrative functions. Such services are not recorded as support and expenses as recognition criteria have not been met. Significant donated services are reported as support and expenses at their estimated fair value if specific criteria for recognition are met.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimate.

CBMC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, support and expenses during the reporting period. Actual results could differ from those estimates.

Presentation of Sales Tax

The State of Tennessee and counties within the State impose a sales tax on all of CBMC's sales to non-exempt customers. CBMC collects that sales tax from customers and remits the entire amount to the State. CBMC's accounting policy is to exclude the tax collected and remitted to the State from revenue and cost of sales.

Uncertain Tax Positions

Using the guidance in FASB ASC 740, *Income Taxes*, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. Such tax positions initially and subsequently need to be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts.

CBMC has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits. CBMC's evaluation was performed for tax years ended December 31, 2009 through December 31, 2012, the years that remain subject to examination by major tax jurisdictions as of December 31, 2012.

Compensated Absences

CBMC accrues for vacation leave (personal time off) based upon the following schedule for salaried employees:

<u>Years of Service</u>	<u>Total Days</u>
1 through 5 years	17 Days
5 years+1 day through 10 years	22 Days
10 years+1 day	27 Days

(Continued)

CBMC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Continued)

Employees are eligible for one week of vacation time after three months of their start date. Personal time off is given in a “lump-sum” on January 1st of each year and can be used as either sick leave or vacation leave.

Non-salaried employees are eligible to accrue vacation time. The base rate of the vacation time is 6.75 hours per month for 37.50 hours per week of work. Permanent part-time employees accrue vacation time based on the percentage of hours of a full-time work week.

Intangible Assets

CBMC owns intangible rights to a book entitled *Monday Morning Atheist*. The rights were acquired during 2012 for \$150,000 and are being amortized over 3 years. Amortization expense for 2012 was \$4,167. Amortization for the next 3 years is anticipated to be \$50,000 for 2013 and 2014 and \$45,833 for 2015.

NOTE 3 – INVESTMENTS

The Organization follows FASB ASC Topic 820, which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. FASB ASC 820 maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of December 31. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of December 31. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

(Continued)

CBMC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 3 – INVESTMENTS (Continued)

Level 3 – Securities that have little to no pricing observability as of December 31. These securities are measured using management’s best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by CBMC. CBMC considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to CBMC’s perceived risk of that instrument.

A summary of the inputs used to value CBMC’s investments at December 31, 2012 and 2011, is as follows:

	Fair Value Measurements at Reporting Date Using
	(Level 1)
December 31, 2012	
Fixed income mutual funds	\$ 1,806,719
Equity investments – financial sector	99,907
Large cap equity mutual funds	39,620
Insurance annuity contracts	87,014
	<u>\$ 2,033,260</u>
December 31, 2011	
Fixed income mutual funds	\$ 1,334,314
Insurance annuity contracts	87,034
	<u>\$ 1,421,348</u>

(Continued)

CBMC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 3 – INVESTMENTS (Continued)

Investment income consists of the following:

	2012	2011
Interest and dividend income	\$ 64,152	\$ 33,235
Net realized and unrealized losses	<u>49,432</u>	<u>51,346</u>
	<u>\$ 113,584</u>	<u>\$ 84,581</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2012	2011
Equipment	\$ 862,137	\$ 806,130
Vehicles	<u>96,449</u>	<u>65,699</u>
Total property and equipment	928,586	871,829
Less accumulated depreciation	<u>859,156</u>	<u>835,087</u>
	<u>\$ 69,430</u>	<u>\$ 36,742</u>

Depreciation expense was \$24,069 and \$19,325 for the year ended December 31, 2012 and 2011.

NOTE 5 – ANNUITY OBLIGATIONS

CBMC has established a gift annuity plan whereby donors may contribute assets to CBMC in exchange for the right to receive a fixed dollar annual return during their lifetimes. The difference between the fair value of assets received and the liability for future payments is recognized as income at the date of the gift. Upon the death of the annuitant (or the last joint annuitant), income distributions cease. The annuity payment liability is estimated based on the present value of expected future payments. Adjustments to the annuity obligation due to amortization of the discount and changes in life expectancy are included in the statements of activities.

NOTE 6 – NET ASSETS

Temporarily restricted net assets are available for donor specified ministry operations and projects. Net assets released from donor restrictions during the years ended December 31, 2012 and 2011, were used for various ministry operations and equipment purchases as specified by the donors.

CBMC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 7 – RETIREMENT PLAN

CBMC sponsors a 401(k) plan which covers substantially all employees. CBMC matches \$0.50 for each dollar of an employee contribution up to 3% of the employee's qualifying compensation. In addition, CBMC may contribute a discretionary amount to the plan based on a percentage of employee's compensation. Retirement plan expense totaled \$184,720 and \$181,405 for the years ended December 31, 2012 and 2011, respectively.

NOTE 8 – LEASE COMMITMENTS

CBMC leases certain office space under long-term lease agreements. CBMC also leases automobiles and office equipment under noncancellable operating leases with terms of three to five years. Under the terms of a three years and three months office space lease, beginning in April 2011, CBMC has a noncancellable lease payment of \$75,000 per year. In July 2011, CBMC amended the lease for additional office space with additional annual payments of \$23,470. Rent expense was \$151,690 and \$143,277 for the years ended December 31, 2012 and 2011, respectively.

Minimum lease payments under this and other noncancellable operating leases with terms in excess of one year as of December 31, 2012, are as follows:

Year Ending	Amount
2013	\$ 117,048
2014	66,537
2015	16,048
2016	14,796
2017	6,165
	<u>\$ 220,594</u>

NOTE 9 – RELATED PARTY TRANSACTIONS

At certain times, CBMC may provide various administrative services for CBMC International. There were no administrative fees for these services for the year ended December 31, 2012 or 2011.

During the years ended December 31, 2012 and 2011, CBMC received unrestricted contributions totaling approximately \$89,386 and \$91,679, respectively, from members of the Board of Directors or members of management of CBMC.

CBMC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 10 – PROPERTY RIGHTS

In December 2001, CBMC entered into a building rehabilitation and use agreement with an organization whereby CBMC paid \$120,000 for the rehabilitation and renovation of a portion of a building located in the Chicago area. In return, CBMC was granted certain usage rights, through a lease agreement, of a portion of the renovated building for a fifteen year period. CBMC has recorded its investment in the renovation as an intangible asset in the accompanying financial statements, and is amortizing the asset over the fifteen year agreement period. The balance of the intangible asset related to the right to use this property was \$31,887 and \$40,028 as of December 31, 2012 and 2011, respectively. The amortization expense for the intangible asset was \$8,142 for each of the years ended December 31, 2012 and 2011.

NOTE 11 – CONCENTRATIONS

CBMC maintains cash balances at various financial institutions, whose accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. CBMC's balance on deposit at the banks may exceed \$250,000 from time to time throughout the year. CBMC does not believe they are exposed to undue risk on cash balances.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to the balance sheet date through the date of the auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any items requiring recognition or disclosure.

NOTE 13 – RECLASSIFICATIONS

Certain prior year items have been reclassified in order to improve comparability with current year amounts.