



CHESAPEAKE CHURCH

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018



Independent Accountant's Review Report

The Board of Directors
Chesapeake Church

I have reviewed the accompanying financial statements of Chesapeake Church (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I do not express such an opinion.

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.

Accountant's Responsibility

My responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me to perform procedures to obtain limited assurance as a basis for reporting whether I am aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I believe that the results of my procedures provide a reasonable basis for my conclusion.

Accountant's Conclusion

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Report on 2017 Financial Statements

The accompanying 2017 financial statements of Chesapeake Church were previously reviewed by us, and we stated that we were not aware of any material modifications that should be made to those statements in order for them to be in conformity with accounting principles generally accepted in the United States of America in our report dated May 2, 2018.

A handwritten signature in black ink that reads "Mullins PC". The signature is written in a cursive, flowing style.

Bethesda, Maryland
April 2, 2019

Certified Public Accountants

Chesapeake Church

Statement of Financial Position
December 31, 2018

With Comparative Totals As of December 31, 2017

	<u>2017</u>	<u>2018</u>
Assets		
Cash and Cash Equivalents	\$ 338,903	\$ 322,809
Accounts Receivable	4,283	27,591
Notes Receivable	-	125,000
Prepaid Expenses	11,842	20,216
Property and Equipment - Net	<u>6,944,092</u>	<u>6,656,682</u>
Total Assets	<u>\$ 7,299,120</u>	<u>\$ 7,152,298</u>
Liabilities and Net Assets		
Accounts Payable	\$ 50,146	\$ 88,192
Accrued Expenses	52,585	59,342
Line of Credit	147,947	141,647
Capital Lease Payable	1,590	29,096
Long-Term Debt	<u>2,926,411</u>	<u>2,853,880</u>
Total Liabilities	<u>3,178,679</u>	<u>3,172,157</u>
Net Assets		
Without Donor Restrictions	4,068,963	3,937,288
With Donor Restrictions	<u>51,478</u>	<u>42,853</u>
Total Net Assets	<u>4,120,441</u>	<u>3,980,141</u>
Total Liabilities and Net Assets	<u>\$ 7,299,120</u>	<u>\$ 7,152,298</u>

See Accompanying Notes to Financial Statements

See Independent Accountant's Review Report

Chesapeake Church

**Statement of Activities
For The Year Ended December 31, 2018
With Comparative Totals For the Year Ended December 31, 2017**

	2017		2018	
	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues				
Contributions	\$ 3,163,811	\$ 2,890,660	\$ 125,940	\$ 3,016,600
Food Donations	550,158	566,046	-	566,046
Ministry	170,473	109,223	-	109,223
Rental	73,200	73,200	-	73,200
Other Income and Losses	25,824	(2,350)	-	(2,350)
Net Assets Released from Restriction	-	134,565	(134,565)	-
Total Support and Revenues	3,983,466	3,771,344	(8,625)	3,762,719
Expenses				
Program Services - Ministry	3,891,073	3,631,796	-	3,631,796
General & Administrative	273,120	271,223	-	271,223
Total Expenses	4,164,193	3,903,019	-	3,903,019
Changes in Net Assets	(180,727)	(131,675)	(8,625)	(140,300)
Net Assets, Beginning of Year	4,301,168	4,068,963	51,478	4,120,441
Net Assets, End of Year	\$ 4,120,441	\$ 3,937,288	42,853	\$ 3,980,141

See Accompanying Notes to Financial Statements

See Independent Accountant's Review Report

Chesapeake Church

**Statement of Functional Expenses
For The Year Ended December 31, 2018
With Comparative Totals For the Year Ended December 31, 2017**

	2017	2018		
	Total	Ministry	Management and General	Total
Personnel Costs	\$ 1,974,942	\$ 1,720,361	\$ 191,151	\$ 1,911,512
Worship, Pantry, and Care	1,432,988	1,190,778	-	1,190,778
Interest	143,592	119,569	13,285	132,854
Management and Finance	224,624	231,291	25,699	256,990
Depreciation and Amortization	318,120	292,548	32,505	325,053
Facilities and Management	69,927	77,249	8,583	85,832
Total Expenses	\$ 4,164,193	\$ 3,631,796	\$ 271,223	\$ 3,903,019

See Accompanying Notes to Financial Statements

See Independent Accountant's Review Report

Chesapeake Church

**Statement of Cash Flows
For The Year Ended December 31, 2018
With Comparative Totals For the Year Ended December 31, 2017**

	2017	2018
Cash Flows from Operating Activities		
Change in Net Assets	\$ (180,727)	\$ (140,300)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	318,120	325,053
<u>(Increase) Decrease in Assets</u>		
Accounts Receivable	(4,283)	(23,308)
Prepaid Expenses	23,660	(8,374)
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable	14,140	38,046
Accrued Expenses	(6,059)	6,757
Net Cash Provided by (Used in) Operating Activities	164,851	197,874
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(73,728)	(4,403)
Net Cash Provided by (Used in) Investing Activities	(73,728)	(4,403)
Cash Flows from Financing Activities		
Proceeds from Line of Credit	82,000	-
Principal payments on Line of Credit	(3,011)	(6,300)
Disbursements for Notes Receivable	-	(125,000)
Principal payments on Long-Term Debt	(162,287)	(72,531)
Principal payments on Capital Leases	(4,392)	(5,734)
Net Cash Provided by (Used in) Investing Activities	(87,690)	(209,565)
Increase (Decrease) in Cash	3,433	(16,094)
Cash, Beginning of Year	335,470	338,903
Cash, End of Year	\$ 338,903	\$ 322,809
Supplemental Disclosure of Cash Flow Information		
Cash Paid for Interest	\$ 143,592	\$ 132,854

See Accompanying Notes to Financial Statements

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Chesapeake Church

Notes to Financial Statements December 31, 2018

1. ORGANIZATION AND PURPOSE

Chesapeake Church (the Church) is a not-for-profit organization established in 1984 exclusively for religious purposes. The Church shall consist of professing Christians who voluntarily associate themselves together for divine worship and Godly living agreeable to the Holy Scripture.

Under the Church's not-for-profit exemption, it operates the Chesapeake Cares Food Pantry (the Pantry) and the Chesapeake Care Center (the Care Center). The Pantry supplies food and meals for the disadvantaged in the local area.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Church has adopted *Accounting Standards Update 2014-16, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* (ASU 2014-16) for the year ended December 31, 2018. This standard was issued by the Financial Accounting Standards Board (FASB) to improve the previous net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2014-16 reduces the number of net assets classifications from three to two: with donor restrictions and without donor restrictions. The ASU also requires not-for-profits to report expenses by functional and natural classification in one location in the financial statements and requires not-for-profits to report quantitative and qualitative information about management of liquidity resources and availability of financial assets.

As required by ASU 2014-16, the Church applied the requirements on a retrospective basis in the year of adoption. As a result, certain amounts presented in the prior year have been reclassified to conform to the new presentation. All amounts previously reported as "Unrestricted net assets" have been reclassified to be presented as "Net assets without donor restrictions." Similarly, all amounts previously reported as "Temporarily restricted net assets" and "Permanently restricted net assets" have been reclassified to be presented as "Net assets with donor restrictions." The changes in net assets have been similarly reclassified. There was no change in total net assets or total change in net assets as a result of the adoption of ASU 2014-16.

The financial statements of the Church have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which requires the Church to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Church. These net assets may be used at the discretion of management and the Board of Directors.

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Chesapeake Church

Notes to Financial Statements December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (CONTINUED)

Net Assets With Donor Restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Church or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Financial Statement Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Non-Profit Entities Topic of the FASB ASC, the Church is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as applicable.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

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Chesapeake Church

Notes to Financial Statements December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions (Continued)

Donated food from food drives and local organizations, as well as event fundraisers, are recorded as a contribution at its estimated fair market value, which is based on an average value per pound provided by the local food bank, and is recorded as revenue at the date of donation.

Promises to Give

Unconditional promises to give are carried at present value after providing an estimate for doubtful promises to give based on a review of all outstanding promises to give on a monthly basis.

Management determines the allowance for doubtful promises to give by using the historical experience applied to an aging of promises. Promises are written off when deemed uncollectible.

There were no promises to give as of December 31, 2018.

Notes Receivable

Notes receivable represent funds advanced to a related party. Loans are stated at unpaid principal balances. The loan is uncollateralized.

Property and Equipment

Donated assets are recorded at their fair value on the date of the gift, and other assets are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful life of 3 to 39 years. The Church capitalizes all property and equipment with a cost of \$1,000 or more.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, occupancy and office expenses, depreciation, information technology costs, and insurance have been allocated among the programs and supporting services benefits allocated on the basis of employee time and effort.

Income Taxes

The Church is generally exempt from federal and state income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Church has been determined by the Internal Revenue Service not to be a private foundation. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. During the year ended December 31, 2018, the Church had no taxable unrelated business income, and accordingly, no provision for income taxes is required in the accompanying financial statements.

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Chesapeake Church

Notes to Financial Statements December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Church has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The Church had no such positions recorded in the financial statements at December 31, 2018.

The Church is exempt from the annual IRS Form 990 filing requirements.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Church's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Upcoming Accounting Pronouncements

In May 2014, the FASB issued a new standard, ASU 2014-09, Revenue from Contracts with Customers, which outlines a single comprehensive standard for revenue recognition across all industries and supersedes most existing revenue recognition guidance. The core principle of the standard is that an entity should recognize revenue when it satisfies a performance obligation at an amount that reflects the consideration the entity expects to receive in exchange for transferring goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard will be effective for the fiscal year beginning January 1, 2019.

In February 2016, the FASB issued ASU 2016-02, Lease Amendments to the FASB Accounting Standards Codification (Topic 842), which amends the recognition of lease assets by organizations. The new standards require a lessee to recognize assets and liabilities for leases with lease terms of 12 or more months, in addition to modifications improvements on lessor accounting, in conjunction with the new guidance on revenue recognition noted above in ASU-2014-09. Additional disclosures will be required for the amount, timing, and uncertainty of cash flows arising from leases, and the standard will be effective for fiscal years beginning January 1, 2020.

Subsequent Events

Management has evaluated subsequent events through April 2, 2019 the date which the financial statements were available to be issued. The accompanying financial statements recognize the effects of subsequent events that provided evidence about conditions that existed at the statement of financial position date, including the estimates inherent in the process of preparing financial statements. The accompanying financial statements do not recognize the effect of subsequent events with conditions that did not exist at the statement of financial position date, but disclosures of such events, if any, are included in the accompanying notes.

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Chesapeake Church

Notes to Financial Statements December 31, 2018

3. NOTES RECEIVABLE

In December 2018, the Church loaned Honduras Compassion Partners \$125,000 to purchase a property in Honduras. The loan calls for principal and interest payments in the amount of \$935 until June 2031 when the loan will be paid off.

4. PROPERTY AND EQUIPMENT

Property and equipment and accumulated depreciation at December 31, 2018, are as follows:

Building and Improvements	\$ 9,027,791
Land and Improvements	343,648
Equipment	534,900
Vehicles	15,707
	<hr/>
	9,922,046
Accumulated Depreciation	(3,265,364)
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Property and Equipment - Net	\$ 6,656,682

Depreciation expense totaled \$325,053 for the year ended December 31, 2018.

5. Capital Leases Payable

The Church leases equipment totaling \$33,240 under the provisions of two capital leases, which are included in equipment in Note 3. Accumulated depreciation totaled \$4,144 at December 31, 2018 for the leased assets and depreciation expense totaled \$4,144 for the year ended December 31, 2018. The leases expire at various dates through November 2023 with monthly payments of principal and interest totaling approximately \$6,648.

Future minimum payments applicable to these leases at December 31, 2018, are as follows:

2019	\$ 6,648
2020	6,648
2021	6,648
2022	6,648
2023	2,504
	<hr/>
	\$ 29,096

6. LINE OF CREDIT

The Church entered into a line of credit in October 2013 that provides for maximum borrowings of \$200,000. It is secured by substantially all of the Church's assets. The interest rate is based on the Prime Rate, with a minimum rate of 5%, which was the rate at December 31, 2018. The balance outstanding on the line of credit as of December 31, 2018 was \$141,647.

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Chesapeake Church

Notes to Financial Statements December 31, 2018

7. LONG-TERM DEBT

On December 20, 2005, the Church obtained a construction loan from a bank in an amount not to exceed \$3,300,000. This note is collateralized by a Deed of Trust, constituting a lien on all of the Church's property and equipment. The note was refinanced during March 2016. The note now has a 4.25% fixed interest rate with monthly payments of \$19,584 until March 20, 2031, when all unpaid principal and interest is due. At December 31, 2018, the balance on the note was \$2,339,388.

On March 2, 2007, the Church obtained a residential loan from a bank in the amount of \$650,000. This loan is collateralized by a Deed of Trust, constituting a first lien on all of the Church's interest in the building and property located at 6045 Solomons Island Road. The note was refinanced during March 2016. The note now has a 4.25% fixed interest rate with monthly payments of \$3,834 until March 15, 2031 when all unpaid principal and interest is due. At December 31, 2018, the balance on the note was \$432,028.

On December 31, 2009, the Church obtained a residential loan from a bank in the amount of \$200,000. This loan is collateralized by a Deed of Trust, constituting a first lien on all of the Church's interest in the building and property located at 6021 Solomons Island Road. The note bears interest at a variable rate. In September 2013, the Church modified its payment plan for the outstanding debt to reduce the monthly payments to \$1,537 through January 2025. The note matures on January 1, 2025, when the outstanding principal and accrued and unpaid interest shall be payable in full. At December 31, 2018, the outstanding balance on the note was \$82,464.

Aggregate maturities of long-term debt as of December 31, 2018, are due in future years as follows:

2019	\$	181,537
2020		189,745
2021		198,334
2022		207,320
2023		216,723
Thereafter		<u>1,860,221</u>
	\$	<u>2,853,880</u>

Interest expense on long-term debt for the year ended December 31, 2018, amounted to \$132,854.

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Chesapeake Church

Notes to Financial Statements December 31, 2018

8. NET ASSETS

Net assets with donor restrictions activity during the year ended December 31, 2018 was as follows:

	Beginning of Year	Additions	Releases	End of Year
Food Pantry	\$ 51,478	\$ 125,940	\$ (134,565)	\$ 42,853

Net assets without donor restrictions for the year ended December 31, 2018 were undesignated.

9. LEASE COMMITMENT

In June 2014, the Church entered into an agreement to lease property located at 6035 Solomons Island Road which expired in May 2016. The lease is on a month-to-month basis with monthly rent payments of \$953 plus applicable property taxes and insurance.

In March 2018, the Church entered into an agreement to lease property located at 6011 Solomons Island Road which expires in February 2019. The lease calls for monthly payments of \$906. As of December 31, 2018, the total future minimum payments under this lease for January and February 2019 are \$1,812. After the expiration of the lease, a month-to-month basis lease will commence if the lease is not renewed.

10. RENTAL INCOME

The Church entered into a five-year lease agreement with the Maryland Transit Administration (MTA) in October 2014, granting the MTA non-exclusive access to the parking lot and use of a maximum of 150 parking spaces for MTA commuter patrons in relation to commuter bus service to Washington, D.C. In return, the MTA agreed to pay a monthly service fee of \$6,100 to the Church. The lease is being accounted for as an operating lease.

Rental income for the year ended December 31, 2018, was \$73,200. The Church expects to receive \$73,200 for the years ended December 31, 2018 and 2019 for a total of \$146,400 in minimum receipts.

11. RELATED PARTY

The Church is affiliated with End Hunger in Calvert County, Inc. (the Corporation). At December 31, 2018, the Corporation did not owe the Church for office or program expenditures. During the year ended December 31, 2018, the Church was reimbursed by the Corporation for various office and program expenditures.

The Church is also affiliated with Honduras Compassion Partners (HCP). At December 31, 2018, the Corporation did not owe the Church for office or program expenditures.

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Chesapeake Church
Notes to Financial Statements
December 31, 2018

12. AVAILABILITY AND LIQUIDITY

The following represents the Church's financial assets at December 31, 2018:

Financial Assets at Year End:	
Cash and Cash Equivalents	\$ 322,809
Accounts Receivable	27,591
	350,400
Total Financial Assets	
Less Amounts Not Available To Be Used Within One Year:	
Net Assets With Donor Restrictions	42,853
Less: Net Assets With Purpose Restrictions To Be Met in Less Than a Year	(42,853)
Quasi Endowment Established by the Board	-
	-
	-
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	
	\$ 350,400

As part of the Church's liquidity management plan, cash in excess of daily requirements is transferred to income generating accounts when available.

See Independent Accountant's Review Report