



CHESAPEAKE CHURCH

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019



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, 2019, 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 2018 Financial Statements

The accompanying 2018 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 April 2, 2019. A review is less in scope than an audit. The accompanying 2018 financial statements were not audited and there was no expression of an opinion.

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

Bethesda, Maryland
October 23, 2020

Certified Public Accountants

Chesapeake Church

Statement of Financial Position
December 31, 2019

With Comparative Totals As of December 31, 2018

	2018	2019
Assets		
Cash and Cash Equivalents	\$ 322,809	\$ 252,760
Accounts Receivable	27,591	52,853
Notes Receivable	125,000	108,776
Prepaid Expenses	20,216	11,566
Donated Food Inventory	-	7,452
Property and Equipment - Net	6,656,682	6,007,249
Total Assets	\$ 7,152,298	\$ 6,440,656
Liabilities and Net Assets		
Accounts Payable	\$ 88,192	\$ 86,334
Accrued Expenses	59,342	11,363
Line of Credit	141,647	50,000
Capital Lease Payable	29,096	22,448
Long-Term Debt	2,853,880	2,660,717
Total Liabilities	3,172,157	2,830,862
Net Assets		
Without Donor Restrictions	3,937,288	3,559,879
With Donor Restrictions	42,853	49,915
Total Net Assets	3,980,141	3,609,794
Total Liabilities and Net Assets	\$ 7,152,298	\$ 6,440,656

See Accompanying Notes to Financial Statements

See Independent Accountant's Review Report

Chesapeake Church

**Statement of Activities
For The Year Ended December 31, 2019
With Comparative Totals For the Year Ended December 31, 2018**

	2018		2019	
	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues				
Contributions	\$ 3,016,600	\$ 2,866,560	\$ 173,511	\$ 3,040,071
Food Donations	566,046	659,589	-	659,589
Ministry	109,223	118,122	-	118,122
Rental	73,200	73,200	-	73,200
Other Income	(2,350)	222,087	-	222,087
Loss in Disposal of Property	-	(392,487)	-	(392,487)
Net Assets Released from Restriction	-	166,449	(166,449)	-
Total Support and Revenues	3,762,719	3,713,520	7,062	3,720,582
Expenses				
Program Services - Ministry	3,631,796	3,808,981	-	3,808,981
General & Administrative	271,223	281,948	-	281,948
Total Expenses	3,903,019	4,090,929	-	4,090,929
Changes in Net Assets	(140,300)	(377,409)	7,062	(370,347)
Net Assets, Beginning of Year	4,120,441	3,937,288	42,853	3,980,141
Net Assets, End of Year	\$ 3,980,141	\$ 3,559,879	49,915	\$ 3,609,794

See Accompanying Notes to Financial Statements

See Independent Accountant's Review Report

Chesapeake Church

Statement of Functional Expenses
For The Year Ended December 31, 2019
With Comparative Totals For the Year Ended December 31, 2018

	2018	2019		
	Total	Ministry	Management and General	Total
Personnel Costs	\$ 1,911,512	\$ 1,651,961	\$ 183,551	\$ 1,835,512
Worship, Pantry, and Care	1,190,778	1,271,450	-	1,271,450
Interest	132,854	107,544	11,949	119,493
Management and Finance	244,856	223,000	24,778	247,778
Depreciation and Amortization	325,053	289,917	32,213	322,130
Facilities and Management	85,832	265,109	29,457	294,566
Total Expenses	\$ 3,890,885	\$ 3,808,981	\$ 281,948	\$ 4,090,929

See Accompanying Notes to Financial Statements

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Chesapeake Church

**Statement of Cash Flows
For The Year Ended December 31, 2019
With Comparative Totals For the Year Ended December 31, 2018**

	2018	2019
Cash Flows from Operating Activities		
Change in Net Assets	\$ (140,300)	\$ (370,347)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	325,053	322,130
Loss on Disposal of Property and Equipment	-	392,487
<u>(Increase) Decrease in Assets</u>		
Accounts Receivable	(23,308)	(25,262)
Prepaid Expenses	(8,374)	8,650
Donated Food Inventory	-	(7,452)
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable	38,046	(1,858)
Accrued Expenses	6,757	(47,979)
Net Cash Provided by (Used in) Operating Activities	197,874	270,369
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(4,403)	(65,184)
Net Cash Provided by (Used in) Investing Activities	(4,403)	(65,184)
Cash Flows from Financing Activities		
Principal payments on Line of Credit	(6,300)	(91,647)
Disbursements for Notes Receivable	(125,000)	-
Payments on Notes Receivable	-	16,224
Principal payments on Long-Term Debt	(72,531)	(193,163)
Principal payments on Capital Leases	(5,734)	(6,648)
Net Cash Provided by (Used in) Investing Activities	(209,565)	(275,234)
Increase (Decrease) in Cash	(16,094)	(70,049)
Cash, Beginning of Year	338,903	322,809
Cash, End of Year	\$ 322,809	\$ 252,760
Supplemental Disclosure of Cash Flow Information		
Cash Paid for Interest	\$ 132,854	\$ 119,493

See Accompanying Notes to Financial Statements

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Chesapeake Church

Notes to Financial Statements December 31, 2019

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, 2019. 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, 2019

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 statement of activities.

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.

Accounts Receivable

The accounts receivable balance represents amounts billed before year-end for which the payment from various sources is expected to be received in the subsequent period.

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, 2019.

Notes Receivable

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

Donated Food Inventory

Donated food inventory is reported at fair value based on an average value per pound estimate calculated by the Maryland Food Bank.

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Chesapeake Church

Notes to Financial Statements December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Contributions

Unconditional 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.

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.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement 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, 2019, 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, 2019

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, 2019.

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, 2018, from which the summarized information was derived.

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update requires a lessee to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments, in its statement of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective beginning in 2021.

Subsequent Events

Management has evaluated subsequent events through October 23, 2020 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.

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. As of December 31, 2019, the outstanding amount was \$108,776.

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Chesapeake Church

Notes to Financial Statements December 31, 2019

4. PROPERTY AND EQUIPMENT

Property and equipment and accumulated depreciation at December 31, 2019, are as follows:

Building and Improvements	\$	8,500,358
Land and Improvements		397,795
Equipment		545,936
Vehicles		15,707
		<u>9,459,796</u>
Accumulated Depreciation		<u>(3,452,547)</u>
Property and Equipment - Net	\$	<u>6,007,249</u>

Depreciation expense totaled \$322,130 for the year ended December 31, 2019.

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 4. Accumulated depreciation totaled \$10,792 at December 31, 2019 for the leased assets and depreciation expense totaled \$6,648 for the year ended December 31, 2019. 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, 2019, are as follows:

2020	\$	6,648
2021		6,648
2022		6,648
2023		2,504
		<u>22,448</u>

6. LINE OF CREDIT

The Church entered into a line of credit in October 2013 that provides for maximum borrowings of \$200,000. The line of credit 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, 2019. The balance outstanding on the line of credit as of December 31, 2019 was \$50,000.

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, 2019, the balance on the note was \$2,191,188.

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Chesapeake Church

Notes to Financial Statements December 31, 2019

7. LONG-TERM DEBT (CONTINUED)

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, 2019, the balance on the note was \$403,916.

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, 2019, the outstanding balance on the note was \$65,613.

Aggregate maturities of long-term debt as of December 31, 2019, are due in future years as follows:

2020	\$	189,745
2021		198,334
2022		207,320
2023		216,723
2024		226,563
Thereafter		<u>1,622,032</u>
	\$	<u>2,660,717</u>

Interest expense on long-term debt for the year ended December 31, 2019, amounted to \$119,493.

8. NET ASSETS

Net assets with donor restrictions activity during the year ended December 31, 2019 was as follows:

	Beginning of Year	Additions	Releases	End of Year
Food Pantry	\$ 42,853	\$ 173,511	\$ (166,449)	\$ 49,915

Net assets without donor restrictions for the year ended December 31, 2019 were undesignated.

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Chesapeake Church

Notes to Financial Statements December 31, 2019

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. After the expiration of the lease, a month-to-month basis lease will commence if the lease is not renewed.

10. RENTAL INCOME

During 2019, the Church entered into an amendment with the Maryland Transit Administration (MTA) to extend the agreement for a period of five years 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 \$3,000 to the Church. The monthly amount will increase by 2% on an annual basis. The lease is being accounted for as an operating lease.

Rental income for the year ended December 31, 2019, was \$73,200.

As of December 31, 2019, the Church expects the following minimum payments for the years ending December 31:

2020	\$	36,000
2021		36,720
2022		37,454
2023		38,203
2024		38,968
		<hr/>
	\$	187,345

11. RELATED PARTY

The Church is affiliated with End Hunger in Calvert County, Inc. (the Corporation). At December 31, 2019, the Corporation did not owe the Church for office or program expenditures.

During the year ended December 31, 2019, End Hunger reimbursed the Church \$52,737 for expenses paid on End Hunger's behalf. During the year ended December 31, 2019, End Hunger received \$28,114 in support from the Church.

During 2019, End Hunger entered into a 40-year lease with the Church to rent the Church's land for a warehouse for \$1 a year.

The Church is also affiliated with Honduras Compassion Partners (HCP). As disclosed in Note 3, the Church loaned Honduras Compassion Partners \$125,000 to purchase a property in Honduras. As of December 31, 2019, the outstanding amount was \$108,776. At December 31, 2019, HCP did not owe the Church for office or program expenditures.

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Chesapeake Church

Notes to Financial Statements December 31, 2019

12. AVAILABILITY AND LIQUIDITY

The following represents the Church's financial assets at December 31, 2019:

Financial Assets at Year End:		
Cash and Cash Equivalents	\$	252,760
Accounts Receivable		<u>52,853</u>
Total Financial Assets		305,613
Less Amounts Not Available To Be Used Within One Year:		
Net Assets With Donor Restrictions		49,915
Less: Net Assets With Purpose Restrictions To Be Met in Less Than a Year		<u>(49,915)</u>
Quasi Endowment Established by the Board		<u>-</u>
		<u>-</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	\$	<u>305,613</u>

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