



**CHESAPEAKE CHURCH**

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**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**



## **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, 2017, 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 2016 Financial Statements**

The accompanying 2016 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 June 29, 2017.

A handwritten signature in black ink that reads "Mullins PC".

Bethesda, Maryland  
May 2, 2018

Certified Public Accountants

**Chesapeake Church**

**Statement of Financial Position  
December 31, 2017  
(With Comparative Totals As of December 31, 2016)**

	2016	2017
<b>Assets</b>		
Cash and Cash Equivalents	\$ 335,470	\$ <b>338,903</b>
Accounts Receivable	-	<b>4,283</b>
Prepaid Expenses	35,502	<b>11,842</b>
Property and Equipment - Net	7,188,484	<b>6,944,092</b>
<b>Total Assets</b>	<u>7,559,456</u>	<u><b>7,299,120</b></u>
<b>Liabilities and Net Assets</b>		
Accounts Payable	36,006	<b>50,146</b>
Accrued Expenses	58,644	<b>52,585</b>
Line of Credit	68,958	<b>147,947</b>
Capital Lease Payable	5,982	<b>1,590</b>
Long-Term Debt	3,088,698	<b>2,926,411</b>
<b>Total Liabilities</b>	<u>3,258,288</u>	<u><b>3,178,679</b></u>
<b>Net Assets</b>		
Unrestricted	4,288,818	<b>4,068,963</b>
Temporarily Restricted	12,350	<b>51,478</b>
<b>Total Net Assets</b>	<u>4,301,168</u>	<u><b>4,120,441</b></u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 7,559,456</u>	<u><b>\$ 7,299,120</b></u>

***See Accompanying Notes to Financial Statements***

***See Independent Accountant's Review Report***

**Chesapeake Church**

**Statement of Activities  
For the Year Ended December 31, 2017  
(With Comparative Totals For the Year Ended December 31, 2016)**

	2016	2017		Total
	Total	Unrestricted	Temporarily Restricted	
<b>Support and Revenues</b>				
Contributions	\$ 3,151,854	\$ 2,910,364	\$ 253,447	<b>\$ 3,163,811</b>
Food Donations	630,624	550,158	-	<b>550,158</b>
Ministry	146,687	170,473	-	<b>170,473</b>
Rental	73,200	73,200	-	<b>73,200</b>
Other Income	12,395	25,824	-	<b>25,824</b>
Net Assets Released from Restriction	-	214,319	(214,319)	-
 Total Support and Revenues	 4,014,760	 3,944,338	 39,128	 <b>3,983,466</b>
<b>Expenses</b>				
Program Services - Ministry	3,624,121	3,891,073	-	<b>3,891,073</b>
General & Administrative	253,368	273,120	-	<b>273,120</b>
 Total Expenses	 3,877,489	 4,164,193	 -	 <b>4,164,193</b>
Changes in Net Assets	137,271	(219,855)	39,128	<b>(180,727)</b>
Net Assets, Beginning of Year	4,163,897	4,288,818	12,350	<b>4,301,168</b>
 <b>Net Assets, End of Year</b>	 <b>\$ 4,301,168</b>	 <b>\$ 4,068,963</b>	 51,478	 <b>\$ 4,120,441</b>

*See Accompanying Notes to Financial Statements*

*See Independent Accountant's Review Report*

**Chesapeake Church**

**Statement of Functional Expenses  
For the Year Ended December 31, 2017  
(With Comparative Totals For the Year Ended December 31, 2016)**

	2016	2017		
	Total	Ministry	Management and General	Total
Personnel Costs	\$ 1,837,800	\$ 1,777,448	\$ 197,494	<b>\$ 1,974,942</b>
Worship, Pantry, and Care	1,343,825	1,432,988	-	<b>1,432,988</b>
Interest	128,247	129,233	14,359	<b>143,592</b>
Management and Finance	238,426	202,162	22,462	<b>224,624</b>
Depreciation and Amortization	298,215	286,308	31,812	<b>318,120</b>
Facilities and Management	30,976	62,934	6,993	<b>69,927</b>
Total Expenses	<b>\$ 3,877,489</b>	<b>\$ 3,891,073</b>	<b>\$ 273,120</b>	<b>\$ 4,164,193</b>

*See Accompanying Notes to Financial Statements*

*See Independent Accountant's Review Report*

**Chesapeake Church**

**Statement of Cash Flows**  
**For the Year Ended December 31, 2017**  
**(With Comparative Totals For the Year Ended December 31, 2016)**

	2016	2017
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 137,271	\$ (180,727)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by (Used in) Operating Activities		
Depreciation and Amortization	298,215	318,120
<u>(Increase) Decrease in Assets</u>		
Promises to Give - Net	-	-
Accounts Receivable	53,033	(4,283)
Prepaid Expenses	(9,374)	23,660
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable	(17,174)	14,140
Accrued Expenses	1,451	(6,059)
Net Cash Provided by (Used in) Operating Activities	463,422	164,851
<b>Cash Flows from Investing Activities</b>		
Purchases of Property and Equipment	(109,917)	(73,728)
Net Cash Provided by (Used in) Investing Activities	(109,917)	(73,728)
<b>Cash Flows from Financing Activities</b>		
Proceeds from Line of Credit	-	82,000
Principal payments on Line of Credit	(81,000)	(3,011)
Principal payments on Notes Payable	-	-
Principal payments on Long-Term Debt	(178,443)	(162,287)
Principal payments on Capital Leases	(5,928)	(4,392)
Net Cash Provided by (Used in) Investing Activities	(265,371)	(87,690)
Increase (Decrease) in Cash	88,134	3,433
Cash, Beginning of Year	247,336	335,470
<b>Cash, End of Year</b>	\$ 335,470	\$ 338,903
Supplemental Disclosure of Cash Flow Information		
Cash Paid for Interest	\$ 128,247	\$ 143,592

***See Accompanying Notes to Financial Statements***

***See Independent Accountant's Review Report***

## **Chesapeake Church**

### **Notes to Financial Statements December 31, 2017**

#### **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 accompanying financial statements are presented in accordance with the accrual basis of accounting whereby unconditional support is recognized when notification of the contribution is received, revenue is recognized when earned, and expenses are recognized when incurred.

##### **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.

##### **Revenue Recognition**

Contributions are recognized when the donor makes a promise to give to the Church that is, in substance, unconditional. All donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Contributions that are restricted by the donor are reported as unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. Tithes and offerings are recognized as revenue when received.

Revenue from the Counseling Center is recognized at the completion of the program. Revenue from events or programs related to the ministry is recognized at the completion of the event or program. The Church has an agreement with a third party for rental space on its parking lot. Rental income is being recognized on a straight-line basis over the term of the lease.

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## Chesapeake Church

### Notes to Financial Statements December 31, 2017

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Revenue Recognition (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.

##### Net Assets

The financial statement presentation follows the recommendation of the *Nonprofit Entities Topic* of the FASB ASC. Under the 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.

Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Church pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or used for specified purposes.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Church's actions. The Church had no permanently restricted net assets at December 31, 2017.

##### 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.

##### 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 providing various programs and other activities have been summarized on a functional basis on the statement of activities. General and administrative expenses include those expenses that are not directly identifiable with any other specific function, but that provide for the overall support and direction of the Church.

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## Chesapeake Church

### Notes to Financial Statements December 31, 2017

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 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, 2017, the Church had no taxable unrelated business income, and accordingly, no provision for income taxes is required in the accompanying financial statements.

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, 2017.

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, 2016, from which the summarized information was derived.

##### Subsequent Events

The Church has evaluated subsequent events through May 2, 2018, the date on which the financial statements were available to be issued.

#### 3. PROPERTY AND EQUIPMENT

Property and equipment and accumulated depreciation at December 31, 2017, are as follows:

Building and Improvements	\$ 9,022,549
Land and Improvements	343,648
Equipment	517,518
Vehicles	15,707
	<hr/>
	9,899,422
Accumulated Depreciation	<u>(2,955,330)</u>
Property and Equipment - Net	<u>\$ 6,944,092</u>

Depreciation expense totaled \$318,120 for the year ended December 31, 2017.

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## Chesapeake Church

### Notes to Financial Statements December 31, 2017

#### 4. Capital Leases Payable

The Church leases equipment totaling \$27,159 under the provisions of two capital leases, which is included in equipment in Note 3. Accumulated depreciation totaled \$12,773 at December 31, 2017 for the leased assets and depreciation expense totaled \$2,716 for the year ended December 31, 2017. The leases expire at various dates through December 2018 with monthly payments of principal and interest totaling approximately \$5,900.

Future minimum payments applicable to these leases at December 31, 2017, are as follows:

2019	\$ 2,310
	2,310
Less: Interest	(720)
	<u>\$ 1,590</u>

#### 5. 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, 2017. The balance outstanding on the line of credit as of December 31, 2017 was \$147,947.

#### 6. 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, 2017, the balance on the note was \$2,364,722.

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, 2017, the balance on the note was \$462,945.

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, 2017, the outstanding balance on the note was \$98,744.

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## Chesapeake Church

### Notes to Financial Statements December 31, 2017

#### 6. LONG-TERM DEBT (CONTINUED)

Aggregate maturities of long-term debt as of December 31, 2017, are due in future years as follows:

2018	\$	173,691
2019		181,537
2020		189,745
2021		198,334
2022		207,320
Thereafter		<u>1,975,784</u>
	\$	<u>2,926,411</u>

Interest expense on long-term debt for the year ended December 31, 2017, amounted to \$143,592.

#### 7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets include donor-restricted funds which are only available for specific programs or general support designated for future years. Temporarily restricted net assets were released from restrictions during the year ended December 31, 2017, due to the time restriction ending or satisfaction of purpose restrictions.

Changes in temporarily restricted net assets during the year ended December 31, 2017, are as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Releases</u>	<u>End of Year</u>
Honduras Mission	\$ 1,475	83,337	(84,812)	-
Food Pantry	<u>10,875</u>	<u>170,110</u>	<u>(129,507)</u>	<u>51,478</u>
	<u>\$ 12,350</u>	<u>253,447</u>	<u>(214,319)</u>	<u>51,478</u>

#### 8. 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.

*See Independent Accountant's Review Report*

## **Chesapeake Church**

### **Notes to Financial Statements December 31, 2017**

#### **9. 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, 2017, 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.

#### **10. RELATED PARTY**

The Church is affiliated with End Hunger in Calvert County, Inc. (the Corporation). At December 31, 2017, the Corporation did not owe the Church for office or program expenditures. During the year ended December 31, 2017, the Church was reimbursed by the Corporation for various office and program expenditures.

***See Independent Accountant's Review Report***