



CHESAPEAKE CHURCH

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020



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, 2020, 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 2019 Financial Statements

The accompanying 2019 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 October 23, 2020. A review is less in scope than an audit. The accompanying 2019 financial statements were not audited and there was no expression of an opinion.

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

Bethesda, Maryland
August 20, 2021

Certified Public Accountants

Chesapeake Church

**Statement of Financial Position
December 31, 2020**

With Comparative Totals As of December 31, 2019

	2019	2020
Assets		
Cash and Cash Equivalents	\$ 252,760	\$ 751,339
Accounts Receivable	52,853	55,198
Notes Receivable	108,776	97,551
Prepaid Expenses	11,566	-
Donated Food Inventory	7,452	5,307
Property and Equipment - Net	6,007,249	5,984,442
Total Assets	\$ 6,440,656	\$ 6,893,837
Liabilities and Net Assets		
Accounts Payable	\$ 86,334	\$ 95,264
Accrued Expenses	11,363	25,727
Forgivable Loan - PPP	-	282,400
EIDL Note Payable	-	150,000
Line of Credit	50,000	-
Capital Lease Payable	22,448	15,800
Long-Term Debt	2,660,717	2,578,611
Total Liabilities	2,830,862	3,147,802
Net Assets		
Without Donor Restrictions	3,559,879	3,692,561
With Donor Restrictions	49,915	53,474
Total Net Assets	3,609,794	3,746,035
Total Liabilities and Net Assets	\$ 6,440,656	\$ 6,893,837

See Accompanying Notes to Financial Statements

See Independent Accountant's Review Report

Chesapeake Church

**Statement of Activities
For The Year Ended December 31, 2020
With Comparative Totals For the Year Ended December 31, 2019**

	2019	2020		Total
	Total	Without Donor Restrictions	With Donor Restrictions	
Support and Revenues				
Contributions	\$ 3,040,071	\$ 2,998,419	\$ 118,108	\$ 3,116,527
Food Donations	659,589	986,519	-	986,519
Ministry	118,122	456,177	-	456,177
Rental	73,200	36,000	-	36,000
Other Income	222,087	14,960	-	14,960
Loss in Disposal of Property	(392,487)	-	-	-
Net Assets Released from Restriction	-	114,549	(114,549)	-
Total Support and Revenues	3,720,582	4,606,624	3,559	4,610,183
Expenses				
Program Services - Ministry	3,808,981	4,198,931	-	4,198,931
General & Administrative	281,948	275,011	-	275,011
Total Expenses	4,090,929	4,473,942	-	4,473,942
Changes in Net Assets	(370,347)	132,682	3,559	136,241
Net Assets, Beginning of Year	3,980,141	3,559,879	49,915	3,609,794
Net Assets, End of Year	\$ 3,609,794	\$ 3,692,561	53,474	\$ 3,746,035

See Accompanying Notes to Financial Statements

See Independent Accountant's Review Report

Chesapeake Church

**Statement of Functional Expenses
For The Year Ended December 31, 2020
With Comparative Totals For the Year Ended December 31, 2019**

	2019	2020		
	Total	Ministry	Management and General	Total
Personnel Costs	\$ 1,835,512	\$ 1,819,947	\$ 202,216	\$ 2,022,163
Worship, Pantry, and Care	1,271,450	1,723,824	-	1,723,824
Interest	119,493	121,743	13,527	135,270
Management and Finance	247,778	206,050	22,894	228,944
Depreciation and Amortization	322,130	286,887	31,876	318,763
Facilities and Management	294,566	40,480	4,498	44,978
Total Expenses	\$ 4,090,929	\$ 4,198,931	\$ 275,011	\$ 4,473,942

See Accompanying Notes to Financial Statements

See Independent Accountant's Review Report

Chesapeake Church

**Statement of Cash Flows
For The Year Ended December 31, 2020
With Comparative Totals For the Year Ended December 31, 2019**

	2019	2020
Cash Flows from Operating Activities		
Change in Net Assets	\$ (370,347)	\$ 136,241
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by (Used in) Operating Activities		
Depreciation and Amortization	322,130	318,763
Loss on Disposal of Property and Equipment	392,487	-
<u>(Increase) Decrease in Assets</u>		
Accounts Receivable	(25,262)	(2,345)
Prepaid Expenses	8,650	11,566
Donated Food Inventory	(7,452)	2,145
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable	(1,858)	8,930
Accrued Expenses	(47,979)	14,364
Net Cash Provided by (Used in) Operating Activities	270,369	489,664
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(65,184)	(295,956)
Net Cash Provided by (Used in) Investing Activities	(65,184)	(295,956)
Cash Flows from Financing Activities		
Principal payments on Line of Credit	(91,647)	(50,000)
Proceeds from Forgivable Loan - PPP	-	282,400
Proceeds from EIDL Forgivable Note Payable	-	150,000
Payments on Notes Receivable	16,224	11,225
Principal payments on Long-Term Debt	(193,163)	(82,106)
Principal payments on Capital Leases	(6,648)	(6,648)
Net Cash Provided by (Used in) Investing Activities	(275,234)	304,871
Increase (Decrease) in Cash	(70,049)	498,579
Cash, Beginning of Year	322,809	252,760
Cash, End of Year	\$ 252,760	\$ 751,339
Supplemental Disclosure of Cash Flow Information		
Cash Paid for Interest	\$ 119,493	\$ 135,270

See Accompanying Notes to Financial Statements

See Independent Accountant's Review Report

Chesapeake Church

Notes to Financial Statements December 31, 2020

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.

The coronavirus (COVID-19) outbreak in the United States commenced prior to the Church's fiscal year-end and has directly impacted its operations since early spring 2020. The COVID-19 pandemic caused a broad and negative impact on commerce and financial markets around the world including travel restrictions and limits on in-person gatherings.

Accordingly, the extent to which COVID-19 may impact the Church's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

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.

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, whereby 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.

See Independent Accountant's Review Report

Chesapeake Church

Notes to Financial Statements December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with US GAAP 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.

Cash Equivalents

The Church considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

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, 2020.

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.

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.

See Independent Accountant's Review Report

Chesapeake Church

Notes to Financial Statements December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

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.

During the year ended December 31, 2020, the Church received a \$282,400 forgivable loan from the Small Business Administration's (SBA) Paycheck Protection Program (PPP). The forgivable loan is a conditional contribution that can be recognized as revenue when the underlying conditions are met. The Church has elected to treat the legal forgiveness as the condition. As of December 31, 2020, the Church has \$282,400 reported as a forgivable loan liability that will be recognized in fiscal year 2021 when the remaining eligible expenses are incurred.

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 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, 2020, the Church had no taxable unrelated business income, and accordingly, no provision for income taxes is required in the accompanying financial statements.

See Independent Accountant's Review Report

Chesapeake Church

Notes to Financial Statements December 31, 2020

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, 2020.

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, 2019, 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 2022.

Subsequent Events

Management has evaluated subsequent events through August 20, 2021 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. During 2020, the Church forgave monthly payments from June 2020 to June 2021.

As of December 31, 2020, the outstanding amount was \$97,551.

See Independent Accountant's Review Report

Chesapeake Church

Notes to Financial Statements December 31, 2020

4. PROPERTY AND EQUIPMENT

Property and equipment and accumulated depreciation at December 31, 2020, are as follows:

Building and Improvements	\$ 8,579,039
Land and Improvements	442,395
Equipment	545,058
Vehicles	<u>30,739</u>
	9,597,231
Accumulated Depreciation	<u>(3,612,789)</u>
Property and Equipment - Net	<u>\$ 5,984,442</u>

Depreciation expense totaled \$318,763 for the year ended December 31, 2020.

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 \$17,440 at December 31, 2020 for the leased assets and depreciation expense totaled \$6,648 for the year ended December 31, 2020. 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, 2020, are as follows:

2021	\$ 6,648
2022	6,648
2023	<u>2,504</u>
	<u>\$ 15,800</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, 2020. There was no balance outstanding on the line of credit as of December 31, 2020.

7. LONG-TERM DEBT

During the year ended December 31, 2020, the Church received a \$150,000 loan from the Economic Injury Disaster Loan (EIDL) program from the SBA. The interest rate for nonprofit organizations is 2.75% and repayable over a term up to thirty years. Monthly principal and interest payments are expected to begin in May 2021.

See Independent Accountant's Review Report

Chesapeake Church

Notes to Financial Statements December 31, 2020

7. LONG-TERM DEBT (CONTINUED)

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. Due to financial disruptions related to the COVID-19 pandemic, the lender deferred three months of payments.

At December 31, 2020, the balance on the note was \$2,075,773.

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. Due to financial disruptions related to the COVID-19 pandemic, the lender deferred three months of payments.

At December 31, 2020, the balance on the note was \$378,298.

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, 2020, the outstanding balance on the note was \$51,480.

Aggregate maturities of long-term debt as of December 31, 2020, are due in future years as follows:

2021	\$	273,812
2022		283,503
2023		293,005
2024		302,947
2025		294,425
Thereafter		<u>1,280,919</u>
	\$	<u>2,728,611</u>

Interest expense on long-term debt for the year ended December 31, 2020, amounted to \$135,270.

See Independent Accountant's Review Report

Chesapeake Church

Notes to Financial Statements December 31, 2020

8. NET ASSETS

Net assets with donor restrictions activity during the year ended December 31, 2020 was as follows:

	Beginning of Year	Additions	Releases	End of Year
Food Pantry	\$ 49,915	\$ 118,108	\$ (114,549)	\$ 53,474

Net assets without donor restrictions for the year ended December 31, 2020 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. After the expiration of the lease, a month-to-month arrangement has been agreed to.

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, 2020, was \$36,000.

As of December 31, 2020, the Church expects the following minimum payments for the years ending December 31:

2021	\$ 36,720
2022	37,454
2023	38,203
2024	38,968
	<u>\$ 151,345</u>

See Independent Accountant's Review Report

Chesapeake Church

Notes to Financial Statements December 31, 2020

11. RELATED PARTY

The Church is affiliated with End Hunger in Calvert County, Inc. (the Corporation). At December 31, 2020, the Corporation did not owe the Church for office or program expenditures.

During the year ended December 31, 2020, End Hunger reimbursed the Church \$131,816 for expenses paid on End Hunger's behalf. During the year ended December 31, 2020, End Hunger received \$15,356 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, 2020, the outstanding amount was \$97,551. At December 31, 2020, HCP did not owe the Church for office or program expenditures.

12. AVAILABILITY AND LIQUIDITY

The following represents the Church's financial assets at December 31, 2020:

Financial Assets at Year End:	
Cash and Cash Equivalents	\$ 751,339
Accounts Receivable	55,198
	<hr/>
Total Financial Assets	806,537
Less Amounts Not Available To Be Used Within One Year:	
Net Assets With Donor Restrictions	53,474
Less: Net Assets With Purpose Restrictions To Be Met in Less Than a Year	(53,474)
Quasi Endowment Established by the Board	-
	<hr/>
	<hr/>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<hr/> <u>\$ 806,537</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