Chesapeake Church

Financial Report
(Reviewed)
December 31, 2013

Contents

McGladrey

Independent Accountant's Review Report

To the Board of Elders
Chesapeake Church
Huntingtown, Maryland

We have reviewed the accompanying balance sheet of Chesapeake Church (the Church) as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended. 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, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modification that should be made to the 2013 financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The prior year summarized comparative information has been derived from the Church's 2012 financial statements, and in our report dated November 27, 2013, we stated that we were not aware of any material modifications that should be made to the 2012 financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 9 to the financial statements, the 2012 financial statements have subsequently been restated to correct a misstatement.

We also reviewed the adjustments described in Note 9 that were applied to restate the 2012 financial statements. Based on our review, we are not aware of any material modifications that should be made to the adjustments described in Note 9 that were applied to restate the 2012 financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

McGladrey LLP

Gaithersburg, Maryland
January 15, 2015

Chesapeake Church

Balance Sheet
December 31, 2013
(With Comparative Totals for 2012)
See Independent Accountant's Review Report

Assets	**2013**	2012 (Restated)
Cash and Cash Equivalents	**$ 265,261**	$ 397,273
Promises to Give	**20,092**	-
Accounts Receivable	**3,000**	-
Note Receivable	**6,507**	18,062
Prepaid Expenses	**17,775**	23,440
Loan Acquisition Costs,		
Net of Accumulated Amortization of $45,250	**4,291**	6,969
Property and Equipment, Net	**5,647,647**	5,561,339
Total assets	**$ 5,964,573**	$ 6,007,083
Liabilities and Net Assets		
Liabilities		
Accounts payable	**$ 15,303**	$ 25,977
Accrued expenses and other liabilities	**54,666**	54,575
Capital leases payable	**23,934**	-
Long-term debt	**3,565,067**	3,712,077
Total liabilities	**3,658,970**	3,792,629
Net Assets		
Unrestricted	**2,305,603**	2,214,454
	$ 5,964,573	$ 6,007,083

See Notes to Financial Statements.

Chesapeake Church

Statement of Activities
Year Ended December 31, 2013
(With Comparative Totals for 2012)
See Independent Accountant's Review Report

		2013		2012 (Restated)
Support and Revenue				
Contributions	**$**	**2,696,382**	$	2,416,620
Counseling Center		**269,508**		251,519
Ministry income		**45,145**		85,223
Rental income		**36,500**		36,200
Investment income		**752**		1,384
Bequest income		**-**		124,116
Other income		**-**		905
Total support and revenue		**3,048,287**		2,915,967
Expenses				
Program:				
Ministry		**2,354,892**		2,108,731
Counseling Center		**371,966**		326,722
General and administrative		**230,280**		211,088
Total expenses		**2,957,138**		2,646,541
Change in net assets		**91,149**		269,426
Net Assets				
Beginning		**2,214,454**		2,397,730
Restatement adjustment (Note 9)		**-**		(452,702)
Beginning, as restated		**2,214,454**		1,945,028
Ending	**$**	**2,305,603**	$	2,214,454

See Notes to Financial Statements.

Chesapeake Church

Statement of Functional Expenses
Year Ended December 31, 2013
(With Comparative Totals for 2012)
See Independent Accountant's Review Report

	2013				
	Program		General		
		Counseling	and		2012
	Ministry	Center	Administrative	Total	Total
Salaries and Benefits	$ 1,287,056	$ 179,210	$ 162,919	$ 1,629,185	$ 1,423,705
Worship, Pantry, and Care	549,849	146,163	-	696,012	575,572
Interest	125,762	17,511	15,920	159,193	171,607
Management and Finance	137,447	19,138	17,398	173,983	197,582
Depreciation and Amortization	183,364	-	25,004	208,368	199,596
Facilities Management	71,414	9,944	9,039	90,397	78,479
	$ 2,354,892	$ 371,966	$ 230,280	$ 2,957,138	$ 2,646,541

See Notes to Financial Statements.

Chesapeake Church

Statement of Cash Flows
Year Ended December 31, 2013
(With Comparative Totals for 2012)
See Independent Accountant's Review Report

		2013		2012
Cash Flows From Operating Activities				
Change in net assets	**$**	**91,149**	$	269,426
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization		**208,368**		199,596
Loss on disposal of property and equipment		**608**		-
Changes in liabilities:				
(Increase) decrease in:				
Promises to give		**(20,092)**		-
Accounts receivable		**(3,000)**		-
Prepaid expenses		**5,665**		(6,784)
Increase (decrease) in:				
Accounts payable		**(10,674)**		(981)
Accrued expenses and other liabilities		**91**		1,553
Net cash provided by operating activities		**272,115**		462,810
Cash Flows From Investing Activities				
Collections on note receivable		**11,555**		5,119
Purchase of property and equipment		**(265,447)**		(135,693)
Net cash (used in) investing activities		**(253,892)**		(130,574)
Cash Flows From Financing Activities				
Principal payments on capital leases		**(3,225)**		-
Principal payments on long-term debt		**(147,010)**		(134,472)
Net cash (used in) financing activities		**(150,235)**		(134,472)
Net increase (decrease) in cash and cash equivalents		**(132,012)**		197,764
Cash and Cash Equivalents				
Beginning		**397,273**		199,509
Ending	**$**	**265,261**	$	397,273
Supplemental Schedule of Noncash Investing and Financing Activity				
Equipment acquired under capital leases	**$**	**27,159**	$	-
Supplemental Disclosure of Cash Flow Information				
Cash paid for interest	**$**	**159,193**	$	171,607

See Notes to Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Chesapeake Church (the Church) is a not-for-profit organization established in 1984 exclusively for charitable, religious, educational, and scientific 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 Christian Counseling Center (the Counseling Center). The Pantry supplies food and meals for the disadvantaged in the local area. The Counseling Center assists individuals and families in making more effective life choices and decisions through counseling, encouraging, and training.

A summary of the Church's significant accounting policies follows:

Basis of accounting: 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.

Basis of 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. Unrestricted net assets are net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations. The Church had no temporarily or permanently restricted net assets at December 31, 2013.

Cash and cash equivalents: For purposes of reporting cash flows, the Church considers all highly liquid investments, including money markets, purchased with an original maturity of three months or less, to be cash equivalents.

Financial risk: The Church maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Church has not experienced any losses in such accounts. The Church believes it is not exposed to any significant credit risk on cash.

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. Based on management's evaluation of the collection of promises, there is no allowance for doubtful promises at December 31, 2013. The promises to give are due in the year ending December 31, 2014.

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 $750 or more.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Valuation of long-lived assets: The Church reviews property and equipment and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Loan acquisition costs: Legal, accounting, printing costs, and other expenses associated with the loan are being amortized using the effective interest rate method. Amortization expense for the year ended December 31, 2013, was $2,678.

Fair value of financial instruments: The carrying amounts of certain financial instruments, including cash, accounts receivable, accounts payable and accrued expenses and current maturities of long-term borrowing, approximate fair value because of the short maturity of these instruments. The carrying amount of long-term debt approximates fair value because the interest rates on these instruments fluctuate with market interest rates offered to the Church for debt with similar terms and maturities.

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.

Tax status: 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, 2013, 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, 2013. Generally, the Church is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2010.

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.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Upcoming accounting pronouncement: In April 2013, FASB issued Accounting Standards Update (ASU) No. 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate*. This ASU requires a recipient not-for-profit entity to recognize those services received from personnel of an affiliate. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. This ASU is effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative financial information: The financial statements include certain prior year summarized comparative information in total but not by functional expenses. 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, 2012, from which the summarized information was derived.

Subsequent events: The Church evaluated subsequent events through January 15, 2015, which is the date the financial statements were available to be issued.

Note 2. Note Receivable

On June 25, 2009, the Church and two individuals entered into a Sales Agreement (the Agreement), under which the Church sold .65 acres of land for $40,000. Under the terms of the Agreement, the two individuals agreed to make a down payment of $8,000 at settlement, with the remaining balance of $32,000 being financed through a loan between the Church and the two individuals.

Commencing on August 1, 2009, the unpaid principal balance will be paid in equal monthly installments of principal and interest of $847 based on a ten-year amortization. The loan bears interest at a rate of 5.50% and is unsecured. The note matured on July 1, 2014, when the outstanding principal of $6,507 and all accrued and unpaid interest were paid in full.

Note 3. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2013, are as follows:

Buildings and improvements	$	6,622,532
Land and land improvements		251,550
Equipment		323,435
Vehicles		27,292
Construction-in-progress		339,084
		7,563,893
Less accumulated depreciation		1,916,246
	$	5,647,647

Depreciation expense totaled $205,690 for the year ended December 31, 2013.

Note 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 and depreciation expense total $1,909 as of and for the year ended December 31, 2013. 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, 2013, are as follows:

Year Ending December 31,		
2014	$	5,928
2015		5,928
2016		5,928
2017		5,629
2018		2,310
		25,723
Less amount representing interest		1,789
	$	23,934

Note 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, 2013. There was no outstanding balance on the line of credit as of December 31, 2013.

Note 6. Long-Term Debt

(a) On December 20, 2005, the Church obtained a construction loan from a bank in an amount not to exceed $3,300,000. At the time of settlement, the rate of the loan was fixed at 7.00% until December 20, 2010, at which time it adjusted to 4.3%. Every five years, the interest rate is subject to change, based on the weekly average yield on United States Treasury Securities, adjusted to a constant maturity of five years rounded to the nearest 0.10%. Interest only, which accrues on the unpaid balance of the loan beginning on December 20, 2005, was payable monthly until June 20, 2008. Commencing on June 20, 2008, the unpaid principal balance is being paid in equal monthly installments of principal and interest of $23,544 based on a 25-year amortization. The monthly payments were reduced to $19,801 as a result of the aforementioned interest rate reduction. This note is collateralized by a Deed of Trust, constituting a lien on all of the Church's property and equipment. The note matures on December 20, 2015, when the outstanding principal and all accrued and unpaid interest shall be payable in full. At December 31, 2013, the outstanding balance on the note was $2,849,729.

(b) 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 bears interest at a variable rate. At the time of settlement, the rate of the loan was fixed until March 2011. The initial fixed rate was 7.00% and adjusted to 4.77% during the year ended December 31, 2012. Every five years, the interest rate is subject to change, based on the weekly average yield on United States Treasury Securities, adjusted to a constant maturity of five years plus 2.60%. Monthly principal and interest payments of $4,324, based on a 30-year amortization schedule, began on April 2, 2007. The monthly payments were reduced to $3,987 as a result of the aforementioned interest rate reduction. The note matures on March 2, 2016, when the outstanding principal and all accrued and unpaid interest shall be payable in full. At December 31, 2013, the outstanding balance on the note was $557,266.

(c) 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. At the time of settlement, the rate of the loan was fixed until December 2014. The initial fixed rate is 6.13%. Beginning September 2016, the loan is subject to an adjustable interest rate every 36 months, determined by the 3-year average yield on U.S. Treasury Securities rate plus a margin of 3.50%. Monthly principal and interest payments of $1,701, based on a 15-year amortization schedule, began on February 1, 2010. 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 all accrued and unpaid interest shall be payable in full. At December 31, 2013, the outstanding balance on the note was $158,072.

Note 6. Long-Term Debt (Continued)

Aggregate maturities of long-term debt as of December 31, 2013, are due in future years as follows:

Year Ending December 31,		
2014	$	150,826
2015		2,766,894
2016		525,215
2017		13,097
2018		13,699
Thereafter		95,336
	$	3,565,067

Interest expense on long-term debt for the year ended December 31, 2013, amounted to $159,193.

Note 7. Rental Income

On December 8, 2009, the Church entered into a five-year lease agreement with the Maryland Transit Administration (MTA), granting the MTA non-exclusive access to their 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, ending on December 7, 2014. The lease is being accounted for as an operating lease. Rental income for the year ended December 31, 2013, was $36,000.

Subsequent to year end, in October 2014, the agreement was renewed in order to extend the term for an additional five years and increase the monthly rent payment to $6,100, effective November 1, 2014. As a result, the future minimum payments to be received during the year ending December 31, 2014 total $42,200. In each of the years ending December 31, 2015, 2016, 2017, 2018, and 2019, $73,200 is anticipated to be received, for a total of $366,000 due in future minimum lease receipts.

Note 8. Related Party

The Church is affiliated with End Hunger in Calvert County, Inc. (the Corporation). At December 31, 2013, there were no amounts outstanding between the Corporation and the Church. During the year ended December 31, 2013, the Church contributed approximately $50,000 to the Corporation in support of the End Hunger Works culinary training program, included in the ministry program expense on the statement of activities. The Church also paid approximately $32,000 in connection with the Corporation's food distribution efforts, also included in the ministry program expense totals on the statement of activities.

Note 9. Restatement

During the current year it was noted that the cost of land sold in 2009 was not fully disposed of at the time of the transaction, which resulted in a remaining value of $452,702 on the balance sheet. This adjustment resulted in a decrease of property and equipment, net totaling $452,702 and a decrease in net assets of $452,702 as of January 1, 2012.