

**THE LIGHTHOUSE COVENANT CHURCH**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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**ANDERSON  
DAVIS**

## **INDEPENDENT ACCOUNTANT'S REVIEW**

To the Board of Directors  
The Lighthouse Covenant Church  
Glen Burnie, Maryland

We have reviewed the accompanying financial statements of The Lighthouse Covenant Church (the Church), which comprise the Statement of Financial Position as of December 31, 2021 and the related Statement of Activities, 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 the Church's 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'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**

Our responsibility is to conduct the review engagements 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 us to perform procedures to obtain limited assurance as a basis for reporting whether we are 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. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of the Church and to meet our ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

### **Accountant's Conclusion**

Based on our review, we are 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.

*Anderson, Davis & Associates, CPA*

Glen Burnie, Maryland  
February 22, 2022

**THE LIGHTHOUSE COVENANT CHURCH  
STATEMENT OF FINANCIAL POSITION**

December 31, 2021

**ASSETS**

Current Assets	
Cash	\$ 2,319,421
Accounts receivable	312
Contributions receivable, current, net of allowance for potential uncollectible	674,914
Prepaid expenses	<u>63,509</u>
Total current assets	<u>3,058,156</u>
Property and equipment, at cost, less accumulated depreciation	<u>12,983,029</u>
Other Assets	
Contributions receivable, non-current, net of allowance for potential uncollectible	<u>281,214</u>
Total assets	<u><u>\$ 16,322,399</u></u>

**LIABILITIES AND NET ASSETS**

Current Liabilities	
Accounts payable	\$ 20,396
Accrued expenses and other liabilities	343,179
Note payable, current portion	<u>341,169</u>
Total current liabilities	<u>704,744</u>
Long-term Liabilities	
Note payable, non-current portion, net of debt issuance costs	<u>7,080,080</u>
Total long-term liabilities	<u>7,080,080</u>
Total liabilities	<u>7,784,824</u>
Net Assets	
Without donor restrictions	8,412,582
With donor restrictions	<u>124,993</u>
Total net assets	<u>8,537,575</u>
Total liabilities and net assets	<u><u>\$ 16,322,399</u></u>

See Independent Accountant's Review Report and Notes to the Financial Statements.

**THE LIGHTHOUSE COVENANT CHURCH**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS AND OTHER SUPPORT:</b>			
Tithes and offerings	\$ 4,919,685	\$ -	\$ 4,919,685
Heart and Soul revenue	-	2,784,445	2,784,445
Benevolence	2,778	75,937	78,715
Interest income	2,934	7	2,941
Gain on disposals of fixed assets	48,035	-	48,035
Other income	30,402	-	30,402
Release from net assets with donor restrictions	2,863,924	(2,863,924)	-
	<u>7,867,758</u>	<u>(3,535)</u>	<u>7,864,223</u>
<b>EXPENSES AND LOSSES:</b>			
<u>Program:</u>			
Ministry:			
Campus and central operations	1,450,056	-	1,450,056
Weekend experience	737,329	-	737,329
Discipleship	702,301	-	702,301
Care and outreach	362,010	-	362,010
	<u>3,251,696</u>	<u>-</u>	<u>3,251,696</u>
Benevolence	78,296	-	78,296
Total program expenses	<u>3,329,992</u>	<u>-</u>	<u>3,329,992</u>
<u>Supporting services:</u>			
General and administrative:			
General and administrative	175,293	-	175,293
Information technology	147,581	-	147,581
	<u>322,874</u>	<u>-</u>	<u>322,874</u>
Facility	479,165	-	479,165
Potential uncollectible pledges	502,415	-	502,415
Total support services	<u>1,304,454</u>	<u>-</u>	<u>1,304,454</u>
Depreciation	537,044	-	537,044
Interest expense	193,639	-	193,639
	<u>5,365,129</u>	<u>-</u>	<u>5,365,129</u>
Change in net assets	2,502,629	(3,535)	2,499,094
Net assets, beginning of year	<u>5,909,953</u>	<u>128,528</u>	<u>6,038,481</u>
Net assets, end of year	<u>\$ 8,412,582</u>	<u>\$ 124,993</u>	<u>\$ 8,537,575</u>

See Independent Accountant's Review Report and Notes to the Financial Statements.

**THE LIGHTHOUSE COVENANT CHURCH**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2021

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Change in net assets	\$ 2,499,094
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	537,044
Realized gain on disposals of fixed assets	(48,035)
Amortization of loan costs	4,566
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(269)
Contributions receivable	(956,128)
Prepaid expenses	(63,455)
Security deposits	26,441
Increase in:	
Accounts payable	14,814
Accrued expenses and other liabilities	<u>226,629</u>
Net cash provided by operating activities	<u>2,240,701</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchases of property and equipment	(11,045,683)
Proceeds from note payable	7,508,000
Proceeds from sale of disposal of fixed assets	<u>48,035</u>
Net cash used in investing activities	<u>(3,489,648)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Debt issuance costs	<u>(91,317)</u>
Net cash used in financing activities	<u>(91,317)</u>
Net decrease in cash and cash equivalents	(1,340,264)
Cash and cash equivalents, beginning of year	<u>3,659,685</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,319,421</u></u>
<b>SUPPLEMENTARY CASH FLOW INFORMATION:</b>	
Interest paid	<u><u>\$ 189,073</u></u>
Income taxes paid	<u><u>\$ -</u></u>

See Independent Accountant's Review Report and Notes to the Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1. ORGANIZATION AND PURPOSE

The Lighthouse Covenant Church, (the Church) operates as a non-stock, not-for-profit religious corporation organized in the State of Maryland. The Church operates as Simple Church Simply Jesus with the primary mission of following the Great Commission of Jesus Christ by reaching the lost and making disciples. The Church is supported through contributions from the congregation which is concentrated in Central Maryland and Maryland's Eastern Shore.

### Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Accounting

The financial statements are prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

#### Use of Estimates

The preparation of financial statements in conformity with U.S generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

#### Basis of Presentation

The Church follows the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

Net assets without donor restriction – Net assets that are not subject to donor-imposed stipulations 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 the Church's management and Governance Board.

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 passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds to 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.

#### Cash and Cash Equivalents and Credit Risk

For purposes of reporting cash flows, the Church considers all highly liquid investments, with maturities of three months or less when purchased, to be cash equivalents. The Church maintains cash balances at financial institutions located in Maryland. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The following summarizes the Church's cash, as of December 31, 2021, which is not federally insured or is in excess of federally insured limits, none of which is specifically collateralized.

Cash, in excess, in federally chartered bank	<u>\$1,972,370</u>
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See Independent Accountant's Review Report.

## NOTES TO THE FINANCIAL STATEMENTS

### Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### Cash and Cash Equivalents and Credit Risk (continued)

The Church has not experienced any losses in such accounts and believes it is not exposed to any other significant credit risk to its cash and cash equivalents.

#### Revenue Recognition

Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update outlines a new, single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The new model requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services.

ASU 2014-09 is effective for fiscal years beginning after December 15, 2018. Additionally, in June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, with the stated purpose of providing guidance in evaluating whether transactions should be accounted for as contributions or exchanges. In addition, the update introduces the concept of barriers in providing additional guidance on identifying conditions that would preclude the recognition of a contribution as revenue. Analysis of various provisions of these standards resulted in no significant changes in the way the Church recognizes revenue, and therefore no changes to the previously issued financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

The Church recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give—that is, those with a measurable performance or other barrier and a right of return—are not recognized until the conditions on which they depend have been met.

#### Tithes and Offerings

Tithes and offerings 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 assets other than cash are recorded at estimated 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.

Contributions of cash restricted for the acquisition of long-lived assets are reported as restricted support that increases net assets with donor restrictions. The restrictions are released when the long-lived assets are acquired or placed in service by the Church.

See Independent Accountant's Review Report.

## NOTES TO THE FINANCIAL STATEMENTS

### Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### Donated Services

For the year ended December 31, 2021, no donated services were recorded. Numerous unpaid volunteers have made significant contributions of their time to assist the Church in achieving its mission. The value of this contributed time is not reflected in these financial statements since it does not meet recognition criteria.

#### Contributions Receivables

Contributions receivables are reported in the Statement of Financial Position at the outstanding contribution balance adjusted for any write-offs and an allowance for potentially uncollectible contributions.

#### Income Taxes

The Church is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Church has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Church has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements and has determined there is no taxable unrelated business income.

#### Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program and supporting services benefited. Such allocations are determined by management on an equitable basis and most expense categories are recorded directly, without significant allocation.

#### Subsequent Events

In preparing these financial statements, the Church has evaluated events and transactions for potential or disclosure through February 22, 2022, the date that the financial statements were available to be issued.

### Note 3. **LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The following reflects the Church's financial assets as of the statement of financial position at December 31, 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

Financial assets available at year end:	
Cash and cash equivalents	\$ 2,319,421
Total financial assets	<u>2,319,421</u>
Contractual or donor-imposed restrictions:	
Restricted by donor-imposed restrictions	<u>(124,993)</u>
Total financial assets not available to be used within one year	<u>(124,993)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,194,428</u>

The Church's goal is generally to maintain financial assets to meet 90 days of operating expenses, approximately \$1,225,000.

See Independent Accountant's Review Report.

## NOTES TO THE FINANCIAL STATEMENTS

### Note 4. **PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at December 31, 2021,:

<u>Description</u>	<u>Estimated</u> <u>Life</u>	
Buildings	39 yrs.	\$ 10,282,291
Building improvements	15 yrs.	3,201,618
Furniture and fixtures	5 yrs.	22,720
Equipment	5 yrs.	<u>1,177,706</u>
		14,684,335
Less: accumulated depreciation		<u>(1,701,306)</u>
		<u>\$ 12,983,029</u>

Property and equipment are stated at cost. Donated assets are recorded at their fair value on the date of the gift, and other assets are recorded at cost. Depreciation is computed using straight-line method over the estimated useful life of the asset. The Church capitalizes all property and equipment with a cost of \$5,000 or more. Depreciation expense for the year ended December 31, 2021 was \$537,044.

### Note 5. **NOTE PAYABLE**

During 2021, the Church obtained a mortgage from a bank that consisted of two notes. The first note, totaling \$1,500,000, is payable in monthly installments over three years at a fixed interest rate of 3.5%. During 2021, this note has been paid in full. The second note was for \$7,828,000. The first year of the note requires interest only payments. In June 2022, the Church must make a principal payment of \$250,000 and after this payment, the Church must make principal and interest payments based upon a 25-year amortization period. The note matures on June 10, 2031. The note is payable in monthly installments of principal and interest of \$41,529 at a fixed rate of 3.99% per annum. The balance of this note payable was \$7,508,000 at December 31, 2021. In January 2022, the Church borrowed the additional \$320,000 on this note to finance the replacement of the building's roof, creating the total note payable balance of \$7,828,000 after December 31, 2021. Interest expense on these loans totaled \$189,073.

The note is secured by a First Deed of Trust on the property and is subject to a debt service coverage ratio beginning in 2022.

As part of securing the note, the Church was required to pay \$91,317 in loan issuance costs. These loan issuance costs have been recorded as a reduction of the related debt balance on the Statement of Financial Position and are amortized over a ten-year life period. Loan amortization costs for the year ended December 31, 2021 were \$4,566 and recorded as interest expense in the Statement of Activities. Accumulated amortization was \$4,566 at December 31, 2021.

Note payable consists of the following at December 31, 2021:

Note payable	\$ 7,508,000
Less debt issuance costs, net of accumulated amortization	<u>(86,751)</u>
	<u>\$ 7,421,249</u>

See Independent Accountant's Review Report.

## NOTES TO THE FINANCIAL STATEMENTS

### Note 5. **NOTE PAYABLE (CONTINUED)**

Future maturities required of this total note payable are as follows for the years ending December 31,:

2022		\$ 341,169
2023		188,852
2024		195,776
2025		204,703
2026		213,140
2027 and thereafter		6,684,360
		\$ 7,828,000

### Note 6. **NET ASSETS**

Net assets with donor restrictions were as follows for the year ended December 31, 2021:

Specific Purpose:		
Benevolence	\$	106,420
Designated/missions		18,573
		\$ 124,993

Net assets without donor restrictions were as follows for the year ended December 31, 2021:

Net Investments in Fixed Assets		\$ 5,561,780
Operations		2,850,802
		\$ 8,412,582

### Note 7. **CONTRIBUTIONS RECEIVABLE, NET**

During the year ended December 31, 2021, the Church established the Heart and Soul campaign which obtained approximately \$2.4 million in pledges from the congregation to help purchase the newly acquired building. The Heart and Soul campaign asked those that pledged to fulfill their commitment over a 24-month period. At December 31, 2021, the Church has approximately \$1.46 million in pledges receivable. The Church established a reserve of approximately \$500,000 for potential uncollectible pledges and has recorded this to potential uncollectible pledges expense in the Statement of Activities.

Included in contributions receivable are the following unconditional promises to give at December 31, 2021:

Receivable in less than one year		\$ 1,029,560
Less current allowance for uncollectible promises to give		(354,646)
Current unconditional promises to give		674,914
Receivable in more than one year		428,983
Less non-current allowance for uncollectible promises to give		(147,769)
Unconditional promises to give		281,214
Less: Unamortized discount		-
Net unconditional promises to give		\$ 956,128

See Independent Accountant's Review Report.

## NOTES TO THE FINANCIAL STATEMENTS

### Note 7. **CONTRIBUTIONS RECEIVABLE, NET (CONTINUED)**

The effective interest rate used in the present value calculation was based on the average of the two-year U.S. Treasury Bond rate, which was 0.39% as of December 31, 2021. For the year ended December 31, 2021, the amount was deemed to be trivial by management and therefore no discount was applied.

### Note 8. **RETIREMENT PLAN AND EXPENSES**

The Church participates in a 403(b)(9) Retirement Plan. The plan is maintained, administered and controlled by an independent third-party administrator. Participation in the plan is optional and full-time employees are eligible to participate in the plan after 90-days of employment. Eligible employees may make elective deferrals to the plan up to the maximum amount allowed by the Internal Revenue Code. The Church makes discretionary matching contributions of up to 3% of the employee's total compensation which are immediately vested to the employee. The Church contributed approximately \$31,000 for the year ended December 31, 2021.