



REALITY SAN FRANCISCO
CHURCH

Financial Statements
With Independent Accountants'
Review Report

December 31, 2019

REALITY SAN FRANCISCO CHURCH

Table of Contents

	<u>Page</u>
Independent Accountants' Review Report	1
Financial Statements	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors
Reality San Francisco Church
San Francisco, CA

We have reviewed the accompanying financial statements of Reality San Francisco Church, which comprise the statement of financial position as of December 31, 2019, and the related statements 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 entity 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.

Accountants' 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.

Accountants' Conclusion

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

Capin Crouse LLP

Brea, California
June 3, 2020

REALITY SAN FRANCISCO CHURCH

Statement of Financial Position

December 31, 2019

ASSETS:

Current assets:

Cash and cash equivalents	\$ 3,045,173
Prepaid expenses and other assets	122,856

3,168,029

Leasehold improvements, furniture, and equipment—net	521,215
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Total Assets	\$ 3,689,244
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LIABILITIES AND NET ASSETS:

Liabilities:

Accounts payable	\$ 48,693
Accrued expenses	121,032

169,725

Net assets without donor restrictions:

Undesignated	2,581,351
Board designated for benevolence, church plant, and justice and outreach	938,168

3,519,519

Total Liabilities and Net Assets	\$ 3,689,244
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See accompanying notes and independent accountants' review report

REALITY SAN FRANCISCO CHURCH

Statement of Activities

Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE, AND RECLASSIFICATIONS:			
Contributions	\$ 4,735,329	\$ 260,770	\$ 4,996,099
Rental and other income	151,619	-	151,619
Event income	137,236	-	137,236
Net assets released from purpose restrictions	260,770	(260,770)	-
Total Support, Revenue, and Reclassifications	<u>5,284,954</u>	<u>-</u>	<u>5,284,954</u>
EXPENSES:			
Salaries and benefits	2,237,557	-	2,237,557
Gifts and grants	968,706	-	968,706
Occupancy	748,187	-	748,187
Food, supplies, and dues	470,363	-	470,363
Professional services	288,379	-	288,379
Travel and events	235,398	-	235,398
Bank fees	97,369	-	97,369
Cost of goods sold	5,414	-	5,414
Total Expenses	<u>5,051,373</u>	<u>-</u>	<u>5,051,373</u>
Change in Net Assets	233,581	-	233,581
Net Assets, Beginning of Year	<u>3,285,938</u>	<u>-</u>	<u>3,285,938</u>
Net Assets, End of Year	<u>\$ 3,519,519</u>	<u>\$ -</u>	<u>\$ 3,519,519</u>

See accompanying notes and independent accountants' review report

REALITY SAN FRANCISCO CHURCH

Statement of Cash Flows

For the Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 233,581
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	109,149
Net change in operating assets and liabilities:	
Prepaid expenses and other assets	(4,442)
Accounts payable	(13,102)
Accrued expenses	24,608
Net Cash Provided by Operating Activities	<u>349,794</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of leasehold improvements, furniture, and equipment	<u>(274,452)</u>
Net Cash Used in Investing Activities	<u>(274,452)</u>
Net Change in Cash and Cash Equivalents	75,342
Cash and Cash Equivalents, Beginning of Year	<u>2,969,831</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,045,173</u>

See accompanying notes and independent accountants' review report

REALITY SAN FRANCISCO CHURCH

Notes to Financial Statements

December 31, 2019

1. NATURE OF ORGANIZATION:

Reality San Francisco Church (the Church) strives to be a church that makes disciples of all nations, teaching them to obey everything Jesus has commanded. The Church believes in being a community following Jesus, seeking renewal in the city of San Francisco.

The Church is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable state law(s). However, the Church is subject to federal income tax on any unrelated business taxable income. In addition, the Church is not classified as a private foundation within the meaning of Section 509(c) of the IRC.

The Church's primary source of support and revenue is contributions from members and regular attenders.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Church have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in checking and savings accounts. These accounts may at times exceed federally insured limits, of which approximately \$2,413,000 was uninsured as of December 31, 2019. The Church has not experienced any losses on such accounts.

LEASEHOLD IMPROVEMENTS, FURNITURE, AND EQUIPMENT—NET:

Expenditures for leasehold improvements, furniture, and equipment greater than \$5,000 are capitalized at cost. Donated items are recorded at fair market value on the date of the gift. Depreciation is computed on the straight line method over the estimated useful lives of the assets. Estimated useful lives range from three to seven years.

REALITY SAN FRANCISCO CHURCH

Notes to Financial Statements

December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS

The financial statements report amounts by class of net assets:

Net assets without donor restrictions are those resources currently available for operations under the direction of the board.

Net assets with donor restrictions are those resources restricted by donors for specific purposes. As of December 31, 2019, all donor restrictions had been met.

SUPPORT, REVENUE, AND EXPENSES

Contributions are recorded when made, which may be when cash or other assets are received or unconditionally promised. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated amounts. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. All contributions are considered available for use without donor restrictions unless specifically restricted by the donor.

Event and other income is recorded when earned. Expenses are recorded when incurred.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized on a functional basis in a note to the financial statements, (see Note 6). The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Accordingly, certain costs have been allocated among the program services and supporting activities and require an allocation on a reasonable basis that is consistently applied. The expenses that are allocated include items such as occupancy, which is allocated on a square-footage basis, as well as items such as salaries and benefits, which are allocated on the basis of estimated time and effort. Major program activities of the Church are conducting worship services, providing Christian teaching and spiritual direction, and providing gifts and grants for justice and evangelism purposes. Furthermore, there are no joint costs that have been allocated among the program services, general and administrative, and fundraising functions.

REALITY SAN FRANCISCO CHURCH

Notes to Financial Statements

December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

RECENTLY ADOPTED ACCOUNTING STANDARDS

In 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The Church adopted the provisions of this new standard during the year ended December 31, 2019. The new standard clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or exchange transaction. This standard did not have a material impact on the presentation of the financial statements.

3. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects the Church's financial assets as of December 31, 2019, reduced by amounts not available for general use because of board-designated restrictions within one year of the statement of financial position date:

Financial assets:	
Cash and cash equivalents	\$ 3,045,173
Less those unavailable for general expenditure within one year due to board-designated restrictions	<u>(938,168)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 2,107,005</u></u>

The Church structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Management monitors cash flows closely through periodic reviews and leadership team meetings.

4. LEASEHOLD IMPROVEMENTS, FURNITURE, AND EQUIPMENT—NET:

Leasehold improvements, furniture, and equipment—net consist of:

Leasehold improvements	\$ 475,163
Furniture and equipment	194,737
	<u>669,900</u>
Less accumulated depreciation	<u>(148,685)</u>
	<u><u>\$ 521,215</u></u>

REALITY SAN FRANCISCO CHURCH

Notes to Financial Statements

December 31, 2019

5. BOARD DESIGNATED NET ASSETS WITHOUT DONOR RESTRICTIONS:

As of December 31, 2019, board designated net assets without donor restrictions consist of amounts designated by the board for the following initiatives:

Benevolence	\$ 142,390
Church plant	441,925
Justice and outreach	353,853
	\$ 938,168

6. FUNCTIONAL ALLOCATION OF EXPENSES:

The table below presents expenses by their nature and function for the year ended December 31, 2019:

	Program Services	Supporting Activity: General and Administrative	Total Expenses
Salaries and benefits	\$ 1,436,844	\$ 800,713	\$ 2,237,557
Gifts and grants	967,208	1,498	968,706
Occupancy	600,641	147,546	748,187
Food, supplies, and dues	377,187	93,176	470,363
Professional services	158,816	129,563	288,379
Travel and events	188,318	47,080	235,398
Bank fees	-	97,369	97,369
Cost of goods sold	4,331	1,083	5,414
	\$ 3,733,345	\$ 1,318,028	\$ 5,051,373

REALITY SAN FRANCISCO CHURCH

Notes to Financial Statements

December 31, 2019

7. LEASE EXPENSE:

The Church leases real property under a non-cancelable operating lease agreement with monthly payments of approximately \$21,000 and a maturity date of April 2021. For the year ended December 31, 2019, lease expense totaled approximately \$260,000.

The future minimum payments to be received are as follows:

<u>Year Ending December 31,</u>	
2020	\$ 272,000
2021	<u>92,000</u>
	<u>\$ 364,000</u>

8. LEASE INCOME:

The Church subleases space to another congregation with monthly rental income of approximately \$5,400 and a maturity date of November 2021. For the year ended December 31, 2019, lease income totaled approximately \$54,000.

The future minimum payments are as follows:

<u>Year Ending December 31,</u>	
2020	\$ 64,800
2021	<u>21,600</u>
	<u>\$ 86,400</u>

9. RELATED PARTY TRANSACTIONS:

During the year ended December 31, 2019, the board and key committee members contributed a total of approximately \$184,000.

10. DEFINED CONTRIBUTION PLAN:

The Church maintains a 403(b) defined contributions retirement plan (the Plan). All employees are eligible to participate, with a fully vested employer match of up to 3% based on years of service. During the year ended December 31, 2019, the Church made total matching contributions of approximately \$12,000. Subsequent to December 31, 2019, the Church changed its contributions and matches to the Plan and will automatically contribute 3% for eligible employees and will match up to another 3%.

REALITY SAN FRANCISCO CHURCH

Notes to Financial Statements

December 31, 2019

11. SUBSEQUENT EVENTS:

Subsequent to the year ended December 31, 2019, the World Health Organization declared the outbreak of the coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused a severe negative impact on the world economy, and has contributed to significant declines and volatility in financial markets. Due to COVID-19's impact on the gathering of large groups, there is a possibility that the Church will suffer decreased contribution revenue throughout the year ended December 31, 2020. However, as of the report date, the Church's contribution revenue has not yet been negatively impacted and the Church does not rely on investments or on the earnings of its investments in order to pay for its operating expenses. The Church's year-to-date contribution revenue in 2020 has increased substantially compared to the prior year, and the Church also received a loan of approximately \$213,000 from the Small Business Administration as part of the federal government's Payroll Protection Program. This loan is eligible for forgiveness if certain conditions are met. Therefore, as of the report date, this event's effect is not expected to hinder the Church's ability to pay its future operating expenses.

Subsequent events were evaluated through June 3, 2020, which is the date the financial statements were available to be issued.