



REALITY SAN FRANCISCO
CHURCH

Financial Statements
With Independent Auditors' Report

December 31, 2021 and 2020

REALITY SAN FRANCISCO CHURCH

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	7



INDEPENDENT AUDITORS' REPORT

Board of Directors
Reality San Francisco Church
San Francisco, CA

Opinion

We have audited the accompanying financial statements of Reality San Francisco Church, which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reality San Francisco Church as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Reality San Francisco Church and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Reality San Francisco Church's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Board of Directors
Reality San Francisco Church
San Francisco, CA

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Reality San Francisco Church's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Reality San Francisco Church's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Capin Crouse LLP

Brea, California
October 3, 2022

REALITY SAN FRANCISCO CHURCH

Statements of Financial Position

	December 31,	
	2021	2020
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 2,566,727	\$ 3,930,097
Government grant receivable	382,918	-
Notes receivable-current	86,667	66,667
Prepaid expenses and other assets	57,494	67,041
	3,093,806	4,063,805
Notes receivable-net of current	72,540	133,333
Restricted cash	1,122,951	-
Property and equipment-net	23,513,213	433,613
	\$ 27,802,510	\$ 4,630,751
Total Assets	\$ 27,802,510	\$ 4,630,751
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 66,570	\$ 279,676
Accrued expenses	337,737	129,896
Long-term debt-current	346,022	-
	750,329	409,572
Long-term debt-net of current	12,363,475	-
Total liabilities	13,113,804	409,572
Net assets:		
Without donor restrictions	13,549,171	4,077,307
With donor restrictions	1,139,535	143,872
Total net assets	14,688,706	4,221,179
Total Liabilities and Net Assets	\$ 27,802,510	\$ 4,630,751

See notes to financial statements

REALITY SAN FRANCISCO CHURCH

Statements of Activities

Year Ended December 31,

	Year Ended December 31,					
	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE, AND RECLASSIFICATIONS:						
Contributions	\$ 4,492,733	\$ 1,527,681	\$ 6,020,414	\$ 4,246,471	\$ 1,004,154	\$ 5,250,625
Contribution of real property	9,225,000	-	9,225,000	-	-	-
Employee Retention Credit income	382,918	-	382,918	-	-	-
Imputed interest income	104,938	-	104,938	-	-	-
Rental and other income	90,033	-	90,033	277,693	-	277,693
Event income	3,940	-	3,940	12,600	-	12,600
Loss on disposal of assets	(216,459)	-	(216,459)	-	-	-
Government grant revenue	-	-	-	-	213,300	213,300
Net assets released from purpose restrictions	532,018	(532,018)	-	1,073,582	(1,073,582)	-
Total Support, Revenue, and Reclassifications	14,615,121	995,663	15,610,784	5,610,346	143,872	5,754,218
EXPENSES:						
Salaries and benefits	2,351,047	-	2,351,047	2,421,059	-	2,421,059
Occupancy	770,699	-	770,699	496,575	-	496,575
Gifts and grants	653,186	-	653,186	1,225,910	-	1,225,910
Food, supplies, and dues	403,120	-	403,120	333,754	-	333,754
Depreciation and amortization	370,285	-	370,285	111,425	-	111,425
Professional services	254,571	-	254,571	323,898	-	323,898
Interest	214,984	-	214,984	-	-	-
Bank fees	82,918	-	82,918	94,688	-	94,688
Travel and events	42,447	-	42,447	45,249	-	45,249
Total Expenses	5,143,257	-	5,143,257	5,052,558	-	5,052,558
Change in Net Assets	9,471,864	995,663	10,467,527	557,788	143,872	701,660
Net Assets, Beginning of Year	4,077,307	143,872	4,221,179	3,519,519	-	3,519,519
Net Assets, End of Year	\$ 13,549,171	\$ 1,139,535	\$ 14,688,706	\$ 4,077,307	\$ 143,872	\$ 4,221,179

See notes to financial statements

REALITY SAN FRANCISCO CHURCH

Statements of Cash Flows

	Year Ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 10,467,527	\$ 701,660
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	358,267	111,425
Prepaid loan costs	(76,189)	-
Amortization of prepaid loan costs	12,018	-
Contribution of real property	(9,225,000)	-
Contributions restricted for long-term purposes	(885,925)	-
Forgiveness of Paycheck Protection Program loan	-	(213,300)
Loss on disposal of assets	216,459	-
Imputed interest on note payable	(87,448)	-
Net change in operating assets and liabilities:		
Government grant receivable	(382,918)	-
Prepaid expenses and other assets	9,547	55,815
Accounts payable	(213,106)	230,983
Accrued expenses	207,841	8,864
Net Cash Provided by Operating Activities	401,073	895,447
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of leasehold improvements, furniture, and equipment	(1,429,326)	(23,823)
Issuance of note receivable	(20,000)	(200,000)
Proceeds from note receivables	60,793	-
Net Cash Used by Investing Activities	(1,388,533)	(223,823)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	500	-
Principal payments on long-term debt	(139,384)	-
Contributions restricted for long-term purposes	885,925	-
Proceeds from Paycheck Protection Program loan	-	213,300
Net Cash Provided by Financing Activities	747,041	213,300
Net Change in Cash, Cash Equivalents, and Restricted Cash	(240,419)	884,924
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	3,930,097	3,045,173
Cash, Cash Equivalents, and Restricted Cash, End of Year	\$ 3,689,678	\$ 3,930,097

(continued)

See notes to financial statements

REALITY SAN FRANCISCO CHURCH

Statements of Cash Flows (continued)

	Year Ended December 31,	
	2021	2020
SUMMARY OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH:		
Cash and cash equivalents	\$ 2,566,727	\$ 3,930,097
Restricted cash	1,122,951	-
	<u>\$ 3,689,678</u>	<u>\$ 3,930,097</u>
SUPPLEMENTAL INFORMATION AND NON-CASH ITEMS:		
Cash paid for interest	<u>\$ 195,310</u>	<u>\$ -</u>
Property and equipment acquired through long-term debt	<u>\$ 13,000,000</u>	<u>\$ -</u>
Forgiveness of the Paycheck Protection Program loan	<u>\$ -</u>	<u>\$ 213,300</u>

See notes to financial statements

REALITY SAN FRANCISCO CHURCH

Notes to Financial Statements

December 31, 2021 and 2020

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 attendees.

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 on hand and cash on deposit. These accounts may at times exceed federally insured limits. At December 31, 2021 and 2020, the Church's cash balances exceeded federally insured limits by approximately \$2,580,000 and \$2,997,000. The Church has not experienced any losses on such accounts.

RESTRICTED CASH

Cash restricted for long-term purposes consists of contributions restricted for property and equipment and board designated funds for church plants and benevolence that have not been released as of December 31, 2021 and 2020.

GOVERNMENT GRANT RECEIVABLE

The Church has met the requirements for eligibility for the 2020 and 2021 Employee Retention Credit. The Church calculated the credit based on qualified wages and intends to file the Form 941-X to claim the credit. Laws and regulations concerning government programs, including the Employee Retention Credit, established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act are complex and subject to varying interpretation. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Church's claim to the ERC, and it is not possible to determine the impact (if any) this would have upon the Church.

REALITY SAN FRANCISCO CHURCH

Notes to Financial Statements

December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

NOTES RECEIVABLE

During the year ended December 31, 2020, the Church issued a three year note receivable to a pastor for \$200,000. The Church may choose to forgive up to 33% each year. During the year ended December 31, 2021, the Church issued a note receivable to an organization for \$20,000 with repayment to occur by December 31, 2022.

PROPERTY AND EQUIPMENT–NET:

Expenditures for property 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 thirty years.

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.

SUPPORT, REVENUE, AND EXPENSES

Contributions are recorded when cash is received, unconditional promises-to-give have been made, or ownership of donated assets is transferred to the Church. The Church records contributions as net assets with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions, or both. When donor restrictions expire, that is when the purpose restriction is fulfilled or the time restriction expires, the net assets are reclassified from with donor restrictions to without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Event, rental, and other income is recorded when earned. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

REALITY SAN FRANCISCO CHURCH

Notes to Financial Statements

December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized on a functional basis in Note 7. Accordingly, certain costs have been allocated among the program services and supporting activities. 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.

3. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects the Church's financial assets as of December 31, 2021 and 2020, reduced by amounts not available for general use because of board-designated restrictions within one year of the statement of financial position date:

	December 31,	
	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 2,566,727	\$ 3,930,097
Notes receivable	159,207	200,000
	<u>2,725,934</u>	<u>4,130,097</u>
Less:		
Board-designated restrictions unavailable for general expenditure	(237,026)	(662,755)
Donor-imposed restrictions unavailable for general expenditure	(885,925)	-
Note receivables-net of current	<u>(72,540)</u>	<u>(133,333)</u>
	<u>\$ 1,530,443</u>	<u>\$ 3,334,009</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.

REALITY SAN FRANCISCO CHURCH

Notes to Financial Statements

December 31, 2021 and 2020

4. PROPERTY AND EQUIPMENT—NET:

Property and equipment—net consist of:

	December 31,	
	2021	2020
Land	\$ 4,745,270	\$ -
Building	18,909,007	-
Leasehold improvements	-	475,163
Furniture and equipment	218,610	218,560
	<u>23,872,887</u>	<u>693,723</u>
Less accumulated depreciation	<u>(359,674)</u>	<u>(260,110)</u>
	<u>\$ 23,513,213</u>	<u>\$ 433,613</u>

During the year ended December 31, 2021, the Church purchased real property that was appraised at \$23,230,000. The property was purchased for \$14,005,000 and therefore, the Church recorded \$9,225,000 as a gift-in-kind, which is recorded on the statement of activities as contribution of real property.

REALITY SAN FRANCISCO CHURCH

Notes to Financial Statements

December 31, 2021 and 2020

5. LONG-TERM DEBT:

Long-term debt consists of:

	December 31,	
	2021	2020
Note payable to a financial institution, collateralized by the real property held by the Church, with monthly principal and interest payments of \$59,577. Interest rate is fixed at 3.75%. A balloon payment is due upon maturity on July 15, 2028, in the amount of approximately \$7,382,313.	\$ 9,860,616	\$ -
Note payable to another Church with monthly interest only payments of \$4,168. Interest rate is fixed at 2.50%. Any unpaid principal and interest is due upon maturity on October 1, 2028.	2,000,000	-
Note payable to another nonprofit organization, collateralized by the real property held by the Church, with an interest rate fixed at .12%. Any unpaid principal and interest is due upon maturity on June 1, 2024.	1,000,500	-
Less prepaid loan costs	(64,171)	-
Less current portion	(346,022)	-
	\$ 12,450,923	\$ -

Annual maturities are as follows:

Year Ending December 31,	
2022	\$ 346,022
2023	359,410
2024	1,372,841
2025	387,722
2026	402,723
Thereafter	9,992,398
	\$ 12,861,116

REALITY SAN FRANCISCO CHURCH

Notes to Financial Statements

December 31, 2021 and 2020

6. NET ASSETS:

Net assets consist of:

	December 31,	
	2021	2020
Without donor restrictions:		
Undesignated	\$ 12,847,391	\$ 3,260,659
Board-designated:		
Justice and outreach	310,861	317,324
Church plant	237,026	345,431
Benevolence	153,893	153,893
	13,549,171	4,077,307
With donor restrictions:		
Building fund	885,925	-
Benevolence	253,610	143,872
	1,139,535	143,872
	\$ 14,688,706	\$ 4,221,179

7. FUNCTIONAL ALLOCATION OF EXPENSES:

The following table presents expenses by both their nature and function for the year ended December 31, 2021:

	Program Services	Supporting Activity: General and Administrative	Total Expenses
Salaries and benefits	\$ 1,589,209	\$ 761,838	\$ 2,351,047
Occupancy	617,480	153,219	770,699
Gifts and grants	651,926	1,260	653,186
Food, supplies, and dues	321,927	81,193	403,120
Depreciation and amortization	296,228	74,057	370,285
Professional services	23,879	230,692	254,571
Interest	171,987	42,997	214,984
Bank fees	-	82,918	82,918
Travel and events	33,958	8,489	42,447
	\$ 3,706,594	\$ 1,436,663	\$ 5,143,257

REALITY SAN FRANCISCO CHURCH

Notes to Financial Statements

December 31, 2021 and 2020

7. FUNCTIONAL ALLOCATION OF EXPENSES, continued:

The following table presents expenses by both their nature and function for the year ended December 31, 2020:

	Program Services	Supporting Activity: General and Administrative	Total Expenses
Salaries and benefits	\$ 1,561,887	\$ 859,172	\$ 2,421,059
Occupancy	397,648	98,927	496,575
Gifts and grants	1,225,342	568	1,225,910
Food, supplies, and dues	266,533	67,221	333,754
Depreciation and amortization	89,140	22,285	111,425
Professional services	32,516	291,382	323,898
Bank fees	-	94,688	94,688
Travel and events	36,199	9,050	45,249
	<u>\$ 3,609,265</u>	<u>\$ 1,443,293</u>	<u>\$ 5,052,558</u>

8. DEFINED CONTRIBUTION PLAN:

The Church maintains a 403(b) defined contribution retirement plan (the Plan). All employees are eligible to participate. The Church automatically contributes 3% and matches up to an additional 3% based on years of service. During the years ended December 31, 2021 and 2020, the Church made total contributions of approximately \$118,000 and \$78,000, respectively.

9. RISKS AND UNCERTAINTIES:

In March 2020, 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 through significant declines and volatility in financial markets and increases in unemployment.

Due to the uncertainty caused by the Coronavirus (COVID-19), the Church applied for and was approved for a Paycheck Protection Program loan of \$213,300 through the Coronavirus Aid Relief, and Economic Security Act. The loan accrued interest at 1% per annum and matures two years from the date it was funded. The loans may be forgiven up to the full amount if requirements set by the Small Business Administration are met. As of June 30, 2020, management believed the full loan amount had met the requirements for forgiveness. Therefore, \$213,300 has been recorded as government grant revenue for the year ended December 31, 2020. This loan was forgiven in full in April 2021.

REALITY SAN FRANCISCO CHURCH

Notes to Financial Statements

December 31, 2021 and 2020

9. RISKS AND UNCERTAINTIES, continued:

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remain unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Church for future periods. Management is carefully monitoring the situation and evaluating its options as circumstances change.

10. SUBSEQUENT EVENTS:

Subsequent events were evaluated through October 3, 2022, which is the date the financial statements were available to be issued.