



REALITY

REALITY SAN FRANCISCO  
CHURCH

Financial Statements  
With Independent Auditors' Report

December 31, 2022 and 2021

# 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, California

### ***Opinion***

We have audited the accompanying financial statements of Reality San Francisco Church, which comprise the statements of financial position as of December 31, 2022 and 2021, 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, 2022 and 2021, 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, California

***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, including omissions, 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*

Pleasanton, California  
August 23, 2023

# REALITY SAN FRANCISCO CHURCH

## Statements of Financial Position

	December 31,	
	<u>2022</u>	<u>2021</u>
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 2,715,855	\$ 2,566,727
Government grant receivable	-	382,918
Note receivable-current	66,667	86,667
Prepaid expenses and other assets	19,779	57,494
	<u>2,802,301</u>	<u>3,093,806</u>
Restricted cash	1,647,304	1,122,951
Note receivable-net of current	25,902	72,540
Property and equipment-net	23,370,713	23,513,213
	<u>27,846,220</u>	<u>27,802,510</u>
Total Assets	\$ 27,846,220	\$ 27,802,510
<b>LIABILITIES AND NET ASSETS:</b>		
Current liabilities:		
Accounts payable	\$ 263,770	\$ 66,570
Accrued expenses	228,585	337,737
Long-term debt-current	359,410	346,022
	<u>851,765</u>	<u>750,329</u>
Long-term debt-net of current	12,051,128	12,363,475
Total liabilities	<u>12,902,893</u>	<u>13,113,804</u>
Net assets:		
Without donor restrictions	12,926,281	13,549,171
With donor restrictions	2,017,046	1,139,535
Total net assets	<u>14,943,327</u>	<u>14,688,706</u>
Total Liabilities and Net Assets	\$ 27,846,220	\$ 27,802,510

See notes to financial statements

# REALITY SAN FRANCISCO CHURCH

## Statements of Activities

	Year Ended December 31,					
	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT, REVENUE, AND RECLASSIFICATIONS:</b>						
Contributions	\$ 4,815,501	\$ 1,393,986	\$ 6,209,487	\$ 4,492,733	\$ 1,527,681	\$ 6,020,414
Rental and other income	41,408	-	41,408	93,973	-	93,973
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
Loss on disposal of assets	-	-	-	(216,459)	-	(216,459)
Net assets released from purpose restrictions	516,475	(516,475)	-	532,018	(532,018)	-
<b>Total Support, Revenue, and Reclassifications</b>	<b>5,373,384</b>	<b>877,511</b>	<b>6,250,895</b>	<b>14,615,121</b>	<b>995,663</b>	<b>15,610,784</b>
<b>EXPENSES:</b>						
Salaries and benefits	2,829,384	-	2,829,384	2,351,047	-	2,351,047
Gifts and grants	765,762	-	765,762	653,186	-	653,186
Depreciation and amortization	681,065	-	681,065	370,285	-	370,285
Food, supplies, and dues	457,751	-	457,751	403,120	-	403,120
Interest	455,083	-	455,083	214,984	-	214,984
Occupancy	378,391	-	378,391	770,699	-	770,699
Professional services	181,255	-	181,255	254,571	-	254,571
Travel and events	120,601	-	120,601	42,447	-	42,447
Bank fees	76,147	-	76,147	82,918	-	82,918
Personnel fees and penalties	50,835	-	50,835	-	-	-
<b>Total Expenses</b>	<b>5,996,274</b>	<b>-</b>	<b>5,996,274</b>	<b>5,143,257</b>	<b>-</b>	<b>5,143,257</b>
Change in Net Assets	(622,890)	877,511	254,621	9,471,864	995,663	10,467,527
Net Assets, Beginning of Year	13,549,171	1,139,535	14,688,706	4,077,307	143,872	4,221,179
<b>Net Assets, End of Year</b>	<b>\$ 12,926,281</b>	<b>\$ 2,017,046</b>	<b>\$ 14,943,327</b>	<b>\$ 13,549,171</b>	<b>\$ 1,139,535</b>	<b>\$ 14,688,706</b>

See notes to financial statements

# REALITY SAN FRANCISCO CHURCH

## Statements of Cash Flows

	Year Ended December 31,	
	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 254,621	\$ 10,467,527
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	670,180	358,267
Prepaid loan costs	-	(76,189)
Amortization of prepaid loan costs	10,885	12,018
Contribution of real property	-	(9,225,000)
Contributions restricted for long-term purposes	(656,022)	(885,925)
Loss on disposal of assets	-	216,459
Imputed interest on note payable	34,979	(87,448)
Net change in operating assets and liabilities:		
Government grant receivable	382,918	(382,918)
Prepaid expenses and other assets	37,715	9,547
Accounts payable	197,200	(213,106)
Accrued expenses	(109,152)	207,841
Net Cash Provided by Operating Activities	823,324	401,073
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(527,680)	(1,429,326)
Issuance of note receivable	-	(20,000)
Forgiveness of note receivable	66,638	60,793
Net Cash Used by Investing Activities	(461,042)	(1,388,533)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from long-term debt	1,200	500
Principal payments on long-term debt	(346,023)	(139,384)
Contributions restricted for long-term purposes	656,022	885,925
Net Cash Provided by Financing Activities	311,199	747,041
Net Change in Cash, Cash Equivalents, and Restricted Cash	673,481	(240,419)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	3,689,678	3,930,097
Cash, Cash Equivalents, and Restricted Cash, End of Year	\$ 4,363,159	\$ 3,689,678

(continued)

See notes to financial statements

# REALITY SAN FRANCISCO CHURCH

## Statements of Cash Flows

(continued)

	Year Ended December 31,	
	<u>2022</u>	<u>2021</u>
SUMMARY OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH:		
Cash and cash equivalents	\$ 2,715,855	\$ 2,566,727
Restricted cash	<u>1,647,304</u>	<u>1,122,951</u>
	<u>\$ 4,363,159</u>	<u>\$ 3,689,678</u>
SUPPLEMENTAL INFORMATION AND NON-CASH ITEMS:		
Cash paid for interest	<u>\$ 420,104</u>	<u>\$ 195,310</u>
Property and equipment acquired through long-term debt	<u>\$ -</u>	<u>\$ 13,000,000</u>

See notes to financial statements



# REALITY SAN FRANCISCO CHURCH

## Notes to Financial Statements

December 31, 2022 and 2021

### 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 laws. 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 on hand and cash on deposit. These accounts may at times exceed federally insured limits. At December 31, 2022 and 2021, the Church's cash balances exceeded federally insured limits by approximately \$3,012,000 and \$2,580,000. 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, 2022 and 2021.

#### NOTE 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, 2023. In March 2023, the board approved to forgive the \$20,000 note receivable.

# REALITY SAN FRANCISCO CHURCH

## Notes to Financial Statements

December 31, 2022 and 2021

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### 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. As of December 31, 2022, the Church has received the funds in full.

#### PROPERTY 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 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.

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, 2022 and 2021

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### 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, 2022 and 2021, 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,	
	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 4,363,159	\$ 3,689,678
Government grant receivable	-	382,918
Note receivable	92,569	159,207
	<u>4,455,728</u>	<u>4,231,803</u>
Less:		
Board-designated restrictions unavailable for general expenditure	(105,357)	(237,026)
Donor-imposed restrictions unavailable for general expenditure	(1,541,947)	(885,925)
Note receivables-net of current	<u>(25,902)</u>	<u>(72,540)</u>
	<u>\$ 2,782,522</u>	<u>\$ 3,036,312</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, 2022 and 2021

4. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net consist of:

	December 31,	
	2022	2021
Land	\$ 4,745,270	\$ 4,745,270
Building	19,416,350	18,909,007
Furniture and equipment	238,947	218,610
	24,400,567	23,872,887
Less accumulated depreciation	(1,029,854)	(359,674)
	\$ 23,370,713	\$ 23,513,213

5. LONG-TERM DEBT:

Long-term debt consists of:

	December 31,	
	2022	2021
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 \$7,382,000.	\$ 9,514,594	\$ 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	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.	949,231	913,052
	12,463,825	12,773,668
Less prepaid loan costs	(53,287)	(64,171)
	12,410,538	12,709,497
Less current portion	(359,410)	(346,022)
	\$ 12,051,128	\$ 12,363,475

# REALITY SAN FRANCISCO CHURCH

## Notes to Financial Statements

December 31, 2022 and 2021

5. LONG-TERM DEBT, continued:

Annual maturities are as follows:

<u>Year Ending December 31,</u>	
2023	\$ 359,410
2024	1,321,572
2025	387,722
2026	402,723
2027	418,304
Thereafter	<u>9,574,094</u>
	<u><u>\$ 12,463,825</u></u>

6. NET ASSETS:

Net assets consist of:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Without donor restrictions:		
Undesignated	\$ 12,454,236	\$ 12,847,391
Board-designated:		
Benevolence	153,893	153,893
Church plant	105,357	237,026
Justice and outreach	212,795	310,861
	<u>12,926,281</u>	<u>13,549,171</u>
With donor restrictions:		
Building fund	1,316,947	885,925
Benevolence	475,099	253,610
Church plant	225,000	-
	<u>2,017,046</u>	<u>1,139,535</u>
	<u><u>\$ 14,943,327</u></u>	<u><u>\$ 14,688,706</u></u>

# REALITY SAN FRANCISCO CHURCH

## Notes to Financial Statements

December 31, 2022 and 2021

7. FUNCTIONAL ALLOCATION OF EXPENSES:

The following table presents expenses by both their nature and function for the year ended December 31, 2022:

	Program Services	Supporting Activity: General and Administrative	Total Expenses
Salaries and benefits	\$ 1,898,016	\$ 931,368	\$ 2,829,384
Gifts and grants	764,043	1,719	765,762
Depreciation and amortization	544,852	136,213	681,065
Food, supplies, and dues	365,940	91,811	457,751
Interest	364,066	91,017	455,083
Occupancy	303,223	75,168	378,391
Professional services	66,660	114,595	181,255
Travel and events	96,481	24,120	120,601
Bank fees	-	76,147	76,147
Personnel fees and penalties	-	50,835	50,835
	<u>\$ 4,403,281</u>	<u>\$ 1,592,993</u>	<u>\$ 5,996,274</u>

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
Gifts and grants	651,926	1,260	653,186
Depreciation and amortization	296,228	74,057	370,285
Food, supplies, and dues	321,927	81,193	403,120
Interest	171,987	42,997	214,984
Occupancy	617,480	153,219	770,699
Professional services	23,879	230,692	254,571
Travel and events	33,958	8,489	42,447
Bank fees	-	82,918	82,918
	<u>\$ 3,706,594</u>	<u>\$ 1,436,663</u>	<u>\$ 5,143,257</u>

# REALITY SAN FRANCISCO CHURCH

## Notes to Financial Statements

December 31, 2022 and 2021

8. DEFINED CONTRIBUTION PLAN:

The Church maintains a 403(b) defined contributions retirement plan. All employees are eligible to participate. The Church automatically contributes 3% and matches up to 3% based on years of service. During the years ended December 31, 2022 and 2021, the Church made total contributions of approximately \$110,000 and \$118,000, respectively.

9. SUBSEQUENT EVENTS:

Subsequent events were evaluated through August 23, 2023, which is the date the financial statements were available to be issued.