

SANDALS CHURCH

Financial Statements
and
Independent Auditors' Report

For the Year Ended December 31, 2021

SM&Co

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To the Board of Directors
Sandals Church
Riverside, CA

Independent Auditors' Report

Opinion

We have audited the consolidated financial statements of Sandals Church, which comprise the consolidated statements of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Sandals Church as of December 31, 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sandals 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 the 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 Sandals Church ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's 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 auditor's 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 GAAS 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 GAAS, 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 Sandals Church 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 Sandals Church 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.

A handwritten signature in blue ink that reads "Smith, Marion & Co." in a cursive script.

April 13, 2022
Redlands, CA

Sandals Church
Consolidated Statement of Financial Position
December 31, 2021

ASSETS

Current Assets

Cash	\$ 11,785,411
Cash restricted	<u>1,741,097</u>
Total Cash, Cash Equivalents, and Restricted Cash	13,526,508

Pledge receivables (net)	525,514
Prepaid expenses	368,924
Inventory	112,576
Employee retention tax credit receivable	<u>1,241,706</u>
Total Current Assets	<u>15,775,228</u>

Other Assets

Long-term employee benefit	193,921
Investments	527,304
Notes receivables	1,075,000
Property and equipment (net)	54,424,758
Sinking fund	<u>261</u>
Total Other Assets	<u>56,221,244</u>

TOTAL ASSETS	<u><u>\$ 71,996,472</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued liabilities	\$ 291,199
Accrued payroll and related taxes	1,380,287
Current portion of note payable	<u>1,988,257</u>
Total Current Liabilities	<u>3,659,743</u>

Non-Current Liabilities

Note payable	22,282,312
Less loan issuance cost	<u>(270,209)</u>
Total Non-Current Liabilities	<u>22,012,103</u>
Total Liabilities	<u>25,671,846</u>

Net Assets

Without donor restrictions	45,655,829
With donor restrictions	<u>668,797</u>
Total Net Assets	<u>46,324,626</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 71,996,472</u></u>
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Sandals Church
Consolidated Statement of Activities
For the Year Ended December 31, 2021

SUPPORT AND REVENUE	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT			
Tithes and offerings	\$ 21,139,870	\$ -	\$ 21,139,870
Employee retention tax credit	1,241,706	-	1,241,706
Paycheck protection program forgiveness	1,913,442	-	1,913,442
Assets relieved from restrictions	1,710,054	(1,710,054)	-
TOTAL SUPPORT	26,005,072	(1,710,054)	24,295,018
REVENUES			
Café	116,022	-	116,022
Rental income	514,841	-	514,841
Program income	472,791	-	472,791
Wedding and funeral income	46,103	-	46,103
Interest income	78,399	-	78,399
Unrealized gain(loss) on investment	(3,988)	-	(3,988)
Incentive income	18,310	-	18,310
Other income	243,872	-	243,872
Excess of assets acquired over liabilities assumed in acquisition(s)	3,517,592	-	3,517,592
Realized gain(loss) on bond payoff	(1,069,932)	-	(1,069,932)
Gain (loss) on sale of assets	(312,390)	-	(312,390)
TOTAL REVENUES	3,621,620	-	3,621,620
TOTAL SUPPORT AND REVENUES	29,626,692	(1,710,054)	27,916,638
EXPENSES			
Ministry expenses	17,418,743	-	17,418,743
Administrative expenses	6,032,073	-	6,032,073
Fundraising expenses	96,221	-	96,221
TOTAL EXPENSES	23,547,037	-	23,547,037
Changes in net assets	6,079,655	(1,710,054)	4,369,601
Net assets at beginning of year	39,576,174	2,378,851	41,955,025
NET ASSETS AT END OF YEAR	\$ 45,655,829	\$ 668,797	\$ 46,324,626

Sandals Church
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2021

	Ministry Expenses	Admin Expenses	Fundraising Expenses	Total
Salaries	\$ 9,284,909	\$ 985,709	\$ -	\$ 10,270,618
Benefits	1,334,831	153,766	-	1,488,597
Payroll taxes	357,829	41,220	-	399,049
Café	227,052	-	-	227,052
Benevolence	204,418	-	-	204,418
Food, gifts and missions	774,787	6,759	96,221	877,767
Retreats and events	203,915	-	-	203,915
Bank and credit card fees	-	357,666	-	357,666
Depreciation	1,533,788	654,279	-	2,188,067
Equipment rentals	28,822	41,762	-	70,584
Insurance	186,235	79,443	-	265,678
Legal and professional	4,849	98,536	-	103,385
Office expenses	152,947	133,543	-	286,490
Postage and printing	96,730	7,234	-	103,964
Rent	132,394	-	-	132,394
Repairs and maintenance	417,489	178,091	-	595,580
Supplies	804,558	-	-	804,558
Travel	109,995	1,852	-	111,847
Utilities	604,923	-	-	604,923
Other taxes	-	53,387	-	53,387
Outside services	438,887	48,244	-	487,131
Training and tuition	62,024	4,583	-	66,607
Marketing	85,546	-	-	85,546
Camp	371,815	-	-	371,815
Building security	-	9,044	-	9,044
Licenses, fees, permits	-	15,606	-	15,606
Interest expense	-	1,308,012	-	1,308,012
Bad debt	-	1,853,337	-	1,853,337
	<u>\$ 17,418,743</u>	<u>\$ 6,032,073</u>	<u>\$ 96,221</u>	<u>\$ 23,547,037</u>

Sandals ChurchConsolidated Statement of Cash Flows
For the Year Ended December 31, 2021**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 4,369,601
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation expense	2,188,067
Amortization of bond issuance cost	39,977
Loan issuance cost	(270,209)
Loss on disposal of assets	313,525
Net realized and unrealized gain on investments	(143,895)
Forgiveness of Paycheck Protection Program loan	(1,913,442)
Realized (gain)loss on bond payoff	1,069,932
(Increase) Decrease in:	
Prepays	(22,186)
Inventory	316,823
Employee retention tax credit receivable	(1,241,706)
Pledge receivable	1,853,337
Long-term employee benefit	20,365
Increase (Decrease) in:	
Accounts payable	69,564
Accrued interest	(614,530)
Accrued liabilities	247,891
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>6,283,114</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of fixed assets	(1,912,649)
Purchases of investments	(375,325)
Proceeds from sale of investments	378,885
Net deposits to sinking fund	(1,467,763)
Net payments from sinking fund	<u>2,410,092</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(966,760)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on bonds and loans	(25,162,759)
Proceeds from loans	24,695,000
Gain from acquisition	<u>(3,400,000)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(3,867,759)</u>

Net increase (decrease) in cash, cash equivalents, and restricted cash	1,448,595
Beginning cash, cash equivalents, and restricted cash	<u>12,077,913</u>
Ending Cash, Cash Equivalents, and Restricted cash	<u>\$ 13,526,508</u>

SUPPLEMENTAL INFORMATION:

Interest paid	<u>\$ 1,851,845</u>
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NONCASH INVESTING AND FINANCING ACTIVITIES:

Acquired assets	<u>\$ 3,400,000</u>
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Note 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES**Activities**

Sandals Church (the Church) is a nonprofit organization incorporated on November 16, 1999 in the state of California. Sandals Church is dedicated to spreading the Gospel through establishing, developing, and promoting all aspects of church ministry within Riverside, California, and the surrounding communities.

The Church is currently a multi-site church whereby it is one congregation meeting at ten different locations under the Sandals congregation name and trade style. The Church is the sole member of the following California nonprofit corporations (sometimes referred to individually as an “Affiliated Church” and collectively as the “Affiliated Churches”), all of which are organized and operated in accordance with those purposes described in section 501(c)(3) of the Internal Revenue Code. The Church controls these nonprofit corporations by being their sole member and because a majority of board members from the Church’s Board of Directors serve as directors for these organizations. The Affiliated Churches are as follows:

<u>Name</u>	<u>Location</u>	<u>Date Operationally Acquired</u>
East Valley Campus	California	October 2015
Moreno Valley Campus	California	February 2017
Banning Campus	California	June 2017
Palm Avenue Campus	California	August 2017
San Bernardino Campus	California	November 2017
Lake Arrowhead Campus	California	June 2018
Menifee Campus	California	May 2019
Fresno Campus	California	August 2019
Azusa Campus	California	April 2020
Anaheim Campus	California	December 2020
Santa Rosa Campus	California	December 2021

Basis of Accounting

The financial statements of the Church have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Church reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. The following provides an explanation of net assets categories included in the accompanying financial statements:

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions 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 the board of directors.

Net Assets with Donor Restrictions – Net assets subject to stipulations imposed by donors or certain grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Church or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds 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.

Principle of Consolidation

The consolidated financial statements include the accounts of the Church and the affiliated Churches. Accounting principles generally accepted in the United States of America require all organizations over which the Church has both control and an economic interest to be accounted for as consolidated affiliates. All material inter-organizational accounts and transactions and have been eliminated.

Cash, Cash Equivalents, and Restricted Cash

We consider all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Funds received from the Momentum pledge campaign is restricted by donors for long term purposes and is not available for operating purposes. As of December 31, 2021, the Church had \$1,741,097 of cash restricted at year end.

Sinking Fund

Deposits held in the sinking fund represent funds held in accordance to the bond agreement for debt service associated with the repayment of bonds and are considered restricted and unavailable for operating purposes. At yearend total funds in sinking fund totaled \$261 as of December 31, 2021.

Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Church to concentrations of credit and market risk consist primarily of cash and cash equivalents investments. The Church maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The Church's cash and cash equivalent accounts have been placed with high credit quality financial institutions. Sandals Church has not incurred losses nor does it anticipate any losses with respect to such accounts related to this activity. As of December 31, 2021 balances in excess of insured amounts were \$12,983,277.

The Church maintains cash at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC fully insures all funds up to \$250,000.

Investments with brokers are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000 of which \$250,000 may be cash. Insurance protects assets in the case of broker-dealer insolvency and not against decline in market values.

Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because outstanding amounts are due from individuals supportive of the Church's mission.

Pledge Receivables

Pledges are recognized as revenue and as a receivable in the period the pledge is received. Pledges are recognized at net realizable value using an allowance method based on the Church's prior experience with pledge collections. Pledges that remain uncollected one year past the due date are expensed for the amount of the pledge less the allowance recognized at the time the pledge was given.

Property and Equipment, Net

Property and equipment are stated at cost at date of purchase or estimated fair market value at the date of donation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The Church's policy is to capitalize renewals and betterments acquired for greater than \$1,000, with useful life greater than one year, and expense normal repairs and maintenance as incurred. The Church's management periodically evaluates whether events or circumstances have occurred indicating the carrying amount of long-lived assets may not be recovered. The estimated useful lives are as follows:

Vehicles	5	years
Equipment and computers	5-10	years
Furniture and fixtures	10	years
Building and improvements	39-40	years

Contributed property and equipment are recorded at 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.

Investments

Investments are recorded at cost, if purchased or at fair value, if donated. Thereafter, investments are reported at their fair values in the statement of financial position, and changes in fair value are reported as investment return in the statements of activities. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses. All gains and losses and investment income are recorded in the statement of activities according to the nature of donor restrictions.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Church groups assets at fair value in three levels based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.
- Level 2 Other observable inputs, either directly or indirectly, including:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in non-active markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by other observable market data.
- Level 3 Unobservable inputs that cannot be corroborated by observable market data.

Revenue and Revenue Recognition

The Church recognizes revenue from products and services when the performance obligations of transferring the products and providing the services are met. Gift shop sales are recognized at the time of purchase. Membership dues are comprised of an exchange element based on the benefits received, and a contribution element for the difference. The Church recognizes the exchange portion of membership dues over the membership period, and the contribution portion immediately. Payments are required at the time of sale or start of the membership period; amounts received in advance are deferred to the applicable period.

Special events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. The Church recognizes special events revenue equal to the fair value of direct benefits to donors when the special event takes place. The Church recognizes the contribution element of special event revenue immediately, unless there is a right of return if the special event does not take place. With the exception of goods and services provided in connection with membership dues, which are transferred over the period of membership, all goods and services are transferred at a point in time.

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.

Support and Revenue

Support and revenue include all resources over which the board of directors has discretionary control to use in carrying on the general operations of the Church. Support and revenue is considered unrestricted unless specifically restricted by the donor.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$85,546 for the year ended December 31, 2021.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Income Tax Status

Sandals Church and the affiliated Churches are exempt from income taxes under Internal Revenue Code section 501(c)(3) and California Revenue Code Section 23701d, 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.

The Church and the affiliated Churches have been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Internal Revenue Code.

Sandals Church and the affiliated Churches are not required to file income tax returns in the U.S. Federal jurisdiction or the state of California, except in some instances. Should the Church or the affiliated Churches file Federal income tax returns they would remain subject to examination by the Internal Revenue Service for the prior three tax years. Should the Church or the affiliated Churches file California income tax returns they would remain subject to examination by the Franchise Tax Board for the prior four tax years.

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 11,785,411
Investments	<u>527,304</u>
Total financial assets available for general expenditure within one year	<u><u>\$ 12,312,715</u></u>

The Church manages its liquidity following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient funds to provide reasonable assurance that long-term obligations will be discharged.

NOTE 3 – PLEDGE RECEIVABLE

The Church held a fund-raising campaign for funds to help the Church to carry out specific improvements, outreach campaigns and debt reduction plans. Pledges are restricted to payment of the costs associated with the campaign. The pledge receivables of December 31, 2021 are as follows:

	<u>Balance</u>	<u>Allowance</u>	<u>Net A/R</u>
Pledges receivable - current	\$ 4,291,408	\$ (3,765,894)	\$ 525,514
Total Current Receivables	<u><u>\$ 4,291,408</u></u>	<u><u>\$ (3,765,894)</u></u>	<u><u>\$ 525,514</u></u>

NOTE 4 – LONG-TERM EMPLOYEE BENEFIT

In August of 2020, the Church gifted Pastor Matthew Brown a total sum of \$214,285 as a retention incentive. The gift was made in the form of a forgivable loan. The Church will forgive a prorated amount each pay period in the amount equal to 1/260th of the gift commencing on the first pay period of 2021 through December 31, 2030. The forgivable loan will be immediately forgiven upon termination without cause, resignation for good reason or death or disability. In the event of termination, or cause, or resignation without good reason prior to full forgiveness, the parties will meet in good faith to establish a repayment schedule for the remaining balance to be paid in equal installments over a period of not less than ten years from the date of termination.

NOTE 5 – INVESTMENTS

Investments are reported at fair value on a recurring basis determined by reference to quoted market prices and other relevant information generated by market transactions. Investments at December 31, 2021 are as follows:

	Fair Value Measurements on a Recurring Basis as of			
	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Marketable equity securities	\$ 284,528	\$ -	\$ -	\$ 284,528
Fixed income	186,058	-	-	186,058
Exchange traded products	49,952	-	-	49,952
	<u>\$ 520,538</u>	<u>\$ -</u>	<u>\$ -</u>	520,538
Not subject to fair value hierarchy:				<u>6,766</u>
Cash				<u>\$ 527,304</u>

NOTE 6 – NOTES RECEIVABLE

In July 2020, the Church entered into an interest only note for the principal amount of \$1,075,000. The interest rate on the note is 6.5% per annum, payable in monthly installments equal to interest only of \$5,822 beginning on December 1, 2020 and continuing until November 30, 2023 at which time the entire unpaid principal and any accrued interest is all due and payable in full. The note is secured by the Deed of Trust for property located in Ontario CA.

NOTE 7 – FIXED ASSETS

As of December 31, 2021 Sandals Church had the following balances for fixed assets:

	Balance @			Balance @
	12/31/2020	Additions	Deletions	12/31/2021
Assets				
Nondepreciable assets				
Land *	\$ 7,596,671	\$ 71,550	\$ -	\$ 7,668,221
Construction in progress	-	239,122	-	239,122
Parking lot	1,696,487	-	-	1,696,487
Total nondepreciable assets	<u>9,293,158</u>	<u>310,672</u>	<u>-</u>	<u>9,603,830</u>
Depreciable assets				
Building 150 *	14,989,341	-	(4,756)	14,984,585
Building 250 *	3,892,429	-	-	3,892,429
EV building	751,804	-	-	751,804
MV building *	839,147	-	-	839,147
BA building *	1,328,612	-	(212,812)	1,115,800
SB building *	3,838,809	-	-	3,838,809
PA building *	1,929,557	-	-	1,929,557
WC building *	3,986,664	-	(121,143)	3,865,521
LKAH building	2,598,306	-	-	2,598,306
Santa Rosa building	-	3,328,450	-	3,328,450
Fresno building	748,483	-	-	748,483
Anaheim building	8,765,000	-	-	8,765,000
Azusa building	1,238,068	-	-	1,238,068
Sound and video equipment	5,167,404	-	-	5,167,404
Equipment & computers	1,217,167	-	-	1,217,167
Furniture & fixtures	1,011,937	1,617,398	(23,260)	2,606,075
Vehicles	343,385	56,127	(59,650)	339,862
Total depreciable assets	<u>52,646,113</u>	<u>5,001,975</u>	<u>(421,621)</u>	<u>57,226,467</u>
Total Fixed Assets	<u>61,939,271</u>	<u>5,312,647</u>	<u>(421,621)</u>	<u>66,830,297</u>
Accumulated Depreciation				
	<u>(10,325,569)</u>	<u>(2,188,067)</u>	<u>108,097</u>	<u>(12,405,539)</u>
	<u>(10,325,569)</u>	<u>(2,188,067)</u>	<u>108,097</u>	<u>(12,405,539)</u>
Net Fixed Assets	<u>\$ 51,613,702</u>	<u>\$ 3,124,580</u>	<u>\$ (313,524)</u>	<u>\$ 54,424,758</u>

Depreciation expense for the year ended amounted to: \$ 2,188,067

*Balances from the 2020 financial statements have been reclassified to conform to the 2021 financial statement presentation due to the reclassifications in land.

NOTE 8 – PENSION PLAN

The Church sponsors a 403(b) plan for all employees from the date of hire who agree to make contributions to the plan. The Church makes a matching contribution if the participant contributes more than \$52.50 per month and meets eligibility requirements, at various rates based on the employee's class of employment with The Church. The total payroll for the year was \$10,270,618 and the total covered payroll amounted to \$7,267,751. The matching employer contribution for the year ended December 31, 2021, was \$276,866.

NOTE 9 – BONDS PAYABLE

The Church issued a series of bonds on February 1, 2015. The bonds are secured by the assets of the Church. The bonds issued totaled \$15,675,000 and have interest rates from 2.00% to 6.25%. Interest on the bonds from February 1, 2015 will be payable on August 1, 2015 and semi-annually thereafter on February 1 and August 1 of each year and at maturity or redemption. The Church agreed to make weekly deposits to a sinking fund of \$17,880 commencing March 6, 2015, through and including July 31, 2015, and in the amount of \$17,130 commencing August 7, 2015, through and including January 29, 2016, and in the amount of \$23,985 commencing February 5, 2016, and each seven days thereafter while any bonds are outstanding and unpaid except that scheduled weekly deposits may be reduced in the event of redemption of outstanding bonds at the option of the Church, and certain weekly deposits may be reduced through prepayment of such weekly deposits or through the accumulation of investment income in the Sinking Fund Account. In September 2021 the Church redeemed the bonds in its entirety, the outstanding amount redeemed was \$13,573,000. The balance of the bonds at year end is \$0.

The Church issued an additional series of bonds on February 1, 2018. The bonds are secured by the assets of the Church. The bonds issued totaled \$3,630,000 and have interest rates from 1.75% to 6.00%. Interest on the bonds from February 1, 2018 will be payable on August 1, 2018 and semi-annually thereafter on February 1 and August 1 of each year and at maturity or redemption. The Church agreed to make weekly deposits to a sinking fund of \$5,325 commencing February 23, 2018 and each seven days thereafter while any bonds are outstanding and unpaid except that scheduled weekly deposits may be reduced in the event of redemption of outstanding bonds at the option of the Church, and certain weekly deposits may be reduced through prepayment of such weekly deposits or through the accumulation of investment income in the Sinking Fund Account. In September 2021 the Church redeemed the bonds in its entirety, the outstanding amount redeemed was \$3,349,000. The balance of the bonds at year end is \$0.

The Church issued a series of bonds on July 6, 2018. The bonds are secured by the assets of the Church. The bonds issued totaled \$6,225,000 and have interest rates from 2.60% to 6.30%. Interest on the bonds from July 6, 2018 will be payable on January 6, 2019 and semiannually thereafter on July 6 and January 6 of each year and at maturity or redemption. The Church agreed to make weekly deposits to a sinking fund of \$11,325 commencing on July 20, 2018 and each seven days thereafter while any bonds are outstanding and unpaid except that scheduled weekly deposits may be reduced in the event of redemption of outstanding bonds at the option of the Church, and certain weekly deposits may be reduced through prepayment of such weekly deposits or through the accumulation of investment income in the Sinking Fund Account. In September 2021 the Church redeemed the bonds in its entirety, the outstanding amount redeemed was \$5,650,000. The balance of the bonds at year end is \$0.

NOTE 10 – NOTES PAYABLE

The Church assumed responsibility for a promissory note between New Hope Fellowship of the Pass and Community Bank as of August 1, 2017. The promissory note is for \$325,000 and was placed in effect on August 1, 2017. The terms of the promissory note call for 60 monthly payments of \$ 1,778.81 beginning on October 1, 2017, with a final payment on September 1, 2022 for the principal balance plus monthly interest. The interest rate for the promissory note is stated at 4.287%. In September 2021 the remaining loan balance was paid off, the balance of the loan at year end was \$0.

The Church entered into a loan agreement with Community Bank on December 1st, 2017 for \$1,250,000. The Church is to pay \$7,386 for principal and interest on a monthly basis, for 120 months, beginning in December 2017 with a final payment on November 1st, 2027 for the principal balance plus monthly interest. The interest rate for the loan is stated at 5.019%. In September 2021 the remaining loan balance was paid off, the balance of the loan at year end is \$0.

The Church entered into a loan agreement with Pacific Premier Bank in September 2021 for \$24,695,000. The Church is to pay principal and interest on a monthly basis, for 120 months, beginning in September 2021 with a final payment on October 2031. for the principal balance plus monthly interest. The interest rate for the loan is fixed at 3%.

The future maturities of notes payable as of December 31, 2021 are as follows:

Current portion	\$ 1,988,257
Long-term	<u>22,282,312</u>
Total	<u>\$ 24,270,569</u>

Future maturities	
2022	\$ 1,988,257
2023	2,236,768
2024	2,304,801
2025	2,374,904
2026	2,447,139
Thereafter	<u>12,918,700</u>
Total	<u>\$ 24,270,569</u>

NOTE 11 – LEASES

The Church leases building space and office equipment under various operating leases expiring at various dates through 2024.

Future minimum lease payments are as follows:

Years Ending December 31,		
2022	\$	115,198
2023		96,833
2024		25,890
Total	\$	<u>237,921</u>

The Church leases Church-owned property to outside entities for commercial use. Total rental revenue for the fiscal year ended December 31, 2021 was \$514,841. The Church's investment in property rented consisted of 26,149 square feet of building at a cost of \$355,529 less accumulated depreciation of \$140,660 which amounts are recorded in the Church's statement of financial position.

The Church has an additional building for rent that was not in use in 2020. The cost of the building is \$3,547,504 less accumulated depreciation of \$878,898 which are recorded in the Church's statement of financial position.

Future minimum rental payments are as follows:

Years Ending December 31,		
2022	\$	464,416
2023		464,416
2024		70,000
Total	\$	<u>998,832</u>

NOTE 12 – NET ASSETS

With donor restriction – funds or other assets restricted by the donor, grantor, or other outside party for a particular purpose. At year end, the restricted net assets are comprised of the following:

Momentum campaign	\$	<u>668,797</u>
Net Assets with Donor Restrictions	\$	<u>668,797</u>

NOTE 13 – NET ASSETS RELEASED FROM RESTRICTION

Net assets were release from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

Net assets released from restrictions	\$	<u>1,710,054</u>
Total Restrictions Released	\$	<u>1,710,054</u>

NOTE 14 – ACQUISITIONS

The Church operationally acquired, Immanuel Baptist Church of Santa Rosa, California non-profit corporations, separate from the Church Corporation, but controlled by the Church as described in Note 1. No consideration was exchanged for the acquired entities. The fair values of the acquired entities’ assets and liabilities at the acquisition date are as follows:

Property and equipment	\$ 3,400,000
Total	\$ 3,400,000

NOTE 15 – SMALL BUSINESS ADMINISTRATION PAYCHECK PROTECTION PROGRAM LOAN

Sandals Church applied for and was approved a \$1,889,742 and \$23,700 loan for the general Sandals campuses and Anaheim campus, respectively, under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1%, but payments are not required to begin for six months after the funding of the loan. The Church is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government. In management’s opinion, it is highly unlikely that the Church will not meet the requirements for forgiveness.

On April and May of 2021, the Church received full forgiveness for the Paycheck Protection Program Loans. The Church recognized \$1,889,742 and \$23,700 of loan forgiveness income for the year ended December 31, 2021.

NOTE 16 – CONTINGENCIES AND RISK

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the orders. The Church has adapted its methods for providing services in order to continue operations and serve its constituents. Management is carefully monitoring the situation and evaluating its options during this time. It is possible that this matter may negatively impact the Church, however, the ultimate financial impact and duration cannot be estimated at this time, and no adjustments have been made to these financial statements as a result of this uncertainty.

NOTE 17 – SUBSEQUENT EVENTS

Sandals Church has evaluated subsequent events through April 13, 2022, the date on which the financial statements were available to be issued and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

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