

**REALITY CARPINTERIA  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2013**

REALITY CARPINTERIA

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT


To the Board of Directors  
Reality Carpinteria

We have reviewed the accompanying statement of financial position of Reality Carpinteria (the Church) (a nonprofit organization) as of August 31, 2013, and the related statements of activities and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Church 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 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 designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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



Walpole & Co., LLP  
December 20, 2013

REALITY CARPINTERIA  
STATEMENT OF FINANCIAL POSITION  
AUGUST 31, 2013

Assets

Current Assets

Cash and cash equivalents	\$ 765,507
Prepaid expenses	116,227
Other receivables	38,333
Security Deposits	650
Total Current Assets	<u>920,717</u>

Property and equipment, net of accumulated depreciation	5,251,139
Loan fees, net of accumulated amortization	8,110
Security deposits	<u>40,822</u>

Total Assets	<u><u>\$ 6,220,788</u></u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 40,329
Accrued interest expense	8,006
Accrued payroll expenses	123,359
Deferred event revenue	11,535
Rent deposit liability	12,000
Current portion of long-term debt	<u>64,374</u>
Total Current Liabilities	259,603

Long-term debt, net of current portion	<u>1,852,607</u>
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Total Liabilities	<u>2,112,210</u>
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Net Assets

Unrestricted	4,065,888
Temporarily restricted	<u>42,690</u>

Total Net Assets	<u>4,108,578</u>
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Total Liabilities and Net Assets	<u><u>\$ 6,220,788</u></u>
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See accompanying notes and independent accountant's review report

REALITY CARPINTERIA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2013

Changes in Unrestricted Net Assets:	
Giving and Other Operating Revenue	
Unrestricted donations and offerings	\$ 4,128,772
Donations (Donor restricted)	283,010
Sales, net of cost of sales of \$33,940	11,250
Net assets released from restrictions	76,341
Total Unrestricted Revenue and Other Support	<u>4,499,373</u>
Operating Expenses	
Salaries, payroll taxes, & workers compensation	1,838,837
Occupancy	963,415
Depreciation and amortization	357,900
Staff benefits & development	323,498
Missional support (donor restricted)	308,546
Missional support (board designated)	177,902
Supplies	83,531
Outside services	83,211
Food & drinks	80,305
Auto and equipment	73,933
Travel	31,263
Liability insurance	21,179
Bank and merchant fees	15,530
Miscellaneous	1,773
Total Operating Expenses	<u>4,360,823</u>
Other Income (Expense)	
Event income	193,885
Rental income, net of expense of \$12,000	30,000
Other income	4,291
Event expenses	(223,650)
Gain (loss) on disposition of fixed assets	(9,788)
Total Other Income (Expense)	<u>(5,262)</u>
Increase in Unrestricted Net Assets	133,288
Changes in Temporarily Restricted Net Assets:	
Contributions and offerings	42,690
Release from restriction	(76,341)
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(33,651)</u>
Total Increase in Net Assets	99,637
Net Assets at Beginning of the Year	4,008,941
Net Assets at End of the Year	<u>\$ 4,108,578</u>

See accompanying notes and independent accountant's review report

REALITY CARPINTERIA  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED AUGUST 31, 2013

Cash Flows from Operating Activities	
Increase in net assets	\$ 99,637
Adjustment to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	355,872
Amortization	2,028
(Gain) loss on disposal of equipment	9,788
Changes in:	
Accounts receivable	906
Other receivables	(38,333)
Prepaid expenses and deposits	(41,460)
Accounts payable	(13,100)
Accrued expenses	59,830
Rent deposit liability	12,000
Deferred income	(30,465)
Net Cash Provided by Operating Activities	416,703
Cash Flows from Investing Activities	
Acquisition of property and equipment	(50,693)
Net Cash Used by Investing Activities	(50,693)
Cash Flows form Financing Activities	
Redcution of debt	(67,080)
Net Cash Used by Financing Activities	(67,080)
Net Increase in Cash	298,930
Cash and Cash Equivalents, Beginning of the Year	466,577
Cash and Cash Equivalents, End of the Year	\$ 765,507

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	\$ 88,198
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See accompanying notes and independent accountant's review report

REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013

NOTE 1: NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Reality Carpinteria (the Church), a California religious nonprofit corporation, was founded in 2003 to serve the community of Carpinteria and surrounding coastland by loving God and loving people. The Church is a Christian church dedicated to preaching the good news of Jesus Christ and equipping those who believe. The Church provides Sunday church gatherings for adults and youth, as well as various other activities throughout the week. The Church is funded through donations from the corporate body.

Basis of Presentation

The accompanying financial statements have been presented on an accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the obligation is incurred.

The Church reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets:

Unrestricted net assets consist of funds free of any legally enforceable donor-imposed restrictions and include board designated funds.

Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of contributions and other inflows of funds temporarily subject to donor-imposed restrictions. The restrictions are temporary in that they are expected to expire with the passage of time or be satisfied and removed by actions of the Church that fulfill donor stipulations.

Permanently Restricted Net Assets:

Permanently restricted net assets consist of contributions subject to the donor-imposed restriction that the money be invested in perpetuity to provide income for specific activities. At August 31, 2013, there were no permanently restricted net assets.

Cash and Cash Equivalents

The Church classifies its unrestricted short-term, highly liquid investments having original maturities of three months or less as cash equivalents.

REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Equipment and Depreciation

Property is recorded at cost or, if donated, at the fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset, based on the following categories:

Building and leasehold improvements	1 - 39	years
Furniture and equipment	7 - 5	years
Vehicles	5	years
Computer and electronics	3 - 5	years
Audio/visual equipment	3 - 7	years

The Church's policy is to capitalize assets with a minimum value of \$1,500 that have a useful life of greater than one year.

Contributions

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. Donor restricted contributions are recorded as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Contributed Services

A substantial number of people have donated their time to the Church as volunteers. As this volunteer service does not meet the recognition requirements of generally accepted accounting principles, no amount has been recorded in these financials.

Fair Value of Financial Instruments

The fair value of security deposits approximates carrying value based on the cash equivalency of these assets. Based on market rates for similar loans at August 31, 2013, the fair value of the Church's long-term debt approximates carrying value.

Income Taxes

Reality Carpinteria is qualified as tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, and is not considered a private foundation. As of August 31, 2013, or for any year for which the statute is open, the Church is not aware of any uncertain tax positions requiring accrual.



REALITY CARPINTERIA  
 NOTES TO FINANCIAL STATEMENTS  
 AUGUST 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses. It is reasonably possible that this estimate will change within the next year.

NOTE 2: PROPERTY AND EQUIPMENT

Property and equipment consist of the following at August 31, 2013:

Building	\$ 2,215,906
Building and Leasehold improvements	2,835,797
Land	534,388
Office equipment and furniture	271,075
Vehicles	27,316
Computer and electronics	80,308
Audio/visual equipment	<u>900,913</u>
Total Property and Equipment	6,865,703
Less: Accumulated depreciation	<u>(1,614,564)</u>
Property and Equipment, Net	<u>\$ 5,251,139</u>

Depreciation expense for the year ended August 31, 2013 was \$355,872.

NOTE 3: LEASE COMMITMENTS

Non-cancelable Operating Leases

The Church has non-cancelable operating leases for its church campus facility located in Carpinteria, California and its corporate headquarters located in Santa Barbara, California.

Base rent for the Carpinteria lease is \$26,822 per month and the Church pays some select common area expenses. The lease expires August 31, 2018.

Base rent for the Santa Barbara lease is \$12,231 and the Church also pays a pro rata share of common area expenses of \$5,125 per month. The lease expires September 30, 2016, with an option to renew the lease for one five year period.

REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013

NOTE 3: LEASE COMMITMENTS (Continued)

Lease payments are adjusted annually on September 1 (Carpinteria lease) and October 1 (Santa Barbara lease) based upon the intervening change in the Consumer Price Index (CPI) for all urban consumers for the Los Angeles-Riverside-Orange County metropolitan area.

The Church rents space at Santa Barbara High School for Sunday services. Total payments of \$68,936 were made during the year ended August 31, 2013. The current contract covers the period of July 7, 2013 through June 29, 2014. The contract amount is \$60,464 which was paid in full during the year ended August 31, 2013. \$17,957 of the contract is included in occupancy expense for the year ended August 31, 2013 and \$50,979 is included in prepaid expenses at August 31, 2013.

The Church also has a lease commitment for a property adjacent to the building it owns in Ventura, California. Base rent for this lease is \$1,058 per month, and the lease expires June 30, 2014.

Minimum annual lease commitments under non-cancelable operating lease agreements are as follows for the years ended August 31:

		<u>Amount</u>
2014	\$	530,192
2015		473,580
2016		481,007
2017		351,421
2018		<u>344,142</u>
	\$	<u>2,180,342</u>

Total rent expense for these leases amounted to \$649,369 for the year ended August 31, 2013.

Additionally, the Church leases various equipment and software under operating leases expiring at various dates through August 2016. Total lease expense for these leases for the year ended August 31, 2013 was \$22,356.

The following schedule details future minimum lease payments as of August 31, 2013 for equipment and software leases with initial or remaining lease terms in excess of one year.

		<u>Amount</u>
2014	\$	22,425
2015		22,425
2016		<u>14,534</u>
	\$	<u>59,384</u>

REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013

NOTE 4: LONG-TERM DEBT

At August 31, 2013, the Church had indebtedness to a financial institution of \$1,916,981. The note bears interest at a fixed rate of 4.85%, matures September 1, 2017. The payment amount of \$13,009 is based on a 20 year amortization period. A balloon payment of the remaining balance is due on September 1, 2017. The note is secured by the Church's Ventura property. The future scheduled maturities of long-term debt are as follows:

Years ending August 31:	<u>Amount</u>
2014	\$ 64,374
2015	67,573
2016	70,693
2017	74,444
2018	<u>1,639,897</u>
	<u>\$ 1,916,981</u>

Interest expense for the year ended August 31, 2013 was \$96,204 and is included in occupancy expense.

In obtaining the loan the Church incurred loan fees of \$10,138. The fees are amortized over the life of the loan using straight-line method. The accumulated amortization and amortization expense for the year ended August 31, 2013 is \$2,028.

NOTE 5: NET ASSETS

Unrestricted net assets consisted of the following at August 31, 2013:

Unrestricted Net Assets	\$ 3,677,765
Board Designated for Church Plant	305,062
Board Designated for Missions	58,261
Board Designated for Outreach and Other	<u>24,800</u>
Total Unrestricted Net Assets	<u>\$ 4,065,888</u>

Total unrestricted donations and offerings for the year ended August 31, 2013 was \$4,128,772. The board designated \$462,744 or 11% of these unrestricted donations and offerings for church planting, missions and other uses.

Temporarily restricted net assets consisted of the following at August 31, 2013:

Church plant	\$ 9,372
Missions	<u>33,318</u>
Total Temporarily Restricted Net Assets	<u>\$ 42,690</u>

REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013

NOTE 7: CONCENTRATION OF RISK

The Church maintains cash balances at two banks and one financial services firm.

The Church maintains its cash balances at two banks, both of which are insured by Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. The Church had uninsured cash deposit of \$262,238 as of August 31, 2013.

For money market funds held at the financial services firm, these funds are covered under Securities Investor Protection Corporation (SIPC) broker-dealer regulations. Under SIPC, cash and cash equivalents are insured up to \$250,000 per broker-dealer. The Church had no uninsured cash and cash equivalents held at the financial services firm at August 31, 2013.

NOTE 8: RENTAL ACTIVITY

In the prior year the Church purchased a building in Ventura, California. At the time of purchase a portion of this building was being leased to a third party for \$3,500 per month. The church received, in advance, \$42,000 of rent income at the end of the year ending August 31, 2012. This was recorded as deferred income. For the year ended August 31, 2013 the Church recognized the deferred rent income and total rent income for the year ended August 31, 2013 is \$42,000.

The tenant was required to move out by November 30, 2013. Rent was to continue to be due at a rate of \$3,500 per month through the move out date, however if the tenant vacated the property in accordance with the agreement no additional rent would be due beyond August 31, 2013. The church provided additional time for the tenant to vacate. The tenant vacated the property on December 6, 2013. No additional rent was collected.

The former landlord (former owner of the Ventura property) held a deposit of \$12,000 from this third party. The Church has accepted liability for this lease deposit and will be required to refund the amount.

NOTE 9: EVENTS

Through various Events the Church provides an opportunity for training and discipleship to the people of the church and the community in part through Gospel based events and classes. Events and classes are designed to further the mission of the church through helping people learn about and enjoy Jesus and connect with one another.

Event expenses have been separated from normal operating expenses. The following summarizes the event expenses for the year ended August 31, 2013:

Occupancy	\$	70,265
Auto and travel		53,521
Supplies and books		30,764
Food and drinks		28,759

REALITY CARPINTERIA  
 NOTES TO FINANCIAL STATEMENTS  
 AUGUST 31, 2013

NOTE 9: EVENTS (Continued)

Outside services	22,716
Salaries and benefits	14,520
Missional support and other	<u>3,105</u>
 Total Event Expense	 \$ <u>223,650</u>

NOTE 10: RELATED PARTY TRANSACTIONS

Employment

The Church employs two individuals who also serve as trustees and officers in the Church.

Church plants

The plan of the Church is to plant Churches around the world. Currently, the Church is assisting a new church plant in Boston (Reality Boston). Reality Boston is a separate legal entity, however two of the Church's board members comprise 50% of the total board of directors for Reality Boston.

The Church assists Reality Boston by paying certain operational expenses. The Church has a policy that specifies that the salary and insurance benefits of the pastor are to be covered by the Church through the Board designated church plant fund. The Church remits to Reality Boston contributions it receives from parishioners that are specifically restricted for Reality Boston.

The Church received temporary restricted donations of \$57,191 for the Boston Church and the board also designated \$163,542. The following expenses summarize the Boston Church expenses for the year ended August 31, 2013 and are included in the Church's operating expenses on the statement of activities:

Salary and benefits	\$ 104,027
Missional support	53,971
Occupancy	17,926
Small equipment	15,312
Food and travel	10,937
Supplies and books	4,977
Gifts	1,730
Other expenses	<u>1,590</u>
 Total Expense	 \$ <u>210,470</u>

During the year ended August 31, 2013, the Church remitted \$30,891 more than they were required to remit to Reality Boston. The Church will be getting a refund of the overpayment and this amount is included in other receivables at August 31, 2013.

REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013

NOTE 11: SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 20, 2013, which is the date that these financial statements were available to be issued.