

**REALITY CARPINTERIA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014**

REALITY CARPINTERIA

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Reality Carpinteria
Santa Barbara, California

We have reviewed the accompanying statement of financial position of Reality Carpinteria (the Church) (a nonprofit organization) as of August 31, 2014, 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
January 30, 2015

REALITY CARPINTERIA
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2014

Assets

Current Assets

Cash and cash equivalents	\$ 868,966
Prepaid expenses	129,196
Other receivables	28,056
Total Current Assets	<u>1,026,218</u>

Property and equipment, net of accumulated depreciation	4,935,510
Loan fees, net of accumulated amortization	6,082
Security deposits	<u>41,472</u>

Total Assets	<u><u>\$ 6,009,282</u></u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 47,613
Accrued interest expense	7,742
Accrued payroll expenses	148,746
Current portion of long-term debt	67,517
Total Current Liabilities	<u>271,618</u>

Long-term debt, net of current portion	<u>1,786,214</u>
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Total Liabilities	<u>2,057,832</u>
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Net Assets

Unrestricted	3,914,830
Temporarily restricted	<u>36,620</u>

Total Net Assets	<u>3,951,450</u>
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Total Liabilities and Net Assets	<u><u>\$ 6,009,282</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, 2014

Changes in Unrestricted Net Assets:	
Giving and Other Operating Revenue	
Unrestricted donations and offerings	\$ 4,118,013
Donations (Donor restricted)	348,231
Sales, net of cost of sales of \$43,558	(7,204)
Net assets released from restrictions	42,690
Total Unrestricted Revenue and Other Support	<u>4,501,730</u>
Operating Expenses	
Salaries, payroll taxes, & workers compensation	2,028,938
Occupancy	950,493
Depreciation and amortization	364,228
Staff benefits & development	323,876
Missional support (donor restricted)	257,665
Missional support (board designated)	344,814
Supplies	80,448
Outside services	50,173
Food & drinks	108,023
Auto & equipment	63,707
Travel	75,559
Liability insurance	16,428
Bank and merchant fees	18,457
Miscellaneous	4,620
Total Operating Expenses	<u>4,687,429</u>
Other Income (Expense)	
Event income, net of event expenses of \$150,420	31,030
Other income	8,477
Investment income (loss), net of investment fees of \$150	(18)
Realized loss on sale of investments	(373)
Loss on disposition of fixed assets	(4,475)
Total Other Income (Expense)	<u>34,641</u>
Increase (Decrease) in Unrestricted Net Assets	(151,058)
Changes in Temporarily Restricted Net Assets:	
Contributions and offerings	36,620
Assets released from restriction	(42,690)
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(6,070)</u>
Total Decrease in Net Assets	(157,128)
Net Assets at Beginning of the Year	4,108,578
Net Assets at End of the Year	<u>\$ 3,951,450</u>

See accompanying notes and independent accountant's review report

REALITY CARPINTERIA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2014

Cash Flows from Operating Activities	
Decrease in net assets	\$ (157,128)
Adjustment to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Depreciation	362,200
Amortization	2,028
Loss on disposal of equipment	4,475
Changes in:	
Other receivables	10,277
Prepaid expenses and deposits	(12,969)
Accounts payable	7,284
Accrued expenses	25,123
Rent deposit liability	(12,000)
Deferred income	(11,535)
Net Cash Provided by Operating Activities	217,755
Cash Flows from Investing Activities	
Acquisition of property and equipment	(51,046)
Net Cash Used by Investing Activities	(51,046)
Cash Flows from Financing Activities	
Debt repayments	(63,250)
Net Cash Used by Financing Activities	(63,250)
Net Increase in Cash	103,459
Cash and Cash Equivalents, Beginning of the Year	765,507
Cash and Cash Equivalents, End of the Year	\$ 868,966

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	\$ 92,479
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See accompanying notes and independent accountant's review report

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014

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 coastlands 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, 2014, 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, 2014

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.

During the year, the Church received donations in the form of investment securities. The Church's policy is to sell any donated securities as soon as possible, and to record these securities at the fair market value when received. During 2014, the Church incurred realized investment losses of \$373 relating to the short-term holding period for these securities.

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, 2014, the fair value of the Church's long-term debt approximates carrying value.

REALITY CARPINTERIA
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Reality Carpinteria is qualified as a 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, 2014, or for any year for which the statute is open, the Church is not aware of any uncertain tax positions requiring accrual.

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 these estimates will change within the next year.

NOTE 2: PROPERTY AND EQUIPMENT

Property and equipment consist of the following at August 31, 2014:

Building	\$	2,215,906
Building and leasehold improvements		2,867,443
Land		534,388
Office equipment and furniture		277,537
Vehicles		27,316
Computer and electronics		93,246
Audio/visual equipment		<u>894,200</u>
 Total Property and Equipment		 6,910,036
 Less: Accumulated depreciation		 <u>(1,974,526)</u>
 Property and Equipment, Net		 <u>\$ 4,935,510</u>

Depreciation expense for the year ended August 31, 2014 was \$362,200.

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.

REALITY CARPINTERIA
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2014

NOTE 3: LEASE COMMITMENTS (Continued)

Base rent for the Carpinteria lease is \$27,234 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 \$12,414 and the Church also pays a pro rata share of common area expenses of approximately \$5,700 per month. The lease expires September 30, 2016, with an option to renew the lease for one five year period.

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 gatherings. The current contract covers the period of July 6, 2014 through June 28, 2015. The contract amount is \$96,689 which was paid in full during the year ended August 31, 2014. \$16,735 of the contract is included in occupancy expense for the year ended August 31, 2014 and \$79,954 is included in prepaid expenses at August 31, 2014.

The Church also has a lease commitment for a property adjacent to the building it owns in Ventura, California. Base rent for this lease increased to \$1,090 per month from \$1,058 per month as of December 1, 2014. The lease expires November 30, 2015.

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

	<u>Amount</u>
2015	\$ 568,717
2016	486,474
2017	351,604
2018	<u>344,142</u>
	<u>\$ 1,750,937</u>

Total rent expense for these leases amounted to \$631,662 for the year ended August 31, 2014.

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, 2014 was \$27,310.

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014

NOTE 3: LEASE COMMITMENTS (Continued)

The following schedule details future minimum lease payments as of August 31, 2014 for equipment and software leases with initial or remaining lease terms in excess of one year.

	<u>Amount</u>
2015	\$ 20,498
2016	<u>5,436</u>
	<u>\$ 25,934</u>

NOTE 4: LONG-TERM DEBT

At August 31, 2014, the Church had indebtedness to a financial institution of \$1,853,731. 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:

<u>Years ending August 31:</u>	<u>Amount</u>
2015	\$ 67,517
2016	70,634
2017	74,382
2018	<u>1,641,198</u>
	<u>\$ 1,853,731</u>

Interest expense for the year ended August 31, 2014 was \$92,215 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, 2014 are \$4,056 and \$2,028 respectively.

REALITY CARPINTERIA
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2014

NOTE 5: NET ASSETS

Unrestricted net assets consisted of the following at August 31, 2014:

Unrestricted Net Assets	\$ 3,511,028
Board Designated for Church Plant	278,207
Board Designated for Missions	101,095
Board Designated for Outreach and Other	19,500
Board Designated for Events and Education	<u>5,000</u>
 Total Unrestricted Net Assets	 <u>\$ 3,914,830</u>

Total unrestricted donations and offerings for the year ended August 31, 2014 was \$4,118,013. The board designated \$524,679 or 13% of these unrestricted donations and offerings for church planting, missions and other uses. The board generally designates a minimum of 11% of unrestricted donations and offerings for church planting, missions and other uses.

Temporarily restricted net assets consisted of the following at August 31, 2014:

Church plant	\$ 5,898
Missions	<u>30,722</u>
 Total Temporarily Restricted Net Assets	 <u>\$ 36,620</u>

NOTE 6: 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 \$330,124 as of August 31, 2014.

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, 2014.

NOTE 7: 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 how to enjoy Jesus and connect with one another.

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014

NOTE 7: EVENTS (continued)

Event expenses have been separated from normal operating expenses. The following summarizes the event expenses for the year ended August 31, 2014:

Occupancy	\$	56,782
Salaries and benefits		24,678
Travel		20,464
Food and drinks		13,598
Outside services		12,883
Supplies and books		12,734
Missional support and other		5,475
Auto and equipment		<u>3,806</u>
Total Event Expense	\$	<u>150,420</u>

NOTE 8: 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 donors that are specifically restricted for Reality Boston net of any expenses incurred on behalf of Reality Boston.

The Church received temporarily restricted donations of \$92,699 for the Boston Church and the board also designated \$61,629. The following expenses summarize the Boston Church expenses for the year ended August 31, 2014 and are included in the Church's operating expenses on the statement of activities:

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014

NOTE 8: RELATED PARTY TRANSACTIONS (continued)

Salary and benefits	\$ 114,631
Missional support	36,000
Occupancy	1,609
Food and travel	2,412
Supplies	<u>264</u>
Total Expense	<u>\$ 154,916</u>

During the year ended August 31, 2014, the Church remitted \$12,056 more than they were required to remit to Reality Boston. The Church will be getting a refund of the overpayment. This amount is included in other receivables at August 31, 2014.

Reality Boston has started collecting donations and is becoming financially sustainable without support from the Church. Accordingly, the Church has decided to stop the support to Reality Boston starting January, 2015. Any support provided by the Church from January, 2015 will be reimbursed by Reality Boston.

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 30, 2015, which is the date that these financial statements were available to be issued.