

**REALITY CARPINTERIA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2015**

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, 2015, 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 21, 2015

REALITY CARPINTERIA
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2015

Assets

Current Assets

Cash and cash equivalents	\$ 1,199,253
Securities	566
Prepaid expenses	154,321
Other receivables	<u>57,762</u>
Total Current Assets	1,411,902

Property and equipment, net of accumulated depreciation	4,636,165
Loan fees, net of accumulated amortization	4,054
Security deposits	<u>41,472</u>

Total Assets	<u><u>\$ 6,093,593</u></u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 47,657
Accrued interest expense	7,466
Accrued payroll expenses	150,820
Current portion of long-term debt	<u>70,634</u>
Total Current Liabilities	276,577

Long-term debt, net of current portion	<u>1,716,664</u>
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Total Liabilities	1,993,241
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Net Assets

Unrestricted	4,047,918
Temporarily restricted	<u>52,434</u>

Total Net Assets	<u>4,100,352</u>
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Total Liabilities and Net Assets	<u><u>\$ 6,093,593</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, 2015

Changes in Unrestricted Net Assets:	
Giving and Other Operating Revenue	
Unrestricted donations and offerings	\$ 4,432,397
Donations (Donor restricted)	274,835
Sales, net of cost of sales of \$40,561	(5,214)
Net assets released from restrictions	36,620
Total Unrestricted Revenue and Other Support	<u>4,738,638</u>
Operating Expenses	
Salaries, payroll taxes, and workers compensation	1,975,772
Occupancy	928,517
Staff benefits and development	372,548
Depreciation and amortization	337,633
Missional support (board designated)	299,325
Missional support (donor restricted)	228,668
Food and drinks	118,891
Supplies	97,157
Outside services	84,083
Travel	69,275
Auto and equipment	65,884
Bank and merchant fees	20,061
Liability insurance	16,254
Miscellaneous	832
Total Operating Expenses	<u>4,614,900</u>
Other Income (Expense)	
Coffee, stickers, and other income	7,111
Gain on disposition of fixed assets	2,175
Realized gain on sale of investments	530
Event income (loss), net of event expenses of \$169,273	(271)
Investment income (loss), net of investment fees of \$150	(130)
Unrealized (loss) on sale of investments	(65)
Total Other Income (Expense)	<u>9,350</u>
Increase (Decrease) in Unrestricted Net Assets	133,088
Changes in Temporarily Restricted Net Assets:	
Contributions and offerings	52,434
Assets released from restriction	(36,620)
Increase (Decrease) in Temporarily Restricted Net Assets	<u>15,814</u>
Total Increase in Net Assets	148,902
Net Assets at Beginning of the Year	3,951,450
Net Assets at End of the Year	<u><u>\$ 4,100,352</u></u>

See accompanying notes and independent accountant's review report

REALITY CARPINTERIA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2015

Cash Flows from Operating Activities	
Increase in net assets	\$ 148,902
Adjustment to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Depreciation	335,605
Amortization	2,028
Gain on disposal of equipment	(2,175)
Unrealized losses on securities	65
Unsold marketable securities received as donations	(631)
Changes in:	
Other receivables	(29,706)
Prepaid expenses and deposits	(25,125)
Accounts payable	44
Accrued expenses	1,798
Net Cash Provided by Operating Activities	430,805
Cash Flows from Investing Activities	
Acquisition of property and equipment	(36,585)
Proceeds from sale of equipment	2,500
Net Cash Used by Investing Activities	(34,085)
Cash Flows from Financing Activities	
Debt repayments	(66,433)
Net Cash Used by Financing Activities	(66,433)
Net Increase in Cash	330,287
Cash and Cash Equivalents, Beginning of the Year	868,966
Cash and Cash Equivalents, End of the Year	\$ 1,199,253

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	\$ 89,768
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See accompanying notes and independent accountant's review report

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015

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, 2015, 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, 2015

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.

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, 2015, the fair value of the Church's long-term debt approximates carrying value.

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015

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, 2015, 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, 2015:

Building	\$	2,215,906
Building and leasehold improvements		2,869,451
Land		534,388
Office equipment and furniture		291,923
Vehicles		34,016
Computer and electronics		85,870
Audio/visual equipment		<u>902,866</u>
 Total Property and Equipment		 6,934,420
 Less: Accumulated depreciation		 <u>(2,298,255)</u>
 Property and Equipment, Net		 <u>\$ 4,636,165</u>

Depreciation expense for the year ended August 31, 2015 was \$335,605.

NOTE 3: INVESTMENTS AND FAIR MARKET VALUE MEASUREMENTS

Investments in marketable securities with readily determinable fair values are reported at their fair values in the statement of financial position. Fair value is determined by quoted market prices. Unrealized gains or losses are included in the change in net assets. There was no investment income or gains restricted by donors.

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015

NOTE 3: INVESTMENTS AND FAIR MARKET VALUE MEASUREMENTS (continued)

The net changes in unrealized gain/(loss) for the year ended August 31, 2015 is summarized as follows:

	Cost	Fair Market Value	Unrealized Gain / (Loss)
Securities balances August 31, 2015	\$ 631	\$ 566	\$ (65)
Securities balances August 31, 2014	-	-	-
Unrealized gain (loss) for the year ended August 31, 2015			\$ (65)

Investment fees incurred on investment accounts for the years ended August 31, 2015 were \$150. These costs are netted against the interest and dividend income shown on the Statement of Activities.

Financial assets and liabilities have been disclosed at their respective fair values or measured at the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date on a recurring basis. The financial assets and liabilities are valued using the following fair value hierarchy in order to disclose the measurement of fair value based on three levels of observable or unobservable inputs.

Level 1: Quoted prices (unadjusted) in active markets for identical assets that the Organization has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Organization's own assumptions about the assumptions that market participants would use in pricing the asset, based on the best information available in the circumstances.

Fair values of assets measured on a recurring basis at August 31, 2015 are as follows:

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 222,729	\$ 222,729	\$ -	\$ -
Securities	566	566	-	-
	\$ 223,295	\$ 223,295	\$ -	\$ -

Cash equivalents consist of money market funds held at a financial services firm.

REALITY CARPINTERIA
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2015

NOTE 4: LEASE COMMITMENTS

Non-cancelable Operating Leases

The Church has non-cancelable operating leases for its church campus facilities located in both Carpinteria and Santa Barbara California.

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, but includes an option to renew for one five year period.

Base rent for the Santa Barbara lease is \$12,638 per month and the Church also pays a pro rata share of common area expenses of approximately \$5,575 per month. The lease expires September 30, 2016, but includes 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 5, 2015 through June 26, 2016. The contract amount is \$106,465 which was paid in full during the year ended August 31, 2015. \$18,451 of the contract is included in occupancy expense and \$88,014 is included in prepaid expenses at August 31, 2015.

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>
2016	\$ 577,199
2017	351,828
2018	<u>344,142</u>
	<u>\$ 1,273,169</u>

Total rent expense, including obligations for pro rata share of common area expenses, for these leases amounted to \$674,482 for the year ended August 31, 2015.

REALITY CARPINTERIA
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2015

NOTE 4: LEASE COMMITMENTS (Continued)

Additionally, the Church leases various equipment and software under operating leases expiring at various dates through August 2019. Total lease expense for these leases for the year ended August 31, 2015 was \$24,297.

The following schedule details future minimum lease payments as of August 31, 2015 for equipment and software leases with initial or remaining lease terms in excess of one year.

	<u>Amount</u>
2016	\$ 17,691
2017	18,187
2018	18,187
2019	<u>3,555</u>
	<u>\$ 57,620</u>

NOTE 5: LONG-TERM DEBT

At August 31, 2015, the Church had indebtedness to a financial institution of \$1,787,298. 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>
2016	\$ 70,634
2017	74,382
2018	<u>1,642,282</u>
	<u>\$ 1,787,298</u>

Interest expense for the year ended August 31, 2015 was \$89,492 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, 2015 are \$6,084 and \$2,028 respectively.

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015

NOTE 6: NET ASSETS

Unrestricted net assets consisted of the following at August 31, 2015:

Unrestricted Net Assets	\$ 3,579,491
Board Designated for Church Plant	303,229
Board Designated for International Mission	147,998
Board Designated for Outreach and Other	<u>17,200</u>
Total Unrestricted Net Assets	<u>\$ 4,047,918</u>

Total unrestricted donations and offerings for the year ended August 31, 2015 was \$4,432,397. The board designated \$547,498 or 12.35% of these unrestricted donations and offerings for church planting, international mission and other uses. The board designates a minimum of 11% of unrestricted donations and offerings for church plant and international mission, and will often set aside funds beyond the 11% for other outreach activities.

Temporarily restricted net assets consisted of the following at August 31, 2015:

Church Plant	\$ 44,554
International Mission	<u>7,880</u>
Total Temporarily Restricted Net Assets	<u>\$ 52,434</u>

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 \$469,289 as of August 31, 2015.

Money market funds held at the financial services firm 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, 2015.

NOTE 8: 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, 2015

NOTE 8: EVENTS (continued)

Event expenses have been separated from normal operating expenses. The following summarizes the event expenses for the year ended August 31, 2015:

Occupancy	\$ 84,535
Salaries and benefits	33,173
Supplies and books	18,034
Outside services	17,116
Food and drinks	11,627
Auto and equipment	3,141
Travel	<u>1,647</u>
 Total Event Expense	 <u>\$ 169,273</u>

NOTE 9: RELATED PARTY TRANSACTIONS

Employment

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

Church plants

Reality Carpinteria is called to plant churches wherever God leads. During fiscal year 2015, the Church was financially supporting a portion of the monthly expense for both Reality Boston and Reality Stockton. Two of the Church's board members comprise 50% of the total board of directors for Reality Boston and Reality Stockton. Both churches are separate legal entities and do not pay their board members from Reality Carpinteria.

The Church provided financial support to Reality Stockton of \$3,000 per month through May 2015. Total support provided for the year ended August 31, 2015 was \$27,000.

During the year ended August 31, 2015, the Church assisted Reality Boston by paying certain operational expenses. The Church had a policy that specified 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 remitted to Reality Boston contributions it received from donors that were specifically restricted for Reality Boston net of any expenses incurred on behalf of Reality Boston.

Reality Boston has become financially sustainable without support from the Church. Accordingly, the Church stopped the financial support to Reality Boston as of January 2015. Any financial support provided by the Church from January 2015 will be reimbursed by Reality Boston.

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015

NOTE 9: RELATED PARTY TRANSACTIONS (continued)

The Church received temporarily restricted donations of \$39,275 for the Boston Church and the board designated \$15,801 in financial support during the first part of fiscal year 2015. The following expenses summarize the Boston Church expenses for the year ended August 31, 2015 and are included in the Church's operating expenses on the statement of activities:

Salary and benefits	\$ 35,675
Missional support	16,000
Food and travel	4,208
Other expenses	<u>119</u>
Total Expense	<u>\$ 56,002</u>

The amount receivable from Reality Boston is \$57,148. The Church will be getting a refund from Reality Boston. This amount is included in other receivables at August 31, 2015.

NOTE 10: SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 21, 2015, which is the date that these financial statements were available to be issued.