

**REALITY CARPINTERIA  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016**

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 financial statements of Reality Carpinteria (the Church) (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. 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's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### **Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountant's Conclusion**

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 accordance with accounting principles generally accepted in the United States of America.

### **Supplementary Information**

The supplementary information contained in Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. We have not audited or reviewed the supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such supplementary information.

*Walpole & Co., LLP*

Walpole & Co., LLP  
February 24, 2017

REALITY CARPINTERIA  
STATEMENT OF FINANCIAL POSITION  
AUGUST 31, 2016

ASSETS

Current Assets

Cash and cash equivalents	\$ 1,641,750
Prepaid expenses	85,919
Security deposits	33,790

Total Current Assets	1,761,459
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Property and equipment, net of accumulated depreciation	4,351,688
Loan fees, net of accumulated amortization	2,026
Security deposits	27,472

Total Assets	\$ 6,142,645
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 55,869
Accrued interest expense	7,174
Accrued payroll expenses	161,308
Current portion of long-term debt	74,274

Total Current Liabilities	298,625
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Long-term debt, net of current portion	1,643,491
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Total Liabilities	1,942,116
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Net Assets

Unrestricted	3,895,401
Temporarily restricted	305,128

Total Net Assets	4,200,529
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Total Liabilities and Net Assets	\$ 6,142,645
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See accompanying notes and independent accountant's review report

REALITY CARPINTERIA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2016

Changes in Unrestricted Net Assets:	
Giving and Other Operating Revenue	
Unrestricted donations and offerings	\$ 4,393,622
Donations (Donor restricted)	591,816
Net assets released from restrictions	52,434
Sales, net of cost of sales of \$31,959	(6,172)
Total Unrestricted Revenue and Other Support	<u>5,031,700</u>
Operating Expenses	
Salaries, payroll taxes, and workers compensation	2,078,079
Occupancy	963,589
Missional support (donor restricted)	502,742
Staff benefits and development	402,253
Depreciation and amortization	318,727
Missional support (board designated)	272,929
Food and drinks	129,141
Outside services	161,347
Auto and equipment	93,659
Supplies	89,239
Travel	82,692
Bank and merchant fees	21,950
Liability insurance	16,020
Filing Fees	3,251
Miscellaneous	1,647
Total Operating Expenses	<u>5,137,265</u>
Other Income (Expense)	
Coffee, stickers, and other income	6,023
Gain on disposition of fixed assets	1,800
Realized gain on sale of investments	593
Unrealized gain on sale of investments	65
Investment income (loss), net of investment fees of \$395	(295)
Event income (loss), net of event expenses of \$279,953	(55,138)
Total Other Income (Expense)	<u>(46,952)</u>
Increase (Decrease) in Unrestricted Net Assets	(152,517)
Changes in Temporarily Restricted Net Assets:	
Contributions and offerings	305,128
Assets released from restriction	(52,434)
Increase (Decrease) in Temporarily Restricted Net Assets	<u>252,694</u>
Total Increase in Net Assets	100,177
Net Assets at Beginning of the Year	4,100,352
Net Assets at End of the Year	<u>\$ 4,200,529</u>

See accompanying notes and independent accountant's review report

REALITY CARPINTERIA  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED AUGUST 31, 2016

Cash Flows from Operating Activities	
Increase in net assets	\$ 100,177
Adjustment to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Depreciation	316,699
Amortization	2,028
Gain on disposal of equipment	(1,800)
Change in unrealized gain on securities	(65)
Realized gain on securities	(593)
Proceeds from sale of marketable securities received as donations	7,732
Marketable securities received as donations	(6,508)
Changes in:	
Other receivables	57,762
Prepaid expenses and deposits	48,612
Accounts payable	8,212
Accrued expenses	10,196
Net Cash Provided by Operating Activities	542,452
Cash Flows from Investing Activities	
Acquisition of property and equipment	(32,222)
Proceeds from sale of equipment	1,800
Net Cash Used by Investing Activities	(30,422)
Cash Flows from Financing Activities	
Debt repayments	(69,533)
Net Cash Used by Financing Activities	(69,533)
Net Increase in Cash	442,497
Cash and Cash Equivalents, Beginning of the Year	1,199,253
Cash and Cash Equivalents, End of the Year	\$ 1,641,750

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	\$ 86,698
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See accompanying notes and independent accountant's review report

REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016

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, the surrounding coastlands, and beyond through church planting and global missions. 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, 2016, 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, 2016

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, 2016, the fair value of the Church's long-term debt approximates carrying value.

REALITY CARPINTERIA  
 NOTES TO FINANCIAL STATEMENTS  
 AUGUST 31, 2016

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, 2016, 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, 2016:

Building	\$	2,215,906
Leasehold improvements		2,874,089
Land		534,388
Office equipment and furniture		296,613
Vehicles		40,013
Computer and electronics		87,619
Audio/visual equipment		<u>913,214</u>
 Total Property and Equipment		 6,961,842
 Less: Accumulated depreciation		 <u>(2,610,154)</u>
 Property and Equipment, Net	 \$	 <u><u>4,351,688</u></u>

Depreciation expense for the year ended August 31, 2016 was \$316,699.

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, 2016

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

The net changes in unrealized gain/(loss) for the year ended August 31, 2016 is summarized as follows:

	Cost	Fair Market Value	Unrealized Gain / (Loss)
Securities balances August 31, 2016	\$ -	\$ -	\$ -
Securities balances August 31, 2015	631	566	(65)
Unrealized gain (loss) for the year ended August 31, 2016			\$ 65

Investment fees incurred on investment accounts for the years ended August 31, 2016 were \$395. 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, 2016 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	\$ 230,166	\$ 230,166	\$ -	\$ -

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

REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016

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 \$27,853 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. Lease payments are adjusted annually on September 1 of each year and are based upon the intervening change in the Consumer Price Index (CPI) for all urban consumers for the Los Angeles-Riverside-Orange County metropolitan area.

Base rent for the Santa Barbara lease is \$12,688 per month and the Church also pays a pro rata share of common area expenses of approximately \$5,575 per month. The lease expired September 30, 2016. The Church began renting a work space on a month to month basis for the pastors in Santa Barbara for \$600 per month until the Church finds a long-term office space.

The Church rents space at Santa Barbara High School for Sunday gatherings. The current contract covers the period of July 3, 2016 through December 18, 2016. The contract amount is \$58,285 which was paid in full during the year ended August 31, 2016. \$20,983 of the contract is included in occupancy expense and \$37,302 is included in prepaid expenses at August 31, 2016. Subsequent to year end, the contract has been extended to May 2017.

The Church also had a lease commitment for a property adjacent to the building it owns in Ventura, California. Base rent for this lease was \$1,090 per month. The lease expired November 30, 2015. The Church is no longer occupying the property as of January 1, 2017.

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

	<u>Amount</u>
2017	\$ 389,181
2018	<u>344,142</u>
	<u>\$ 733,323</u>

Total rent expense, including obligations for pro rata share of common area expenses, for these leases amounted to \$706,261 for the year ended August 31, 2016.

REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016

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, 2016 was \$39,212.

Future minimum lease payments for equipment and software leases with initial or remaining lease terms in excess of one year are as follows for the years ended August 31:

	<u>Amount</u>
2017	\$ 18,187
2018	18,187
2019	<u>3,555</u>
	<u>\$ 39,929</u>

NOTE 5: LONG-TERM DEBT

At August 31, 2016, the Church had indebtedness to a financial institution of \$1,717,765. 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>
2017	\$ 74,274
2018	<u>1,643,491</u>
	<u>\$ 1,717,765</u>

Interest expense for the year ended August 31, 2016 was \$86,406 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, 2016 are \$8,112 and \$2,028 respectively.

REALITY CARPINTERIA  
 NOTES TO FINANCIAL STATEMENTS  
 AUGUST 31, 2016

NOTE 6: NET ASSETS

Unrestricted net assets consisted of the following at August 31, 2016:

Unrestricted Net Assets	\$ 3,528,081
Board Designated for Church Plant	221,391
Board Designated for Global Mission	131,079
Board Designated for Outreach and Other	<u>14,850</u>
 Total Unrestricted Net Assets	 <u>\$ 3,895,401</u>

Total unrestricted donations and offerings for the year ended August 31, 2016 was \$4,393,622. The board designated \$599,698 or 13.65% of these unrestricted donations and offerings for church planting, global missions, and other uses. The board designates a minimum of 11% of unrestricted donations and offerings for church plant and global missions, and will often set aside funds beyond the 11% for other outreach activities.

Temporarily restricted net assets consisted of the following at August 31, 2016:

Church Plant	\$ 304,766
Global Mission	<u>362</u>
 Total Temporarily Restricted Net Assets	 <u>\$ 305,128</u>

NOTE 7: CONCENTRATION OF RISK

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

The Church maintains its cash balances at three banks, all of which are insured by Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. The Church had uninsured cash deposit of \$824,684 as of August 31, 2016.

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 firms as of August 31, 2016.

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, 2016

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, 2016:

Occupancy	\$ 138,347
Travel	57,443
Salaries and benefits	28,190
Supplies and books	19,956
Outside services	11,986
Food and drinks	18,305
Auto and equipment	<u>5,726</u>
 Total Event Expense	 \$ <u>279,953</u>

NOTE 9: RETIREMENT PLAN

The Church offers a 403(b) retirement savings plan to its employees, which allows employees to invest on a pre-tax basis through payroll deductions. The Church is not required to make contributions on behalf of the employee. No contributions were made by the Church for the year ended August 31, 2016.

NOTE 10: 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 2016, the Church was financially supporting a portion of the monthly expense for Reality London. One of the Church's board members comprise 33% of the total board of directors for Reality London. Reality London is a separate legal entity and does not pay the Reality Carpinteria board member.

During the year ended August 31, 2016, the Church assisted Reality London by paying certain operational expenses. The Church specified that \$5,000 per month for the salary of the pastor is to be covered by the Church through the Board designated church plant fund. The Church remitted to Reality London contributions it received from donors that were specifically restricted for Reality London net of any expenses incurred on behalf of Reality London.

REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016

NOTE 10: RELATED PARTY TRANSACTIONS (Continued)

The Church received temporarily restricted donations of \$354,366 for the London Church and the board designated \$105,000 in financial support during the fiscal year 2016. The following expenses summarize the London Church expenses for the year ended August 31, 2016 and are included in the Church's operating expenses on the statement of activities:

Salary and benefits	\$ 81,906
Outside services	31,922
Missional support	30,214
Food and travel	20,409
Occupancy	9,481
Supplies	8,907
Other expenses	<u>152</u>
Total Expense	<u>\$ 182,991</u>

NOTE 11: SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 24, 2017, which is the date that these financial statements were available to be issued.



## Supplemental Information

REALITY CARPINTERIA  
SUPPLEMENTARY INFORMATION - SCHEDULE I  
STATEMENT OF ACTIVITIES BY CAMPUS  
FOR THE YEAR ENDED AUGUST 31, 2016

Changes in Unrestricted Net Assets:	Carpinteria	Santa Barbara	Ventura	Total
Giving and Other Operating Revenue				
Unrestricted donations and offerings	\$ 1,697,109	\$ 994,048	\$ 1,702,465	\$ 4,393,622
Donations (Donor restricted)	569,252	152	22,412	591,816
Net assets released from restrictions	20,675	11,850	19,909	52,434
Sales, net of cost of sales of \$31,959	(4,119)	(1,745)	(308)	(6,172)
Total Unrestricted Revenue and Other Support	<u>2,282,917</u>	<u>1,004,305</u>	<u>1,744,478</u>	<u>5,031,700</u>
Operating Expenses				
Salaries, payroll taxes, and workers compensation	711,620	588,710	777,749	2,078,079
Occupancy	468,647	286,298	208,644	963,589
Missional support (donor restricted)	467,074	155	35,513	502,742
Staff benefits and development	128,854	117,614	155,785	402,253
Depreciation and amortization	116,169	80,585	121,973	318,727
Missional support (board designated)	105,289	58,773	108,867	272,929
Food and drinks	50,795	36,941	41,405	129,141
Outside services	78,693	33,597	49,057	161,347
Auto and equipment	30,112	20,906	42,641	93,659
Supplies	45,530	15,309	28,400	89,239
Travel	32,580	21,447	28,665	82,692
Bank and merchant fees	7,902	6,317	7,731	21,950
Liability insurance	4,511	5,996	5,513	16,020
Filing Fees	2,490	218	543	3,251
Miscellaneous	1,199	395	53	1,647
Total Operating Expenses	<u>2,251,465</u>	<u>1,273,261</u>	<u>1,612,539</u>	<u>5,137,265</u>
Other Income (Expense)				
Coffee, stickers, and other income	2,899	1,311	1,813	6,023
Gain on disposition of fixed assets	-	1,800	-	1,800
Realized gain on sale of investments	593	-	-	593
Unrealized gain on sale of investments	65	-	-	65
Investment income (loss), net of investment fees of \$395	(295)	-	-	(295)
Event income (loss), net of event expenses of \$279,953	(21,650)	(9,214)	(24,274)	(55,138)
Total Other Income (Expense)	<u>(18,388)</u>	<u>(6,103)</u>	<u>(22,461)</u>	<u>(46,952)</u>
Increase (Decrease) in Unrestricted Net Assets	13,064	(275,059)	109,478	(152,517)
Changes in Temporarily Restricted Net Assets:				
Contributions and offerings	293,494	79	11,555	305,128
Assets released from restriction	(20,675)	(11,850)	(19,909)	(52,434)
Increase (Decrease) in Temporarily Restricted Net Assets	<u>272,819</u>	<u>(11,771)</u>	<u>(8,354)</u>	<u>252,694</u>
Total Increase (Decrease) in Net Assets	285,883	(286,830)	101,124	100,177
Net Assets at Beginning of the Year	1,616,766	926,704	1,556,882	4,100,352
Net Assets at End of the Year	<u>\$ 1,902,649</u>	<u>\$ 639,874</u>	<u>\$ 1,658,006</u>	<u>\$ 4,200,529</u>

See accompanying notes and independent accountant's review report