

**REALITY CARPINTERIA  
FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017**

# REALITY CARPINTERIA

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**INDEPENDENT ACCOUNTANTS' 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, 2017, and the related statements of activities and cash flows for the fiscal 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. Such information is the responsibility of management. We have not audited or reviewed such information and we do not express an opinion, a conclusion, nor provide any assurance on it.

*Walpole & Co., LLP*

Walpole & Co., LLP  
Goleta, CA  
May 8, 2018

REALITY CARPINTERIA  
STATEMENT OF FINANCIAL POSITION  
AUGUST 31, 2017

ASSETS

Current Assets

Cash and cash equivalents	\$ 1,501,032
Prepaid expenses	69,623
Total Current Assets	<u>1,570,655</u>

Property and equipment, net of accumulated depreciation	4,158,626
Security deposits	<u>26,822</u>

Total Assets	<u><u>\$ 5,756,103</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 32,628
Accrued interest expense	6,868
Accrued payroll expenses	161,926
Loan payable	<u>1,644,495</u>
Total Current Liabilities	<u>1,845,917</u>

Net Assets

Unrestricted	3,526,711
Temporarily restricted	<u>383,475</u>

Total Net Assets	<u>3,910,186</u>
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Total Liabilities and Net Assets	<u><u>\$ 5,756,103</u></u>
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See accompanying notes and independent accountants' review report

REALITY CARPINTERIA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

Changes in Unrestricted Net Assets:

Giving and Other Operating Revenue	
Unrestricted donations and offerings	\$ 4,287,878
Donations (donor restricted)	226,941
Net assets released from restrictions	305,127
Sales, net of cost of sales of \$26,948	8,746
Total Unrestricted Revenue and Other Support	<u>4,828,692</u>

Operating Expenses

Salaries, payroll taxes, and workers compensation	2,223,585
Occupancy	824,771
Staff benefits and development	529,278
Missional support (donor restricted)	371,825
Depreciation and amortization	276,435
Missional support (board designated)	219,955
Food and drinks	169,670
Auto and equipment	123,541
Supplies	122,747
Outside services	120,584
Travel	89,216
Bank and merchant fees	25,619
Liability insurance	16,256
Filing fees	2,264
Miscellaneous	1,904
Total Operating Expenses	<u>5,117,650</u>

Other Income (Expense)

Coffee, stickers, and other income	9,390
Loss on disposition of fixed assets	(16,631)
Investment income	9
Event income (loss), net of event expenses of \$263,331	(72,501)
Total Other Income (Expense)	<u>(79,733)</u>

Increase (Decrease) in Unrestricted Net Assets (368,691)

Changes in Temporarily Restricted Net Assets:

Contributions and offerings	383,475
Assets released from restriction	(305,127)
Increase (Decrease) in Temporarily Restricted Net Assets	<u>78,348</u>

Total Decrease in Net Assets	(290,343)
Net Assets at Beginning of the Year	4,200,529
Net Assets at End of the Year	<u>\$ 3,910,186</u>

See accompanying notes and independent accountants' review report

REALITY CARPINTERIA  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

Cash Flows from Operating Activities	
Increase in net assets	\$ (290,343)
Adjustment to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Depreciation	274,409
Amortization	2,026
Loss on disposal of equipment	16,631
Changes in:	
Prepaid expenses and deposits	50,736
Accounts payable	(23,241)
Accrued expenses	312
Net Cash Provided by Operating Activities	<u>30,530</u>
Cash Flows from Investing Activities	
Acquisition of property and equipment	<u>(97,978)</u>
Net Cash Used by Investing Activities	(97,978)
Cash Flows from Financing Activities	
Debt repayments	<u>(73,270)</u>
Net Cash Used by Financing Activities	(73,270)
Net Decrease in Cash	(140,718)
Cash and Cash Equivalents, Beginning of the Year	<u>1,641,750</u>
Cash and Cash Equivalents, End of the Year	<u><u>\$ 1,501,032</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	<u><u>\$ 82,871</u></u>
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See accompanying notes and independent accountants' review report



REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2017

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, 2017, 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, 2017

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, 2017, the fair value of the Church's debt approximates carrying value.

REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2017

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, 2017, 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, 2017:

Building	\$ 2,227,415
Leasehold improvements	2,889,974
Land	534,388
Office equipment and furniture	305,209
Vehicles	58,922
Computer and electronics	93,022
Audio/visual equipment	<u>915,378</u>
Total Property and Equipment	7,024,308
Less: Accumulated depreciation	<u>(2,865,682)</u>
Property and Equipment, Net	<u>\$ 4,158,626</u>

Depreciation expense for the year ended August 31, 2017 was \$274,409.

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. There were no investments held by the Church at August 31, 2017.

REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2017

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 \$28,678 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 additional 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 was \$12,688 per month and the Church also paid a pro rata share of common area expenses of approximately \$5,575 per month. The lease expired September 30, 2016 at which point the Church vacated the property. 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 could find a long-term office space.

The Church 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 Church vacated the property on January 1, 2017 and paid a total of \$4,361 during the year ended August 31, 2017.

The Church rents space at Santa Barbara High School for Sunday gatherings. The Church had a contract through December 18, 2016 in which it paid \$2,331 per week. After the contract expired, it became a month-to-month rental agreement and the Church continued making rent payments to Santa Barbara High School until June 30, 2017. The Church entered into a new contract with the school which covers the period of July 1, 2017 through June 30, 2020. The monthly rent is \$7,500.

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

	<u>Amount</u>
2018	\$ 434,142
2019	90,000
2020	<u>75,000</u>
	<u>\$ 599,142</u>

REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2017

NOTE 4: LEASE COMMITMENTS (Continued)

Total rent expense, including obligations for pro rata share of common area expenses, for these leases amounted to \$505,155 for the year ended August 31, 2017.

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, 2017 was \$36,478.

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>
2018	\$ 18,187
2019	<u>3,555</u>
	<u>\$ 21,742</u>

NOTE 5: LOAN PAYABLE

At August 31, 2017, the Church had indebtedness to a financial institution of \$1,644,495. The note bears interest at a fixed rate of 4.85% and matured September 1, 2017. The note is secured by the Church's Ventura property. The payment amount of \$13,009 was based on a 20 year amortization period. A balloon payment of the remaining balance was originally due on September 1, 2017. The Church has subsequently negotiated a loan extension with the bank (see Note 11). The minimum loan payment for the Church's outstanding loan at August 31, 2017 was \$1,644,495, all of which is due and payable in 2018.

Interest expense for the year ended August 31, 2017 was \$82,565 and is included in occupancy expense.

In obtaining the original 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, 2017 are \$10,138 and \$2,026 respectively.



REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2017

NOTE 6: NET ASSETS

Unrestricted net assets consisted of the following at August 31, 2017:

Unrestricted Net Assets	\$ 3,217,080
Board Designated for Church Plant	147,903
Board Designated for Global Mission	158,969
Board Designated for Outreach and Other	<u>2,759</u>
Total Unrestricted Net Assets	<u>\$ 3,526,711</u>

Total unrestricted donations and offerings for the year ended August 31, 2017 was \$4,287,878. The board designated \$832,238 or 19.41% of these unrestricted donations and offerings for church planting, global missions, and other uses. The board designates a minimum of 19.3% of unrestricted donations and offerings for church plant and global missions, and will often set aside funds beyond the 19.3% for other outreach activities.

Temporarily restricted net assets consisted of the following at August 31, 2017:

Church Plant	\$ 357,572
Global Mission	<u>25,903</u>
Total Temporarily Restricted Net Assets	<u>\$ 383,475</u>

NOTE 7: CONCENTRATION OF RISK

The Church maintains cash balances at three banks and one 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 \$858,807 as of August 31, 2017.

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, 2017.

REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2017

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.

Event expenses have been separated from normal operating expenses. The following summarizes the event expenses for the year ended August 31, 2017:

Travel	\$ 157,513
Occupancy	64,126
Food and drinks	14,833
Supplies and books	12,859
Outside services	10,360
Auto and equipment	1,839
Salaries and benefits	<u>1,801</u>
Total Event Expense	<u>\$ 263,331</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, 2017.

NOTE 10: RELATED PARTY TRANSACTIONS

Employment

The Church employs three individuals who also serve on the board of trustees, two of which are officers in the Church.

Book sales

During the year ended August 31, 2017, the Church purchased a total of \$620 worth of books written by the wife of the Church's president.



REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2017

NOTE 10: RELATED PARTY TRANSACTIONS (Continued)

Church plants

Reality Carpinteria is called to plant churches wherever God leads. During fiscal year 2017, the Church was financially supporting a portion of the monthly expense for Reality London. One of the Church's board members comprises 25% 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, 2017, 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.

The Church received temporarily restricted donations of \$222,122 for the London Church and board designated donations of \$60,000 in financial support during the fiscal year of 2017. The following expenses summarize the London Church expenses for the year ended August 31, 2017 and are included in the Church's operating expenses on the statement of activities:

Missional support	\$	95,009
Salary and benefits		82,877
Occupancy		37,181
Food and travel		36,311
Supplies		25,533
Other expenses		3,364
Outside services		<u>1,604</u>
Total Expense	\$	<u>281,879</u>

NOTE 11: SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 8, 2018, which is the date that these financial statements were available to be issued.

Subsequent to the fiscal year ended August 31, 2017, the Church is moving towards separating out the organization into three independent entities of Santa Barbara, Carpinteria, and Ventura.

REALITY CARPINTERIA  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2017

NOTE 11:     SUBSEQUENT EVENTS (Continued)

Subsequent to the fiscal year ended August 31, 2017, the title for the Ventura building is in the process of being transferred to the Reality Church of Ventura. Additionally, the loan for this building was refinanced with the bank. The refinanced loan bears interest at a fixed rate of 5.00% and calls for monthly payments of \$12,819 starting June 1, 2018. The loan is secured by the building and matures on May 1, 2023 at which point the remaining balance will become due and payable.

Subsequent to the fiscal year ended August 31, 2017, the Church has entered into a lease agreement for the Milpas location. The base rent is \$5,248 per month and the Church pays an additional \$252 per month in property operating expenses. The lease expires December 31, 2021 and is subject to a 2% increase annually.

## Supplemental Information

REALITY CARPINTERIA  
SUPPLEMENTARY INFORMATION - SCHEDULE I  
STATEMENT OF ACTIVITIES BY CAMPUS  
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

Changes in Unrestricted Net Assets:	Carpinteria	Santa Barbara	Ventura	Total
Giving and Other Operating Revenue				
Unrestricted donations and offerings	\$ 2,068,343	\$ 816,202	\$ 1,403,333	\$ 4,287,878
Donations (donor restricted)	108,849	43,278	74,814	226,941
Net assets released from restrictions	138,208	46,481	120,438	305,127
Sales, net of cost of sales of \$26,948	5,821	1,165	1,760	8,746
Total Unrestricted Revenue and Other Support	2,321,221	907,126	1,600,345	4,828,692
Operating Expenses				
Salaries, payroll taxes, and workers compensation	950,540	431,322	841,723	2,223,585
Occupancy	475,685	148,055	201,031	824,771
Missional support (donor restricted)	273,153	19,988	78,684	371,825
Staff benefits and development	209,802	101,521	217,955	529,278
Depreciation and amortization	115,938	59,135	101,362	276,435
Missional support (board designated)	161,585	11,824	46,546	219,955
Food and drinks	78,911	46,990	43,769	169,670
Outside services	47,681	34,895	38,008	120,584
Auto and equipment	64,922	16,862	41,757	123,541
Supplies	66,317	24,916	31,514	122,747
Travel	45,398	18,144	25,674	89,216
Bank and merchant fees	9,373	7,759	8,487	25,619
Liability insurance	6,683	3,829	5,744	16,256
Filing fees	8	1,216	1,040	2,264
Miscellaneous	959	495	450	1,904
Total Operating Expenses	2,506,955	926,951	1,683,744	5,117,650
Other Income (Expense)				
Coffee, stickers, and other income	6,783	944	1,663	9,390
Loss on disposition of fixed assets	-	(16,631)	-	(16,631)
Investment income (loss), net of investment fees of \$54	9	-	-	9
Event income (loss), net of event expenses of \$263,331	(30,432)	(14,434)	(27,635)	(72,501)
Total Other Income (Expense)	(23,640)	(30,121)	(25,972)	(79,733)
Increase (Decrease) in Unrestricted Net Assets	(209,374)	(49,946)	(109,371)	(368,691)
Changes in Temporarily Restricted Net Assets:				
Contributions and offerings	183,928	73,129	126,418	383,475
Assets released from restriction	(138,208)	(46,481)	(120,438)	(305,127)
Increase (Decrease) in Temporarily Restricted Net Assets	45,720	26,648	5,980	78,348
Total Increase (Decrease) in Net Assets	(163,654)	(23,298)	(103,391)	(290,343)
Net Assets at Beginning of the Year	1,902,649	639,874	1,658,006	4,200,529
Net Assets at End of the Year	\$ 1,738,995	\$ 616,576	\$ 1,554,615	\$ 3,910,186

See independent accountants' review report