

**REALITY CARPINTERIA
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2018**

REALITY CARPINTERIA

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INDEPENDENT ACCOUNTANTS' REVIEW REPORT | 1 - 2 |
| FINANCIAL STATEMENTS: | |
| Statement of Financial Position | 3 |
| Statement of Activities | 4 |
| Statement of Cash Flows | 5 |
| Notes to Financial Statements | 6 - 13 |

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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, 2018, 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.

Walpole & Co., LLP

Walpole & Co., LLP
Goleta, CA
July 2, 2019

REALITY CARPINTERIA
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2018

ASSETS

Current Assets

| | |
|---------------------------|--------------|
| Cash and cash equivalents | \$ 1,085,182 |
| Prepaid expenses | 19,492 |
| Related party receivables | <u>2,753</u> |

Total Current Assets 1,107,427

| | |
|---|---------------|
| Property and equipment, net of accumulated depreciation | 539,090 |
| Security deposits | <u>26,822</u> |

Total Assets \$ 1,673,339

LIABILITIES AND NET ASSETS

Current Liabilities

| | |
|--------------------------|---------------|
| Accounts payable | \$ 26,254 |
| Accrued payroll expenses | 81,928 |
| Deferred event revenue | <u>29,072</u> |

Total Current Liabilities 137,254

Net Assets

| | |
|------------------------|----------------|
| Unrestricted | 1,249,563 |
| Temporarily restricted | <u>286,522</u> |

Total Net Assets 1,536,085

Total Liabilities and Net Assets \$ 1,673,339

See accompanying notes and independent accountants' review report

REALITY CARPINTERIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2018

Changes in Unrestricted Net Assets:

Giving and Other Operating Revenue

| | |
|--|------------------|
| Unrestricted donations and offerings | \$ 2,271,265 |
| Donations (donor restricted) | 260,045 |
| Net assets released from restrictions | 383,475 |
| Sales, net of cost of sales of \$12,812 | (6,020) |
| Total Unrestricted Revenue and Other Support | <u>2,908,765</u> |

Operating Expenses

| | |
|--|------------------|
| Salaries, payroll taxes, and workers compensation | 1,038,972 |
| Missional support (board designated) | 658,944 |
| Occupancy | 478,245 |
| Staff benefits and development | 230,024 |
| Depreciation and amortization | 183,265 |
| Food and drinks | 71,252 |
| Outside services | 63,418 |
| Auto and equipment | 65,402 |
| Supplies | 57,480 |
| Travel | 46,377 |
| Bank and merchant fees | 13,159 |
| Liability insurance | 5,481 |
| Filing fees | 3,376 |
| Miscellaneous | 940 |
| Contributions of land, building and other fixed assets to other campuses | 1,823,164 |
| Contributions of cash to other campuses | 466,939 |
| Total Operating Expenses | <u>5,206,438</u> |

Other Income (Expense)

| | |
|--|---------------|
| Coffee, stickers, and other income | 4,605 |
| Investment income | 454 |
| Event income (loss), net of event expenses of \$29,648 | 15,466 |
| Total Other Income (Expense) | <u>20,525</u> |

Increase (Decrease) in Unrestricted Net Assets (2,277,148)

Changes in Temporarily Restricted Net Assets:

| | |
|--|-----------------|
| Contributions and offerings | 286,522 |
| Assets released from restriction | (383,475) |
| Increase (Decrease) in Temporarily Restricted Net Assets | <u>(96,953)</u> |

| | |
|-------------------------------------|----------------------------|
| Total Decrease in Net Assets | (2,374,101) |
| Net Assets at Beginning of the Year | 3,910,186 |
| Net Assets at End of the Year | <u><u>\$ 1,536,085</u></u> |

See accompanying notes and independent accountants' review report

REALITY CARPINTERIA
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2018

| | |
|--|---------------------|
| Cash Flows from Operating Activities | |
| Increase (decrease) in net assets | \$ (2,374,101) |
| Adjustment to reconcile increase (decrease) in net assets to net cash provided by operating activities: | |
| Depreciation | 183,265 |
| Contribution of land, building and other fixed assets to other campuses | 1,823,164 |
| Changes in: | |
| Other receivables | (2,753) |
| Prepaid expenses and deposits | 50,131 |
| Accounts payable | (6,374) |
| Accrued expenses | (86,866) |
| Deferred event revenue | 29,072 |
| Net Cash Used by Operating Activities | (384,462) |
| Cash Flows from Financing Activities | |
| Debt repayments | (31,388) |
| Net Cash Used by Financing Activities | (31,388) |
| Net Decrease in Cash | (415,850) |
| Cash and Cash Equivalents, Beginning of the Year | 1,501,032 |
| Cash and Cash Equivalents, End of the Year | <u>\$ 1,085,182</u> |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | |
|------------------------|------------------|
| Cash paid for interest | <u>\$ 53,535</u> |
|------------------------|------------------|

See accompanying notes and independent accountants' review report

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

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 freewill 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, 2018, 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, 2018

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, 2018, the fair value of the Church's debt approximates carrying value.

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

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, 2018, 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, 2018:

| | |
|--------------------------------|--------------------|
| Leasehold improvements | \$ 1,730,251 |
| Office equipment and furniture | 49,909 |
| Vehicles | 23,897 |
| Computer and electronics | 47,162 |
| Audio/visual equipment | <u>317,053</u> |
| Total Property and Equipment | 2,168,272 |
| Less: Accumulated depreciation | <u>(1,629,182)</u> |
| Property and Equipment, Net | <u>\$ 539,090</u> |

Depreciation expense for the year ended August 31, 2018 was \$183,265.

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, 2018.

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 4: LEASE COMMITMENTS

Non-cancelable Operating Leases

The Church has non-cancelable operating leases for its church campus facilities.

Base rent for the Carpinteria location was \$28,678 per month and the Church pays some select common area expenses. The lease expired on August 31, 2018, but the Church negotiated a five-year lease beginning September 1, 2018. 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.

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

| | <u>Amount</u> |
|------|---------------------|
| 2019 | \$ 396,132 |
| 2020 | 408,016 |
| 2021 | 420,257 |
| 2022 | 432,864 |
| 2023 | <u>445,850</u> |
| | <u>\$ 2,103,119</u> |

Total rent expense, including obligations for pro rata share of common area expenses, for these leases amounted to \$350,673 for the year ended August 31, 2018.

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, 2018 was \$26,794.

Future minimum lease payments for equipment and software leases for the year ended August 31, 2019 are \$3,555.

NOTE 5: NET ASSETS

Unrestricted net assets consisted of the following at August 31, 2018:

| | |
|-------------------------------------|---------------------|
| Unrestricted Net Assets | \$ 876,284 |
| Board Designated for Church Plant | 213,950 |
| Board Designated for Global Mission | <u>159,329</u> |
| Total Unrestricted Net Assets | <u>\$ 1,249,563</u> |

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 5: NET ASSETS (Continued)

Total unrestricted donations and offerings for the year ended August 31, 2018 was \$2,271,265. The board designated \$729,576 or 32.1% of these unrestricted donations and offerings for church planting, global missions, and other uses. After the restructuring of the Church back to a single campus (see Note 10), the board now designates a minimum of 10% of unrestricted donations and offerings for church plant and global missions, and will often set aside funds beyond the 10% for other outreach activities.

Temporarily restricted net assets consisted of the following at August 31, 2018:

| | |
|---|-------------------|
| Church Plant | \$ 219,522 |
| Global Mission | 58,068 |
| Events & Education | <u>8,932</u> |
| Total Temporarily Restricted Net Assets | <u>\$ 286,522</u> |

NOTE 6: 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 \$379,281 as of August 31, 2018.

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 uninsured cash and cash equivalents of \$27,176 held at a financial service firm as of August 31, 2018.

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, 2018

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, 2018:

| | |
|---------------------|------------------|
| Occupancy | \$ 16,932 |
| Food and drinks | 5,484 |
| Outside Services | 3,829 |
| Supplies | 2,309 |
| Auto and travel | <u>1,094</u> |
| Total Event Expense | <u>\$ 29,648</u> |

NOTE 8: 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, 2018.

NOTE 9: RELATED PARTY TRANSACTIONS

Employment

The Church employs two individuals who also serve on the board of trustees. They are officers of the Church.

Book sales

During the year ended August 31, 2018, the Church purchased a total of \$880 worth of books written by the wife of the Church's president. These books were sold at the Church book table.

Receivables

At August 31, 2018, the Church has a receivable from Reality Church of Ventura of \$2,344 and a receivable from Reality Santa Barbara of \$409 for equipment lease and insurance expenses.

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 9: RELATED PARTY TRANSACTIONS (Continued)

Church plants

Reality Carpinteria is called to plant churches wherever God leads. During fiscal year 2018, 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, 2018, 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 \$174,870 for the London Church and board designated donations of \$32,123 in financial support during the fiscal year of 2018. The following expenses summarize the London Church expenses for the year ended August 31, 2018 and are included in the Church's operating expenses on the statement of activities:

| | | |
|---------------------|----|----------------|
| Missional support | \$ | 201,963 |
| Salary and benefits | | 79,898 |
| Food and travel | | 32,969 |
| Occupancy | | 25,871 |
| Supplies | | 7,061 |
| Outside services | | <u>4,762</u> |
| Total Expense | \$ | <u>352,524</u> |

NOTE 10: SANTA BARBARA AND VENTURA CHURCH AUTONOMY

During the year ended August 31, 2018, Reality Church of Ventura and Reality Santa Barbara obtained autonomy and became separate legal entities from the Church. The Church then donated cash, property and equipment to both of these newly formed Churches.

The Church donated cash to Reality Church of Ventura in the amount of \$284,067. In addition, the Church donated land and building (net of related debt), vehicles, computers, furniture and equipment to Reality Church of Ventura in the amount of \$1,743,091.

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 10: SANTA BARBARA AND VENTURA CHURCH AUTONOMY (Continued)

The Church donated cash to Reality Santa Barbara in the amount of \$182,872. In addition, the Church donated vehicles, computers, furniture and equipment to Reality Santa Barbara in the amount of \$80,073.

These donations have been combined and are reported as “Contributions of cash to other campuses” and “Contributions of land, building and other fixed assets to other campuses” on the Statement of Activities.

NOTE 11: SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 2, 2019, which is the date that these financial statements were available to be issued.