

REALITY CARPINTERIA
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2019

REALITY CARPINTERIA

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To the Board of Directors
Reality Carpinteria
Carpinteria, California

Management is responsible for the accompanying financial statements of Reality Carpinteria, (a non-profit organization), which comprise the statement of financial position as of August 31, 2019, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Walpole & Co., LLP

Walpole & Co., LLP
January 15, 2020

REALITY CARPINTERIA
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2019

ASSETS

Current Assets

Cash and cash equivalents	\$ 831,975
Prepaid expenses	42,355
Total Current Assets	<u>874,330</u>

Property and equipment, net of accumulated depreciation	447,729
Security deposits	<u>26,822</u>

TOTAL ASSETS	<u><u>\$ 1,348,881</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 29,858
Accrued payroll expenses	78,279
Total Current Liabilities	<u>108,137</u>

Net Assets

Without Donor Restrictions

Board designated	387,967
Unrestricted and undesignated	711,282
	<u>1,099,249</u>

With Donor Restrictions

Purpose restricted	<u>141,495</u>
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Total Net Assets	<u>1,240,744</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,348,881</u></u>
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See accompanying notes and independent accountants' compilation report

REALITY CARPINTERIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2019

Changes in Net Assets Without Donor Restrictions:

Giving and Other Operating Revenue Without Donor Restrictions	
Donations and offerings	\$ 2,257,444
Net assets released from restrictions	228,378
Event income (loss), net of event expenses of \$86,388	(22,228)
Sales, net of cost of sales of \$11,055	(3,060)
Total Giving and Other Operating Revenue Without Donor Restrictions	<u>2,460,534</u>

Operating Expenses

Salaries, payroll taxes, and workers compensation	1,040,652
Occupancy	503,437
Missional support	498,285
Staff benefits and development	203,171
Depreciation	116,399
Supplies	92,593
Outside services	85,853
Food and drinks	57,794
Auto and equipment	34,108
Bank and merchant fees	17,981
Travel	17,694
Liability insurance	7,730
Miscellaneous	1,084
Total Operating Expenses	<u>2,676,781</u>

Other Income (Expense) Without Donor Restrictions

Coffee, stickers, and other income	6,520
Interest income	1,269
Total Other Income (Expense)	<u>7,789</u>

Increase (Decrease) in Net Assets Without Donor Restrictions	<u>(208,458)</u>
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Changes in Net Assets With Donor Restrictions:

Donations and offerings	141,495
Assets released from restriction	(228,378)
Increase (Decrease) in Net Assets With Donor Restrictions	<u>(86,883)</u>

Total Increase (Decrease) in Net Assets	<u>(295,341)</u>
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Net Assets at Beginning of Year	<u>1,536,085</u>
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Net Assets at End of Year	<u><u>\$ 1,240,744</u></u>
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See accompanying notes and independent accountants' compilation report

REALITY CARPINTERIA
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2019

Cash Flows from Operating Activities	
Increase (decrease) in net assets	\$ (295,341)
Adjustment to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Depreciation	116,399
Changes in:	
Other receivables	2,753
Prepaid expenses and deposits	(22,863)
Accounts payable	3,604
Accrued expenses	(3,649)
Deferred event revenue	(29,072)
Net Cash Used by Operating Activities	<u>(228,169)</u>
Cash Flows from Investing Activities	
Acquisition of property and equipment	<u>(25,038)</u>
Net Cash Used by Investing Activities	<u>(25,038)</u>
Net Decrease in Cash	<u>(253,207)</u>
Cash and Cash Equivalents, Beginning of the Year	<u>1,085,182</u>
Cash and Cash Equivalents, End of the Year	<u><u>\$ 831,975</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	<u><u>\$ 404</u></u>
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See accompanying notes and independent accountants' compilation report

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019

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 Financial Accounting Standards Board has released ASU No. 2016-14, which is effective for non-profit organizations with annual periods beginning after December 15, 2017. This accounting update has made significant changes to the reporting requirements that apply to the Church's financial reporting.

The Church is now required to present information on the statement of financial position according to two classes of net assets – net assets with donor restrictions and net assets without donor restrictions, rather than the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted net assets. Also, the Church is now required to present on the statement of activities the change in each of the two classes rather than that of the previously required three classes of net assets.

Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity. Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Church, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. The governing board has designated, from net assets without donor restrictions, net assets as board-designated fund.

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019

NOTE 1: NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue With and Without Donor Restrictions

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions 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. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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.

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.

Stock Donations

The Church receives 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.

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019

NOTE 1: NATURE OF ACTIVITIES AND 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, 2019, 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.

Liquidity and Availability of Resources

The Church is substantially supported by donations. Some of those donations are donor-restricted, which require resources to be used in a particular manner or in a future period. Therefore, the Church must maintain sufficient resources to meet those responsibilities to its donors. As part of the Church's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. As of August 31, 2019, the Church had \$831,975 of financial assets available for use within one year to meet cash needs for general expenditures. As described in Note 5, \$141,495 of the Church's net assets was subject to donor restrictions at August 31, 2019. The restrictions placed on these assets make them unavailable for general expenditures within one year.

NOTE 2: PROPERTY AND EQUIPMENT

Property and equipment consist of the following at August 31, 2019

Leasehold improvements	\$ 1,730,253
Office equipment and furniture	49,909
Vehicles	23,898
Computer and electronics	47,161
Audio/visual equipment	<u>342,089</u>
Total Property and Equipment	2,193,310
Less: Accumulated depreciation	<u>(1,745,581)</u>
Property and Equipment, Net	<u>\$ 447,729</u>

Depreciation expense for the year ended August 31, 2019 was \$116,399.

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019

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 (Level 1 measurement). Unrealized gains or losses are included in the change in net assets. There were no investment income or gains restricted by donors. There were no investments held by the Church at August 31, 2019.

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 \$33,011 per month and the Church paid some select common area expenses for the year ended August 31, 2019. 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>
2020	\$ 408,016
2021	420,257
2022	432,864
2023	<u>445,850</u>
	<u>\$ 1,706,987</u>

Total rent expense, including obligations for pro rata share of common area expenses, for these leases amounted to \$404,800 for the year ended August 31, 2019.

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, 2019 was \$30,753.

Future minimum lease payments for equipment and software leases for the year ended August 31, 2020 are \$14,286.

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019

NOTE 5: NET ASSETS

Net assets without donor restrictions consisted of the following at August 31, 2019:

Unrestricted and Undesignated	\$ 711,282
Board Designated for Church Plant	185,390
Board Designated for Global Mission	<u>202,577</u>

Total Net Assets Without Donor Restrictions \$ 1,099,249

Total unrestricted tithes and offerings for the year ended August 31, 2019 was \$2,257,444. The board aims to designate 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.

Net assets with donor restrictions consisted of the following at August 31, 2019:

Church Plant	\$ 76,099
Global Mission	<u>65,396</u>

Total Net Assets With Donor Restrictions \$ 141,495

NOTE 6: CONCENTRATION OF RISK

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

The Church maintains its cash balances at two banks, all of which are insured by Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. The Church had uninsured cash deposit of \$139,019 as of August 31, 2019.

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, 2019

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, 2019:

Occupancy	\$ 73,628
Outsourcing	4,890
Supplies	3,863
Food and drinks	1,924
Equipment and auto	1,261
Travel	<u>822</u>
Total Event Expense	<u>\$ 86,388</u>

NOTE 8: 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

The Church had purchased a total of \$880 worth of books written by the wife of the Church's president in the prior fiscal year ended August 31, 2018. These books continued to be sold at the Church's book table through the fiscal year ended August 31, 2019.

Church plants

Reality Carpinteria is called to plant churches wherever God leads. During the year ended August 31, 2019, the Church was financially supporting a portion of the monthly expenses 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, 2019, the Church specified that \$3,750 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, 2019

NOTE 8: RELATED PARTY TRANSACTIONS (Continued)

The Church received donations with donor restrictions of \$125,633 for the London Church during the year ended August 31, 2019. The following expenses summarize the London Church expenses for the year ended August 31, 2019 and are included in the Church's operating expenses on the statement of activities:

Missional support	\$ 101,899
Salary and benefits	72,069
Occupancy	21,016
Equipment and auto	12,403
Food and travel	9,844
Outside services	9,101
Supplies	7,504
Other	<u>575</u>
Total Expense	<u>\$ 234,411</u>

NOTE 9: FUNCTIONAL EXPENSE ALLOCATION

The Church allocates its expenses by function using several different methods. Direct expenses are charged to the appropriate program or supporting function. Salaries and related expenses have been allocated to programs and administration based on estimates of the time spent on that function. Other expenses are allocated based on historical trends and management's estimates. No fundraising expenses were incurred for the year ended August 31, 2019.

	<u>Church Programs/Activities</u>	<u>Management & General Expenses</u>	<u>Total Expenses</u>
Salaries & payroll taxes	\$ 934,959	\$ 105,693	\$ 1,040,652
Occupancy	503,439	-	503,439
Missional support	498,285	-	498,285
Staff benefits	193,442	9,728	203,170
Depreciation	116,399	-	116,399
Supplies	38,534	54,057	92,591
Outside services	26,256	59,597	85,853
Food & drinks	42,006	15,789	57,795
Auto & equipment	22,204	11,904	34,108
Bank & merchant	-	17,981	17,981
Travel	11,995	5,699	17,694
Liability insurance	-	7,730	7,730
Miscellaneous	<u>612</u>	<u>472</u>	<u>1,084</u>
Total	<u>\$ 2,388,131</u>	<u>\$ 288,650</u>	<u>\$ 2,676,781</u>

REALITY CARPINTERIA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019

NOTE 10: 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 also offers a 2% matching contribution of all eligible and participating employees' annual salary to the plan on their behalf. The Church made a total contribution of \$9,283 for the year ended August 31, 2019.

NOTE 11: SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 15, 2020, which is the date that these financial statements were available to be issued.

The founder and lead pastor of the Church, Britt Merrick, retired in September 2019 after 16 years of service. This has had an impact on both attendance and giving.