

**Reality Changers**

**Report on Financial Statements**

**Year Ended December 31, 2009**

# REALITY CHANGERS

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## **Report of Independent Public Accountants**

To the Board of Directors  
Reality Changers

We have audited the accompanying statement of financial position of Reality Changers (the "Organization") as of December 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reality Changers as of December 31, 2009 and its changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

 J.H. Cohn LLP

San Diego, California  
March 29, 2010

REALITY CHANGERS

STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2009

**ASSETS**

Cash and cash equivalents	\$	284,775
Prepaid expenses		539
Other assets		25,800
Furniture, fixtures and equipment, net		<u>2,671</u>
Totals	\$	<u><u>313,785</u></u>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Accounts payable	\$	<u>28,440</u>
Commitments		
Net assets:		
Unrestricted		152,345
Temporarily restricted		<u>133,000</u>
Total net assets		<u><u>285,345</u></u>
Totals	\$	<u><u>313,785</u></u>

## REALITY CHANGERS

### STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2009

Changes in unrestricted net assets:	
Revenues and other support:	
Contributions	\$ 534,326
Grants	65,370
Gifts in-kind	222,200
Total unrestricted revenues	821,896
Net assets released from restrictions	145,415
Total unrestricted revenues and other support	967,311
Expenses:	
Programs services:	
Scholarships	288,095
In-kind scholarships	95,800
In-kind computer equipment	56,600
Salaries and benefits	66,789
Other program expenses	23,742
Travel and meetings	5,186
Supporting services:	
Management and general:	
Salaries and benefits	76,592
Facilities and equipment	33,373
Donated services	26,000
Other management and general expenses	14,335
Supplies	7,621
Insurance	2,950
Fund-raising:	
Salaries and benefits	54,104
Publishing and mailing	30,379
Other fundraising expenses	23,857
Travel and meetings	9,543
Total expenses	814,966
Changes in unrestricted net assets and unrestricted net assets, end of year	152,345
Changes in temporarily restricted net assets:	
Contributions	278,415
Net assets released from restrictions	(145,415)
Change in temporarily restricted net assets and temporarily restricted net assets, end of year	133,000
Change in net assets and net assets, end of year	\$ 285,345

See Notes to Financial Statements.

## REALITY CHANGERS

### STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2009

Operating activities:	
Change in net assets	\$ 285,345
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	811
Donated computer equipment	(25,800)
Changes in operating assets and liabilities:	
Prepaid expenses	(539)
Accounts payable	28,440
Net cash provided by operating activities	<u>288,257</u>
Investing activities:	
Acquisition of furniture, fixtures and equipment	<u>(3,482)</u>
Net cash used in investing activities	<u>(3,482)</u>
Net increase in cash and cash equivalents	284,775
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 284,775</u>

See Notes to Financial Statements.

## REALITY CHANGERS

### NOTES TO FINANCIAL STATEMENTS

#### **Note 1 - Business and significant accounting policies:**

##### **Business:**

Reality Changers (the "Organization") is a not-for-profit corporation organized in California for charitable purposes and exempt from taxation under section 501(c)(3) of the Internal Revenue Code ("Code"). The purpose of the Organization is to provide inner-city youth from disadvantaged backgrounds with the resources to become first generation college students by providing academic support, financial assistance, and faith-based leadership training. The Organization was incorporated in January 2009 and was initially funded by contributions and a grant received from another charitable organization. (see Note 5).

##### **Basis of accounting:**

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred. The assets and liabilities of the Organization are reported as one of three classes of net assets: unrestricted, temporarily restricted or permanently restricted in accordance with applicable accounting guidance.

##### **Use of estimates:**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### **Income taxes:**

The Organization is generally exempt from income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenues and Taxation Code.

The Organization adopted the new accounting for uncertainty in income taxes guidance on January 1, 2009. The adoption of that guidance did not result in the recognition of any unrecognized tax benefits and the Organization has no unrecognized tax benefits at December 31, 2009. The Organization continues to evaluate changes in tax law and new authoritative rulings.

The Organization recognizes interest and penalties associated with tax matters as part of operating expenses and includes accrued interest and penalties with the related tax liability in the balance sheet. No such amounts are included in the financial statements for the year ended December 31, 2009.

## REALITY CHANGERS

### NOTES TO FINANCIAL STATEMENTS

#### **Note 1 - Business and significant accounting policies (continued):**

##### **Cash and cash equivalents:**

Cash and cash equivalents include all cash balances and highly liquid investments with original maturities of three months or less at the date of acquisition.

##### **Furniture, fixtures and equipment:**

The Organization's policy is to capitalize assets with a useful life of greater than one year and a value of \$500 or more.

Furniture, fixtures and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets or, in the case of leasehold improvements, over the lesser of the useful life of the related asset or the lease term. Estimated useful lives range from three to ten years.

##### **Contributions:**

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted depending upon the existence and/or nature of any donor restrictions. Support that is restricted by a donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily restricted or permanently restricted net assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no permanently restricted net assets at December 31, 2009.

##### **In-kind donations:**

Donated services are reflected in the accompanying financial statements at their estimated fair values at the date of receipt to the extent that they require specialized skills, which, if not provided by donations, would have to be purchased by the Organization. The Organization received donated professional services valued at \$35,000 during 2009. The Organization also received donated services from a variety of unpaid volunteers assisting the Organization in its charitable programs. However, these donated services are not reflected in the financial statements as they do not meet the criteria for recognition.

During the year ended December 31, 2009, the Organization received an in-kind contribution of rent with an estimated value of \$9,000.

Other donated services and goods reflected in the accompanying financial statements include discounted tuition at educational programs and computers for graduating high school seniors of approximately \$96,000 and \$82,000, respectively.

## REALITY CHANGERS

### NOTES TO FINANCIAL STATEMENTS

#### Note 1 - Business and significant accounting policies (concluded):

##### Functional expense allocation:

The costs of providing various programs have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

##### Subsequent events:

Subsequent events have been evaluated through March 29, 2010, which is the date the financial statements were available to be issued.

#### Note 2 - Other assets:

Other assets consist of donated computer equipment that is to be given to graduating high school seniors upon completion of certain program objectives and is stated at estimated fair value at the date of donation.

#### Note 3 - Furniture, fixture and equipment:

The Organization's fixed assets consisted of the following at December 31, 2009:

Furniture, fixtures, and equipment	\$	3,482
Less accumulated depreciation		(811)
Total	\$	<u>2,671</u>

Depreciation expense was approximately \$811 for 2009.

#### Note 4 - Temporarily restricted net assets:

Temporarily restricted net assets at December 31, 2009 consist of a grant from the California Wellness Foundation that is time and purpose-restricted (see Note 5). Net assets released from restrictions on the statement of activities represent the expiration of the restrictions related to this grant in the current year.

#### Note 5 - Concentrations:

##### Credit risk:

The Organization maintains cash balances at a bank located in San Diego, California. Accounts at this institution are secured by the Federal Deposit Insurance Corporation up to \$250,000. At times, balances may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes that the Organization is not exposed to any significant credit risk with respect to its cash and cash equivalents.

## REALITY CHANGERS

### NOTES TO FINANCIAL STATEMENTS

**Note 5 - Concentrations (concluded):**

**Significant contracts**

The Organization was originally funded by contributions from another charitable organization that included a grant from the California Wellness Foundation in the amount of \$225,000 and other general contributions of \$164,000. The grant provides that the grant funds be used to pay for certain salaries over a three year period. (see Note 4).

**Note 6 - Commitments:**

**Operating lease:**

The Organization leases office space under a noncancelable operating lease that expires on June 30, 2010. As of December 31, 2009, future minimum payments under this operating lease are \$21,333 due in 2010. Total rent expense for the year ended December 31, 2009 was \$23,562. The Organization is under negotiation to extend the term of the lease but has not finalized the new terms as of the date of these financial statements.