

**REALITY CHANGERS
A NONPROFIT ORGANIZATION
FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

**REALITY CHANGERS
A NONPROFIT ORGANIZATION**

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CONSIDINE CONSIDINE
CERTIFIED PUBLIC ACCOUNTANTS

To The Board of Directors
Reality Changers
A Nonprofit Organization

Independent Auditor's Report

We have audited the accompanying statements of financial position of Reality Changers (A Nonprofit Organization) as of December 31, 2011 and 2010, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 (A Nonprofit Organization) as of December 31, 2011 and 2010, and the results of its activities and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



CONSIDINE & CONSIDINE
An Accountancy Corporation

April 26, 2012

Earning Your Trust Since 1946

**REALITY CHANGERS
A NONPROFIT ORGANIZATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010**

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	2011	2010
ASSETS		
CURRENT ASSETS		
Cash	\$ 886,773	\$ 700,074
Grants Receivable (Note 3)	352,500	207,156
Pledges Receivable (Note 5)	-	8,415
Prepaid Expenses	13,725	7,630
Inventory	2,030	1,665
	1,255,028	924,940
PROPERTY AND EQUIPMENT (Note 4)	18,072	9,519
OTHER ASSETS		
Other Assets (Note 6)	6,000	15,990
Pledges Receivable - Long Term (Note 5)	-	1,100
	6,000	17,090
TOTAL ASSETS	1,279,100	951,549
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	1,419	40,262
Accrued Liabilities	36,662	13,950
	38,081	54,212
TOTAL LIABILITIES	38,081	54,212
NET ASSETS (Note 7)		
Unrestricted Net Assets	622,294	652,395
Temporarily Restricted Net Assets	618,725	244,942
	1,241,019	897,337
TOTAL NET ASSETS	1,241,019	897,337
TOTAL LIABILITIES AND NET ASSETS	\$ 1,279,100	\$ 951,549

See Accompanying Notes to the Financial Statements

REALITY CHANGERS
A NONPROFIT ORGANIZATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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	2011	2010
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND SUPPORT		
Contributions	\$ 547,771	\$ 722,716
Gifts In-Kind (Note 8)	164,868	156,599
Special Events - Net (Note 9)	6,577	21,824
Other Income	3,020	3,192
Grants	3,000	200,000
Interest Income	1,092	-
	726,328	1,104,331
NET ASSETS RELEASED FROM RESTRICTIONS		
Restrictions Satisfied by Payments	369,007	169,221
	1,095,335	1,273,552
EXPENSES		
Program Services	863,368	540,983
General and Administrative	151,350	110,182
Fundraising	110,718	122,337
	1,125,436	773,502
(DECREASE)/INCREASE IN UNRESTRICTED NET ASSETS	(30,101)	500,050
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	227,790	148,507
Grants	515,000	132,656
Net Assets Released from Restrictions (Note 7)	(369,007)	(169,221)
	373,783	111,942
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	373,783	111,942
TOTAL INCREASE IN NET ASSETS	343,682	611,992
NET ASSETS, BEGINNING OF YEAR	897,337	285,345
NET ASSETS, END OF YEAR	\$ 1,241,019	\$ 897,337

See Accompanying Notes to the Financial Statements

REALITY CHANGERS
A NONPROFIT ORGANIZATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

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	Program Services	General and Administrative	Fundraising	Total
EXPENSES				
Bank Fees	\$ -	\$ 963	\$ -	\$ 963
Equipment	326	1,042	6,555	7,923
Food and Beverage	6,607	2,125	118	8,850
In-Kind Computer Equipment	9,990	-	-	9,990
In-Kind Scholarships	122,108	-	-	122,108
Insurance	-	3,619	-	3,619
Occupancy	50,226	7,180	6,828	64,234
Other Expense	18,511	9,806	6,481	34,798
Outside Services	1,412	4,919	1,731	8,062
Professional Fees	-	20,650	4,015	24,665
Publishing and Mailing	9,758	1,665	15,488	26,911
Salaries and Benefits	224,911	87,341	59,593	371,845
Scholarships	398,662	-	-	398,662
Supplies	6,587	5,507	47	12,141
Travel and Meetings	14,270	551	9,862	24,683
TOTAL EXPENSES BEFORE DEPRECIATION	863,368	145,368	110,718	1,119,454
Depreciation	-	5,982	-	5,982
TOTAL EXPENSES	\$ 863,368	\$ 151,350	\$ 110,718	\$ 1,125,436

See Accompanying Notes to the Financial Statements

REALITY CHANGERS
A NONPROFIT ORGANIZATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

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	Program Services	General and Administrative	Fundraising	Total
EXPENSES				
Bank Fees	\$ -	\$ 3,154	\$ -	\$ 3,154
Equipment	-	997	-	997
Food and Beverage	6,681	552	353	7,586
In-Kind Computer Equipment	40,710	-	-	40,710
In-Kind Scholarships	78,636	-	-	78,636
Insurance	-	4,171	-	4,171
Occupancy	-	14,903	923	15,826
Other Expense	6,483	1,319	1,981	9,783
Outside Services	(51)	2,297	5,418	7,664
Professional Fees	-	39,500	11,500	51,000
Publishing and Mailing	1,619	2,779	22,905	27,303
Salaries and Benefits	153,195	29,729	67,659	250,583
Scholarships	250,907	-	-	250,907
Supplies	671	7,278	1,020	8,969
Travel and Meetings	2,132	1,414	10,578	14,124
TOTAL EXPENSES BEFORE DEPRECIATION	540,983	108,093	122,337	771,413
Depreciation	-	2,089	-	2,089
TOTAL EXPENSES	\$ 540,983	\$ 110,182	\$ 122,337	\$ 773,502

See Accompanying Notes to the Financial Statements

**REALITY CHANGERS
A NONPROFIT ORGANIZATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

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	2011	2010
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Increase in Net Assets	\$ 343,682	\$ 611,992
ADJUSTMENTS TO RECONCILE CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	5,982	2,089
Donated Computer Equipment	9,990	5,010
Change in Operating Assets and Liabilities:		
Grants Receivable	(145,344)	(207,156)
Pledges Receivable	9,515	(9,515)
Prepaid Expenses	(6,095)	(7,091)
Inventory	(365)	(1,665)
Accounts Payable	(38,843)	11,822
Accrued Expenses	22,712	13,950
	(142,448)	(192,556)
NET CASH PROVIDED BY OPERATING ACTIVITIES	201,234	419,436
CASH FLOWS USED BY INVESTING ACTIVITIES		
Purchase of Property and Equipment	(14,535)	(4,137)
NET INCREASE IN CASH	186,699	415,299
CASH, BEGINNING OF YEAR	700,074	284,775
CASH, END OF YEAR	\$ 886,773	\$ 700,074
SUPPLEMENTAL DISCLOSURES:		
Interest Paid	\$ -	\$ -
Taxes Paid	\$ -	\$ -

See Accompanying Notes to the Financial Statements

REALITY CHANGERS
A NONPROFIT ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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NOTE 1 THE ORGANIZATION

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 leadership training. The Organization was incorporated in January 2009.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying financial statements are prepared using the accrual method of accounting in conformity with generally accepted accounting principles.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from these estimates.

Basis of Presentation - Under accounting standards on Financial Statements of Not-for-profit Organizations, the Organization is required to report 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.

Donor Imposed Restrictions - 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, 2011 and 2010.

Cash - Cash includes all cash balances and highly liquid investments with original maturities of three months or less at the date of acquisition. 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 (FDIC) for 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
A NONPROFIT ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory - Inventory consists of T-shirts, sweatshirts and blankets which are stated at average cost.

Promises to Give - Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts are computed using an interest rate of 10%. Amortization of the discounts are not included as support until the commitments are substantially met.

Property 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 at cost. Contributed property and equipment is recorded at fair value at the date of donation. Property 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. Maintenance and repairs are charged to the expense as incurred; major renewals and betterments are capitalized. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is recognized in the current period financial statements.

Fair Value Measurement - The Organization follows accounting standards which define fair value, establish a framework for measuring fair value and expand disclosures about fair value measurements for all financial assets and liabilities.

Functional Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management estimates.

Income Taxes - The Organization is generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenues and Taxation Code.

**REALITY CHANGERS
A NONPROFIT ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Organization follows accounting standards which clarify the accounting for uncertainty in income taxes recognized in the Organization's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition and measurement of a tax position taken or to be taken in a tax return. The adoption of these standards did not have a material effect on the Organization. As of December 31, 2011 and 2010, the Organization has not accrued interest or penalties related to uncertain tax positions. The Organization files tax returns in the U.S. Federal jurisdiction and the state of California. The Company is subject to examination by U.S. and state tax authorities for all years since inception in 2009.

Reclassifications - Certain reclassifications have been made to the 2010 financial statement presentation to correspond to the current year's format. Total net assets and change in net assets are unchanged due to these reclassifications.

NOTE 3 GRANTS RECEIVABLE

Grants receivable consists of amounts to be received from other organizations and companies and is presented net of the allowance for doubtful accounts. Management assesses the collectability of the grants at the close of each period on a specific identification basis. The allowance for doubtful accounts is \$0 at December 31, 2011 and 2010.

NOTE 4 PROPERTY AND EQUIPMENT

The Organization's fixed assets consisted of the following:

	2011	2010
Computers	\$ 22,665	\$ 8,130
Furniture, Fixtures, and Equipment	4,289	4,289
	26,954	12,419
Less Accumulated Depreciation	(8,882)	(2,900)
	\$ 18,072	\$ 9,519

Depreciation expense was \$5,982 and \$2,089 for the years ended December 31, 2011 and 2010, respectively.

**REALITY CHANGERS
A NONPROFIT ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE 5 PLEDGES RECEIVABLE

Promises to give are as follows:

	2011	2010
Gross Pledges Receivable	\$ -	\$ 15,850
Less:		
Unamortized Discount	-	(1,130)
Allowance for Uncollectible Pledges	-	(5,205)
Receivable	-	9,515
Less: Current Portion	-	(8,415)
	\$ -	\$ 1,100

Long-term pledges receivable are presented at present value using a discount rate of 10%. Consequently, interest income is recognized annually as the pledges receivable accrete to maturity.

There were no pledges outstanding at December 31, 2011.

NOTE 6 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.

REALITY CHANGERS
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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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NOTE 7 NET ASSETS

Net assets consist of the following at December 31:

	2011	2010
Unrestricted:		
Undesignated	\$ 622,294	\$ 652,395
Temporarily Restricted:		
CA Wellness Foundation Grant	218,750	58,000
College Scholarships	185,000	95,500
Senior Academy	101,275	-
Employee Time	61,290	12,000
Other Restrictions	37,760	25,342
Academic Connections	12,500	40,500
Forest Home	2,000	6,000
General Scholarships	150	500
Princeton Review	-	7,100
	618,725	244,942
Total Net Assets	\$ 1,241,019	\$ 897,337

Net assets released from donor restrictions by satisfying the restricted purposes or by occurrence of other events specified by the donors during the years ended December 31 are as follows:

	2011	2010
College Scholarships	\$ 94,000	\$ -
CA Wellness Foundation	89,250	75,000
Senior Academy	57,725	-
Academic Connections	46,410	17,577
Other Restrictions	41,197	38,834
Employee Time	19,710	-
Forest Home	11,200	16,360
Princeton Review	7,600	-
General Scholarships	1,915	21,450
Total Net Assets Released from Restrictions	\$ 369,007	\$ 169,221

**REALITY CHANGERS
A NONPROFIT ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE 8 IN-KIND DONATIONS

Donated services are reflected in the accompanying financial statements at estimated fair values at the date of receipt to the extent that specialized skills are required, which, if not provided by donations, would have to be purchased by the Organization. The Organization received donated professional services valued at approximately \$15,600 and \$30,500 during 2011 and 2010, respectively. The Organization also received over 6,000 hours of donated services from volunteer tutors and mentors in 2011. These volunteers commit to serve as tutors and mentors to the 8th - 12th grade students and help them to be the first member in their families to go to college. However, these donated services are not reflected in the financial statements as they do not meet the criteria for recognition.

During the years ended December 31, 2011 and 2010, the Organization received in-kind contributions of facility space with an estimated value of \$9,000 and \$9,900, respectively.

The Organization receives computers to give to graduating high school seniors. The Organization received computers with an estimated value of approximately \$0 and \$35,700 for the years ended December 31, 2011 and 2010, respectively.

The Organization receives discounted tuition at educational programs for students. The Organization received approximately \$122,000 and \$77,000 in discounted tuition for the years ended December 31, 2011 and 2010, respectively.

The Organization received other contributed goods amounting to approximately \$18,200 and \$6,900 during the years ended December 31, 2011 and 2010, respectively.

NOTE 9 SPECIAL EVENTS

The breakdown of the activities relating to the special events for the year ended December 31, 2011 are as follows:

	Tribute	Total
Income	\$ 30,277	\$ 30,277
Expenses	(23,700)	(23,700)
Net	\$ 6,577	\$ 6,577

The breakdown of the activities relating to the special events for the year ended December 31, 2010 are as follows:

	Bowling	SPARK	Tribute	Total
Income	\$ 6,690	\$ 3,075	\$ 36,691	\$ 46,456
Expenses	(3,300)	(2,320)	(19,012)	(24,632)
Net	\$ 3,390	\$ 755	\$ 17,679	\$ 21,824

REALITY CHANGERS
A NONPROFIT ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 10 COMMITMENTS

The Organization leases office space under an operating lease that expires in June 2012. The lease payments consist of a base rent, operating expenses, utilities, and janitorial expenses. The amounts in addition to base rent are subject to change based on the services provided for the month. Minimum future rental payments under non-cancelable operating leases expiring within the year for the year ended December 31 is as follows:

2012	\$	<u>29,289</u>
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Office space rental expense was \$55,235 and \$54,296 for the years ended December 31, 2011 and 2010, respectively. These amounts do not include the in-kind donations of facility space (see Note 8). Additionally, the 2010 rent expense was shown net of a \$49,392 credit provided by the landlord upon the execution of the lease agreement.

NOTE 11 SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 26, 2012, which is the date the financial statements were available to be issued. There were no material subsequent events which affected the amounts or disclosures in the financial statements.