

**REALITY CHANGERS  
A NON PROFIT ORGANIZATION  
FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**REALITY CHANGERS  
A NON PROFIT ORGANIZATION**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Reality Changers

We have audited the accompanying financial statements of Reality Changers, a nonprofit organization, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

**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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reality Changers as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Considine & Considine*

CONSIDINE & CONSIDINE  
An accountancy corporation

May 13, 2019

**REALITY CHANGERS  
A NON PROFIT ORGANIZATION  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2018 AND 2017**

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	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	\$ 921,460	\$ 1,064,806
Contributions receivable (note 3)	265,004	580,000
Other receivables	60,985	39,838
Prepaid expenses	6,726	44,682
	1,254,175	1,729,326
PROPERTY AND EQUIPMENT (note 4)	13,612	20,079
TOTAL ASSETS	1,267,787	1,749,405
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	60,184	120,180
Accrued liabilities (note 5)	155,664	131,643
Deferred revenue	20,000	-
	235,848	251,823
NET ASSETS (note 6)		
Unrestricted net assets	766,939	917,582
Temporarily restricted net assets	265,000	580,000
	1,031,939	1,497,582
TOTAL LIABILITIES AND NET ASSETS	\$ 1,267,787	\$ 1,749,405

See accompanying notes

**REALITY CHANGERS  
A NON PROFIT ORGANIZATION  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

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	2018	2017
UNRESTRICTED NET ASSETS		
REVENUE AND SUPPORT		
Contributions	\$ 1,841,645	\$ 2,640,262
Gifts in-kind (note 7)	79,552	89,939
Other income	180,320	7,017
Interest income	13	456
Investment loss	359	(2,676)
	2,101,889	2,734,998
Net assets released from temporarily restricted		
Restrictions satisfied by payments	515,000	153,270
TOTAL REVENUE	2,616,889	2,888,268
OPERATING EXPENSES		
Program services	2,140,167	1,741,395
Management and general	327,986	299,326
Fundraising	299,379	206,577
	2,767,532	2,247,298
(DECREASE)/INCREASE IN UNRESTRICTED NET ASSETS	(150,643)	640,970
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	200,000	505,000
Net assets released from temporarily restricted	(515,000)	(153,270)
(DECREASE)/INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(315,000)	351,730
CHANGE IN NET ASSETS	(465,643)	992,700
NET ASSETS, BEGINNING	1,497,582	504,882
NET ASSETS, ENDING	\$ 1,031,939	\$ 1,497,582

See accompanying notes

**REALITY CHANGERS  
A NON PROFIT ORGANIZATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2018**

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	<u>PROGRAM SERVICES</u>	<u>GENERAL AND ADMINISTRATIVE</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
EXPENSES				
Bank fees	\$ 437	\$ 5,136	\$ -	\$ 5,573
Equipment	20,829	1,499	12,409	34,737
Food and beverage	13,341	1,199	1,738	16,278
Graduation expense	31,240	20	37,842	69,102
Insurance	24,170	7,124	2,394	33,688
Occupancy	133,899	12,217	19,473	165,589
Other expense	1,114	1,178	923	3,215
Outside services	1,211	47	-	1,258
Professional fees	3,400	44,589	-	47,989
Publishing and mailing	6,263	3,167	6,210	15,640
Salaries and benefits	1,425,336	236,156	198,992	1,860,484
Scholarships	371,904	-	-	371,904
Supplies	71,061	5,846	2,103	79,010
Travel and meetings	35,962	3,341	17,295	56,598
Total expenses before depreciation	<u>2,140,167</u>	<u>321,519</u>	<u>299,379</u>	<u>2,761,065</u>
Depreciation	<u>-</u>	<u>6,467</u>	<u>-</u>	<u>6,467</u>
<b>TOTAL EXPENSES</b>	<b><u><u>\$ 2,140,167</u></u></b>	<b><u><u>\$ 327,986</u></u></b>	<b><u><u>\$ 299,379</u></u></b>	<b><u><u>\$ 2,767,532</u></u></b>

See accompanying notes

**REALITY CHANGERS  
A NON PROFIT ORGANIZATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2017**

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	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
EXPENSES				
Bank fees	\$ 129	\$ 2,398	\$ -	\$ 2,527
Equipment	32,813	614	2,026	35,453
Food and beverage	15,763	1,249	1,328	18,340
Graduation expense	15,683	1,044	21,112	37,839
Insurance	15,257	14,470	2,438	32,165
Occupancy	57,785	15,320	17,204	90,309
Other expense	11,987	1,288	640	13,915
Outside services	227	654	-	881
Professional fees	-	62,578	-	62,578
Publishing and mailing	3,833	818	8,674	13,325
Salaries and benefits	1,083,273	169,192	141,934	1,394,399
Scholarships	425,911	-	-	425,911
Supplies	48,084	21,176	459	69,719
Travel and meetings	30,650	1,516	10,762	42,928
Total expenses before depreciation	<u>1,741,395</u>	<u>292,317</u>	<u>206,577</u>	<u>2,240,289</u>
Depreciation	<u>-</u>	<u>7,009</u>	<u>-</u>	<u>7,009</u>
<b>TOTAL EXPENSES</b>	<u><u>\$ 1,741,395</u></u>	<u><u>\$ 299,326</u></u>	<u><u>\$ 206,577</u></u>	<u><u>\$ 2,247,298</u></u>

See accompanying notes



**REALITY CHANGERS  
A NON PROFIT ORGANIZATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

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	2018	2017
CASH FLOWS (USED)/PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ (465,643)	\$ 992,700
ADJUSTMENTS TO RECONCILE CHANGES IN NET ASSETS TO NET CASH (USED)/PROVIDED BY OPERATING ACTIVITIES		
Depreciation and amortization	6,467	7,009
Change in operating assets and liabilities:		
Contribution receivable	314,996	(355,000)
Other receivables	(21,147)	(39,838)
Prepaid expenses	37,956	(32,519)
Accounts payable	(59,996)	91,130
Accrued expenses	24,021	(3,477)
Deferred revenue	20,000	-
	<u>322,297</u>	<u>(332,695)</u>
NET (DECREASE)/INCREASE IN CASH	(143,346)	660,005
CASH, BEGINNING OF YEAR	<u>1,064,806</u>	<u>404,801</u>
CASH, END OF YEAR	<u>\$ 921,460</u>	<u>\$ 1,064,806</u>
SUPPLEMENTAL DISCLOSURES:		
Taxes paid	\$ -	\$ -
Interest paid	\$ -	\$ -

See accompanying notes

**REALITY CHANGERS  
A NON PROFIT ORGANIZATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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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 June 30, 2018 and 2017.

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 three banks located in California, Florida and Texas. Accounts at these institutions 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.

Revenue Recognition – Revenue is recognized when earned, which may be when cash is received, unconditional promises made, ownership of other assets transferred, or services rendered. Contributions receivable consist of unconditional promises to give and are recorded in the year the promise is made. Conditional promises are not recognized until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at their

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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated cash flows. The Organization provides for probable losses on contributions receivable using the allowance method. The allowance is determined based on management's experience and collection efforts. Management has determined all contributions receivable to be collectible.

Property and Equipment - The Organization's policy is to capitalize assets with a useful life of greater than one year and a value of \$5,000 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 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 allocation of expenses - The Organization allocates its expenses on a functional basis among its various programs and support services. Expenditures which can be identified with a specific program or support service are allocated directly, according to their natural expenditure and classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by the Organization's management.

In-kind donations - A substantial number of volunteers have donated significant amounts of time to the Organization's program services and fund-raising activities; however, no amounts have been reflected in the accompanying financial statements for these donated services as no objective basis is available to measure their value and they do not meet the criteria under generally accepted accounting principles to be recorded as donated services.

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 Revenue and Taxation Code.

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. As of June 30, 2018 and 2017, 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.

**REALITY CHANGERS  
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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 3 CONTRIBUTIONS RECEIVABLE**

Contributions receivable consists of the following:

	2018	2017
Grants receivable (due in less than one year)	\$ 115,004	\$ 570,000
Pledges receivable (due in less than one year)	150,000	10,000
	\$ 265,004	\$ 580,000

**NOTE 4 PROPERTY AND EQUIPMENT**

The Organization's property and equipment are summarized as follows:

	2018	2017
Computers	\$ 50,909	\$ 50,909
Furniture, fixtures, and equipment	2,307	2,307
	53,216	53,216
Accumulated depreciation	(39,604)	(33,137)
	\$ 13,612	\$ 20,079

For the years ended June 30, 2018 and 2017, the depreciation expense was 6,467 and \$7,009, respectively.

**NOTE 5 ACCRUED LIABILITIES**

Accrued expenses consist of the following:

	2018	2017
Accrued vacation	\$ 93,236	\$ 77,494
Accrued payroll	62,428	54,149
	\$ 155,664	\$ 131,643

**REALITY CHANGERS  
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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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**NOTE 6 NET ASSETS**

Net assets consist of the following:

	2018	2017
Unrestricted:		
Undesignated	\$ 766,939	\$ 917,582
Temporarily restricted:		
Core operating support	65,000	275,000
College town	200,000	250,000
General scholarships	-	55,000
	265,000	580,000
Total net assets	\$ 1,031,939	\$ 1,497,582

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 June 30 are as follows:

	2018	2017
Core operating support	\$ 440,000	\$ 150,000
General scholarships	75,000	3,000
Forest home	-	270
Total net assets released from restrictions	\$ 515,000	\$ 153,270

**NOTE 7 IN-KIND DONATIONS**

The Organization records donated services, facilities and goods at fair value.

The Organization receives discounted tuition at educational programs for students. The Organization received approximately \$28,000 and \$43,200 in discounted tuition for the years ended June 30, 2018 and 2017, respectively.

During the years ended June 30, 2018 and 2017, the Organization received in-kind contributions of facility space with an estimated value \$10,000.

During the years ended June 30, 2018 and 2017, the Organization received miscellaneous in-kind contributions with an estimated value of \$40,343 and \$36,739, respectively.

**REALITY CHANGERS  
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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 8    COMMITMENTS**

The Organization leases office space under an operating lease that expires on June 15, 2020. 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 payments under the non-cancelable operating lease for the twelve months ended June 30 is as follows:

2018	\$ 140,530
2019	<u>127,632</u>
	<u><u>\$ 268,162</u></u>

Office space rental expense was approximately \$166,000 and \$90,000 for the years ended June 30, 2018 and 2017, respectively.

**NOTE 9    SUBSEQUENT EVENTS**

Subsequent events have been evaluated through May 13, 2019 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.