



FINANCIAL STATEMENTS

JUNE 30, 2019



Leaf & Cole, LLP
Certified Public Accountants

**REALITY CHANGERS
FINANCIAL STATEMENTS
JUNE 30, 2019**

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Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
Reality Changers

Report on the Financial Statements

We have audited the accompanying financial statements of Reality Changers, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year 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 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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.

To the Board of Directors
Reality Changers

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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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Leaf & Cole LLP

San Diego, California
January 30, 2020

**REALITY CHANGERS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019**

ASSETS

<u>Current Assets:</u> (Note 2)	
Cash and cash equivalents	\$ 1,328,623
Accounts receivable	18,071
Total Current Assets	<u>1,346,694</u>
<u>Noncurrent Assets:</u> (Notes 2 and 4)	
Furniture and equipment, net	7,152
Total Noncurrent Assets	<u>7,152</u>
TOTAL ASSETS	\$ <u>1,353,846</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Notes 2)	
Accounts payable	\$ 63,815
Accrued expenses	155,443
Total Current Liabilities	<u>219,258</u>
Total Liabilities	<u>219,258</u>
<u>Commitment:</u> (Note 6)	
<u>Net Assets:</u> (Notes 2 and 5)	
Without donor restrictions	1,049,630
With donor restrictions	84,958
Total Net Assets	<u>1,134,588</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>1,353,846</u>

The accompanying notes are an integral part of the financial statements.

**REALITY CHANGERS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Revenue and Support:</u>			
Contributions	\$ 2,393,457	\$ 69,958	\$ 2,463,415
Program revenue	214,214	-	214,214
Investment income	1,078	-	1,078
In-kind contributions	810,967	-	810,967
Net assets released from restrictions	250,000	(250,000)	-
Total Revenue and Support	<u>3,669,716</u>	<u>(180,042)</u>	<u>3,489,674</u>
<u>Expenses:</u>			
Program Services	<u>2,809,290</u>	<u>-</u>	<u>2,809,290</u>
Supporting Services:			
Management and general	390,219	-	390,219
Fundraising	187,516	-	187,516
Total Supporting Services	<u>577,735</u>	<u>-</u>	<u>577,735</u>
Total Expenses	<u>3,387,025</u>	<u>-</u>	<u>3,387,025</u>
Change in Net Assets	282,691	(180,042)	102,649
Net Assets at Beginning of Year	<u>766,939</u>	<u>265,000</u>	<u>1,031,939</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 1,049,630</u></u>	<u><u>\$ 84,958</u></u>	<u><u>\$ 1,134,588</u></u>

The accompanying notes are an integral part of the financial statements.

REALITY CHANGERS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
<u>Salaries and Related Expenses:</u>				
Salaries and wages	\$ 1,034,763	\$ 172,850	\$ 114,061	\$ 1,321,674
Payroll taxes and related costs	86,947	13,688	11,324	111,959
Employee benefits	32,180	7,210	3,806	43,196
Total Salaries and Related Expenses	<u>1,153,890</u>	<u>193,748</u>	<u>129,191</u>	<u>1,476,829</u>
<u>Nonsalary Related Expenses:</u>				
Accounting	-	47,790	-	47,790
Advertising and promotion	5,250	21,803	1,047	28,100
Bank Fees	2,920	-	-	2,920
Computer software and hardware	19,690	186	4,179	24,055
Contractor payments	26,885	76,711	19,482	123,078
Depreciation	6,460	-	-	6,460
Food and beverage	15,897	1,022	1,257	18,176
Gifts and recognition	380	3,067	208	3,655
Insurance	30,636	11,432	3,647	45,715
Media and outside computer service	1,007	1,697	190	2,894
Membership dues and meals	968	155	1,505	2,628
Mileage and off-site parking	14,514	1,678	1,120	17,312
Miscellaneous	1,361	548	2,123	4,032
Office supplies	49,909	2,258	16	52,183
Payroll expenses	-	3,624	-	3,624
Printing and copying	3,738	411	1,283	5,432
Program supplies	8,171	80	289	8,540
Rent	333,348	8,935	14,041	356,324
Scholarships, Support & Awards	598,359	-	-	598,359
Shipping, delivery and postage	555	325	526	1,406
Special events	499,077	1,207	2,060	502,344
Staff development	681	5,612	-	6,293
Telephone	4,810	315	480	5,605
Transportation program related	26,514	7,328	-	33,842
Travel, conferences and meetings	4,270	287	4,872	9,429
Total Nonsalary Related Expenses	<u>1,655,400</u>	<u>196,471</u>	<u>58,325</u>	<u>1,910,196</u>
Total Expenses	\$ <u>2,809,290</u>	\$ <u>390,219</u>	\$ <u>187,516</u>	\$ <u>3,387,025</u>

The accompanying notes are an integral part of the financial statements.

**REALITY CHANGERS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

<u>Cash Flows From Operating Activities:</u>	
Change in net assets	\$ 102,649
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	6,460
Donated stock	(100,250)
Realized gain on investments	(1,070)
(Increase) Decrease in:	
Contributions receivable	265,004
Accounts receivable	42,914
Prepaid expenses	6,726
Increase (Decrease) in:	
Accounts payable	3,631
Accrued expenses	(221)
Deferred revenue	(20,000)
Net Cash Provided by Operating Activities	<u>305,843</u>
<u>Cash Flows From Investing Activities:</u>	
Investment sales	<u>101,320</u>
Net Cash Provided by Investing Activities	<u>101,320</u>
Net Increase in Cash and Cash Equivalents	407,163
Cash and Cash Equivalents at Beginning of Year	<u>921,460</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u><u>1,328,623</u></u>

The accompanying notes are an integral part of the financial statements.

REALITY CHANGERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 - Organization:

Reality Changers (the “Organization”) is a 501(c)(3) nonprofit organization founded in 2001 and incorporated in 2009 in California. The Organization’s mission 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.

Note 2 - Significant Accounting Policies:

Accounting Method

The financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes thereon are classified and reported as follows:

- Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Organization had no financial instruments at June 30, 2019.

REALITY CHANGERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 2 - Significant Accounting Policies: (Continued)

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all accounts receivable are fully collectible; therefore, no allowance for doubtful accounts receivable was recorded at June 30, 2019.

Capitalization and Depreciation

The Organization capitalizes all expenditures in excess of \$5,000 for furniture and equipment at cost, while donations of furniture and equipment are recorded at their estimated fair values. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire furniture and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Furniture and equipment is depreciated using the straight-line method over the estimated useful lives as follows:

Equipment	3 - 5 years
Furniture and fixtures	5 - 10 years

Depreciation totaled \$6,460 for the year ended June 30, 2019.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of furniture and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale. Any resultant gain or loss is recorded as income or expense.

Compensated Absences

Accumulated unpaid vacation benefits totaling \$96,936 at June 30, 2019 is accrued when incurred and included in accrued expenses.

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are 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. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

REALITY CHANGERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 2 - Significant Accounting Policies: (Continued)

Donated Services and Facilities

The Organization has received donations for professional services and program expenses. The professional services and program expenses are recorded at their fair value and totaled \$24,500 and \$562,067, respectively for the year ended June 30, 2019 and have been included in revenue and expenses for the year ended June 30, 2019.

The Organization occupies office facilities donated by Health Sciences High and Middle College, a nonprofit corporation. Donated facilities totaled \$224,400 for the year ended June 30, 2019, recorded at fair value at the date of donation, and have been included in revenue and expenses for the year ended June 30, 2019.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs and various committee assignments. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services by volunteers for the years ended June 30, 2019 and 2018, did not meet the requirements above, therefore no amounts were recognized in the financial statements for volunteer time.

Functional Allocation of Expenses

The statement of functional expenses presents expenses by function and natural classification. The Organization allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure 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.

Income Taxes

The Organization is a public charity and is exempt from 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 believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization is not a private foundation.

The Organization's Return of Organization Exempt from Income Tax for the year ended June 30, 2019, 2018, 2017 and 2016 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts and money market funds which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

REALITY CHANGERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 2 - Significant Accounting Policies: (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounting Pronouncements Adopted

In August 2016, the FASB issued ASU 2016-14, "Presentation of Financial Statements of Not-for-Profit Entities" (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes that affected the Organization's financial statements include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Organization has adopted this ASU as of and for the year ended June 30, 2019.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 30, 2020, the date the financial statements were available to be issued and concluded that there were no events or transactions that needed to be disclosed.

Note 3 - Liquidity and Availability:

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization considers contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

The table below presents financial assets available for general expenditures within one year at June 30, 2019:

Cash and cash equivalents	\$ 1,328,623
Accounts receivable	18,071
Financial assets available for general expenditures within one year	<u>\$ 1,346,694</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates generating sufficient operating income to cover general expenditures.

REALITY CHANGERS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 4 - Furniture and Equipment:

Furniture and equipment consist of the following at June 30, 2019:

Equipment	\$ 50,909
Furniture and fixtures	2,307
Subtotal	53,216
Less: Accumulated depreciation	(46,064)
Furniture and Equipment, Net	\$ 7,152

Note 5 - Net Assets With Donor Restrictions:

Net assets with donor restrictions consist of the following at June 30, 2019:

Subject to Expenditure for Specified Purpose:

Data management system	\$ 47,458
Community service van	17,500
Total Subject to Expenditure for Specified Purpose	64,958

Subject to the Passage of Time:

Advance contributions	20,000
Total Net Assets with Donor Restrictions	\$ 84,958

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors are as follows for the year ended June 30, 2019:

Purpose Restrictions Accomplished:

College town	\$ 185,000
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Passage of Time:

Advance contributions	65,000
Total Net Assets Released From Restrictions	\$ 250,000

Note 6 - Lease Commitments:

The Organization leased office space under an operating lease through September 30, 2018. The lease required the Organization to pay a monthly base rent, operating expenses, utilities and a capital reserve. The Organization leases office space under an operating lease through June 15, 2020. The lease requires the Organization to pay a base rent of one dollar annually. In addition to the base rent, the Organization pays operating expenses, utilities and a capital reserve totaling \$10,636 per month. The donated office space has been recorded as an in-kind contribution and rent expense and totaled \$224,400 for the year ended June 30, 2019. Rent expense totaled \$356,324 for the year ended June 30, 2019.

Future minimum lease payments under the operating lease are as follows:

Year Ended June 30	
2020	\$ 128,216