



CHANGE INC.

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
JUNE 30, 2023 AND 2022**



CHANGE INC.

FINANCIAL STATEMENTS

For the Years Ended June 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Change Inc.
St. Paul, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Change Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Change Inc. as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Change Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of Change Inc. as of June 30, 2022 were audited by other auditors whose report dated May 12, 2023 expressed an unmodified opinion on those statements.

Responsibilities of Management 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, and for 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.

(Continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Change Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Change Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Change Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, Change Inc. has adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

(Continued)

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information shown on page 23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2024, on our consideration of Change Inc.’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Change Inc.’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Change Inc.’s internal control over financial reporting and compliance.

March 20, 2024

Mahoney Ulbrich
Christiansen & Russ, PA

CHANGE INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2023 and 2022

	2023	2022
ASSETS		
Assets		
Cash and cash equivalents	\$ 30,870	\$ 81,091
Accounts receivable	457,440	337,292
Grants receivable	1,201,178	693,974
Pass-through receivables	287,529	418,790
Prepaid expenses and other assets	134,151	200,014
Property held for development	368,477	277,744
Property and equipment, net	908,588	957,964
Right of use assets	1,404,246	-
Cash held for endowment	33,065	33,065
	\$ 4,825,544	\$ 2,999,934
Total assets		
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 366,298	\$ 155,195
Accrued salaries and payroll liabilities	472,078	425,197
Other liabilities	96,177	27,143
Refundable advances	33,560	-
Lease liabilities	1,523,431	-
Pass-through liability	374,416	418,790
Line of credit	268,747	174,307
Notes payable	549,302	450,000
	3,684,009	1,650,632
Total liabilities		
Net assets		
Net assets without donor restrictions		
Undesignated	926,470	1,225,502
Board-designated	19,401	27,974
	945,871	1,253,476
Net assets with donor restrictions	195,664	95,826
Total net assets	1,141,535	1,349,302
Total liabilities and net assets	\$ 4,825,544	\$ 2,999,934

See accompanying notes to financial statements.

CHANGE INC.

STATEMENTS OF ACTIVITIES

For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue				
Government grants	\$ 4,009,387	\$ -	\$ 4,009,387	\$ 4,099,468
Program service fees	1,386,374	-	1,386,374	996,247
Contributions	314,504	157,097	471,601	237,524
Contributions - nonfinancial assets	26,758	-	26,758	-
Net investment return	(1,055)	-	(1,055)	(2,268)
Medical billings	1,513,527	-	1,513,527	1,498,579
ERC income	585,177	-	585,177	-
Debt forgiveness	37,500	-	37,500	-
Other income	26,676	-	26,676	34,016
Distributions from beneficial interests in assets held by others	-	9,232	9,232	9,042
Net assets released from restrictions	66,491	(66,491)	-	-
Total revenue	<u>7,965,339</u>	<u>99,838</u>	<u>8,065,177</u>	<u>6,872,608</u>
Expenses				
Program services	7,050,364	-	7,050,364	6,741,473
Supporting services				-
Management and general	973,065	-	973,065	868,832
Fundraising	233,800	-	233,800	208,238
Total expenses	<u>8,257,229</u>	<u>-</u>	<u>8,257,229</u>	<u>7,818,543</u>
Changes in net assets				
Before loss on gems	(291,890)	99,838	(192,052)	(945,935)
Loss on gems	<u>(15,715)</u>	<u>-</u>	<u>(15,715)</u>	<u>-</u>
Change in net assets	(307,605)	99,838	(207,767)	(945,935)
Net assets, beginning of year	<u>1,253,476</u>	<u>95,826</u>	<u>1,349,302</u>	<u>2,295,237</u>
Net assets, end of year	<u>\$ 945,871</u>	<u>\$ 195,664</u>	<u>\$ 1,141,535</u>	<u>\$ 1,349,302</u>

See accompanying notes to financial statements.

CHANGE INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2022

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Government grants	\$ 4,099,468	\$ -	\$ 4,099,468
Program service fees	996,247	-	996,247
Contributions	198,216	39,308	237,524
Net investment return	(2,268)	-	(2,268)
Medical billings	1,498,579	-	1,498,579
Other income	34,016	-	34,016
Distributions from beneficial interests in assets held by others	-	9,042	9,042
Net assets released from restrictions	209,768	(209,768)	-
Total revenue	7,034,026	(161,418)	6,872,608
Expenses			
Program services	6,741,473	-	6,741,473
Supporting services			
Management and general	868,832	-	868,832
Fundraising	208,238	-	208,238
Total expenses	7,818,543	-	7,818,543
Change in net assets	(784,517)	(161,418)	(945,935)
Net assets, beginning of year	2,037,993	257,244	2,295,237
Net assets, end of year	\$ 1,253,476	\$ 95,826	\$ 1,349,302

See accompanying notes to financial statements.

CHANGE INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2023 and 2022

	2023			
	Program	Supporting Services		Total
		Administrative	Fundraising	
Salaries	\$ 4,705,208	\$ 466,837	\$ 126,567	\$ 5,298,612
Payroll taxes	333,080	32,410	9,430	374,920
Employee benefits	567,414	54,324	12,304	634,042
Total personnel costs	5,605,702	553,571	148,301	6,307,574
Professional fees	467,868	288,098	44,079	800,045
Staff development	65,706	23,021	19,587	108,314
Occupancy	461,736	63,699	15,917	541,352
Minor equipment and maintenance	41,041	5,157	1,297	47,495
Supplies	96,683	2,412	882	99,977
Printing and postage	6,225	2,283	755	9,263
Vehicle expense	17,743	984	-	18,727
Student activities, transportation and stipends	163,971	240	-	164,211
Bank account expense	49	20,023	-	20,072
Miscellaneous expense	34,193	6,620	-	40,813
Depreciation	89,447	6,957	2,982	99,386
	<u>\$ 7,050,364</u>	<u>\$ 973,065</u>	<u>\$ 233,800</u>	<u>\$ 8,257,229</u>
	2022			
	Program	Supporting Services		Total
		Administrative	Fundraising	
Salaries	\$ 4,473,272	\$ 625,120	\$ 147,054	\$ 5,245,446
Payroll taxes	308,205	43,069	10,132	361,406
Employee benefits	585,920	15,344	15,758	617,022
Total personnel costs	5,367,397	683,533	172,944	6,223,874
Professional fees	540,201	108,370	28,656	677,227
Staff development	79,099	28,592	1,066	108,757
Occupancy	305,002	13,320	3,563	321,885
Minor equipment and maintenance	60,488	10,238	427	71,153
Supplies	172,052	11,374	222	183,648
Printing and postage	12,274	1,128	439	13,841
Vehicle expense	9,649	(563)	3	9,089
Student activities, transportation and stipends	109,640	(45)	-	109,595
Bank account expense	884	10,015	18	10,917
Miscellaneous expense	2,064	210	29	2,303
Depreciation	82,723	2,660	871	86,254
	<u>\$ 6,741,473</u>	<u>\$ 868,832</u>	<u>\$ 208,238</u>	<u>\$ 7,818,543</u>

(Continued)

CHANGE INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ (207,767)	\$ (945,935)
Adjustments to reconcile the change in net assets to net cash flows from operating activities:		
Depreciation	99,386	86,254
Debt forgiveness	(37,500)	-
Loss on other assets	15,715	-
Decrease (increase) in operating assets and liabilities:		
Accounts receivable	11,113	(42,453)
Grants receivable	(507,204)	
Prepaid expenses and other assets	50,148	(113,666)
Right of use asset - operating leases	145,934	-
Right of use liability - operating leases	(26,749)	-
Accounts payable	211,103	111,588
Accrued salaries and payroll liabilities	46,881	139,088
Pass-through liability	(44,374)	(123,949)
Refundable advances	33,560	-
Other liabilities	69,034	(11,295)
Net cash flows from operating activities	(140,720)	(900,368)
Cash flows from investing activities		
Purchases of property and equipment	(50,010)	(108,999)
Property held for development	(90,733)	(133,665)
Net cash flows from investing activities	(140,743)	(242,664)
Cash flows from financing activities		
Proceeds from issuance of notes payable	150,000	300,000
Payments on notes payable	(13,198)	-
Net advances (repayments) on line of credit	94,440	174,307
Net cash flows from financing activities	231,242	474,307
Net decrease in cash, cash equivalents, and restricted cash	(50,221)	(668,725)
Cash, cash equivalents and restricted cash, beginning of year	114,156	782,881
Cash, cash equivalents and restricted cash, end of year	\$ 63,935	\$ 114,156
Reconciliation to the statement of financial position:		
Cash and cash equivalents	\$ 30,870	\$ 81,091
Cash held for endowment	33,065	33,065
	\$ 63,935	\$ 114,156
Supplemental cash flow information:		
Cash paid during the period for interest	\$ 10,285	\$ 7,829
Lease asset obtained in exchange for lease liabilities	\$ 1,550,180	\$ -

See accompanying notes to financial statements.

CHANGE INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2023 and 2022

1. ORGANIZATION

Change Inc. (the Organization) is a nonprofit organization established to utilize the power of relationships and community to create educational, training, and healing opportunities for children, youth, young adults, and families so that they achieve their highest ambition. The Organization believes relationships are the key to change; cultural knowledge is critical to growth and healing; and hope is an essential element to encouraging people challenged by barriers. Change Inc. envisions a world in which children, youth, and young adults, regardless of their place of birth or economic resources, succeed in school and grow to their full potential.

Change Inc. programming is grounded in the belief that children and youth will be most successful in life if they are successful in school. To support this foundation, our staff support each participant to increase academic skills, career readiness, and social emotional resilience. Change Inc. serves nearly 900 participants annually. Programming takes place throughout Saint Paul and Minneapolis and falls into three core strategies: Community & School Collaborative, GAP School, and Change Institute.

GAP School serves approximately 200 youth and young adults (ages 15-24) annually through education and enrichment; training that leads to employment; and social and emotional supports. Through long-term partnerships with Saint Paul Public Schools, the Saint Paul Community Literacy Consortium, and YouthBuild USA, GAP School helps youth at risk of school failure complete their high school diploma while earning an industry-recognized certificate in an environment better tailored to meet their strengths and needs.

The Community & School Collaborative (CSC) serves over 700 kids annually to remove mental and emotional barriers to school success. Throughout the past 15 years, services have expanded to include mentoring, case management, care coordination, and therapy. Today, CSC partners with Minneapolis Public Schools, Saint Paul Public Schools, Hennepin County, Ramsey County, Minnesota Department of Human Services, and Minnesota Office of Justice Programs to serve kids and families throughout the Twin Cities.

Change Institute brings healing, teaching, and advocacy together to look at influencing systems change and approaching sustainability. Change Institute helps develop and implement trainings focused on preparing caring adults (teachers, administrators, therapists, etc.) to best meet community mental health needs for children, youth, and young adults. We work to empower a diverse clinical workforce that is prepared to serve children and families facing complicated barriers in the Twin Cities.

(Continued)

CHANGE INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standard Adopted - In 2023, the Organization adopted Accounting Standard Update (ASU) 2016-02: Leases (Topic 842) using the modified retrospective approach with January 1, 2022 as the date of initial adoption. The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Organization to carry forward the historical lease classification. This ASU was issued to provide clarity to the lessors in classifying leases as sales-type, direct financing, or operating. As a result of implementing ASU No. 2016-02, the Organization recognized right-of-use assets and lease liabilities of \$1,550,180 in its statement of financial position as of July 1, 2022. The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended June 30, 2023.

Financial Statement Presentation - The accompanying financial statements have been prepared using the accrual basis of accounting.

Net assets, revenues and support are classified based on the presence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Without donor restrictions represent the portion of net assets that are not subject to donor restrictions.
- With donor restrictions represents net assets that arose from contributions that are restricted by donors for specific purposes or time periods.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction has elapsed, when a purpose restriction is accomplished, or both) 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. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Organization considers unrestricted highly liquid financial instruments purchased with original maturities of three months or less to be cash and cash equivalents. The Organization considers cash held for endowment to be restricted cash.

Concentration of Credit Risk - The Organization maintains cash in financial institutions and at times the amount on deposit may exceed the insured limit of an institution and expose the Organization to a credit risk. The Organization has not experienced any losses on its cash deposits. Balances did not exceed federally insured limits at June 30, 2023 or 2022.

(Continued)

CHANGE INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable - Accounts receivable consist primarily of noninterest-bearing amounts due on fee-for-service contracts. Accounts receivable are stated at the unpaid balance, less an allowance for doubtful accounts which is determined based on historical experience, an assessment of economic conditions, management's analysis, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At June 30, 2023 and 2022, management has determined an allowance to be unnecessary.

Receivables from contracts with customers are reported as accounts receivable, net in the accompanying statement of financial position. Contract liabilities are reported as deferred revenue in the accompanying statement of financial position.

Promises to Give - The Organization records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Allowance for uncollectable promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. There were no outstanding promises to give as of June 30, 2023 and 2022.

Property held for development - Property under development is recorded at cost and relates to purchased property and building materials for renovation through the Organization's youth employment program. The houses are sold to the public after they are completed. The Organization records an allowance when costs are not expected to be recovered from the proceeds of sales. No allowance was considered necessary in 2023 or 2022.

Property and Equipment - Property and equipment additions over \$5,000 are recorded at cost, or if donated, at their estimated fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, or in the case of capitalized lease assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed in the statement of activities.

The Organization reviews its investment in property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of such property may not be recoverable. No impairment loss was recognized in 2023 or 2022.

(Continued)

CHANGE INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial Interests in Charitable Trusts Held by Others - The Organization has solicited contributions that were made directly to the Saint Paul Foundation (the Foundation). As the donors have explicitly granted variance power to the Foundation, only the investment return from the contributions will be distributed to the Organization via grants, subject to the Foundation's spending policy and the Foundation's right to redirect the return on these contributions to another beneficiary without the approval of the donor, the Organization, or any other party if distributions to the Organization become unnecessary, impossible, or inconsistent with the needs of the community. As such, the Organization is precluded from recognizing the rights to these assets. At June 30, 2023 and 2022, approximately \$232,769 and \$231,538, respectively, was held in the Foundation related to these contributions. Grants of \$9,232 and \$9,042 have been distributed from these funds during the year ended period June 30, 2023 and 2022, respectively.

Pass-Through Liability and Receivables - The Organization periodically acts as an agent for donors and grantors. It accepts assets from donors and agrees to use those amounts to benefit a specified beneficiary. These transactions are not included in the statement of activities since the Organization has no discretion in determining how the funds are used. Such agency amounts collected or billed are recorded as liabilities until released to the beneficiary. Pass-through receivables represent amounts billed where proceeds are anticipated related to cost-reimbursement grants whereby Change, Inc. is the pass-through entity.

Revenue and Revenue Recognition – Program service fee revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing client services. These amounts are due from clients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Organization bills the clients and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Generally, revenue performance obligations are satisfied over time. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to clients receiving skilled services. The Organization measures the performance obligation from intake of the client to the point when it is no longer required to provide services to that client.

(Continued)

CHANGE INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Organization determines the transaction price based on pre-determined charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured clients in accordance with the Organization's policy, and/or implicit price concessions provided to uninsured clients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of clients.

The nature, amount, timing, and uncertainty of revenue and cash flows are affected by several factors that the Organization considers in its recognition of revenue. Following are some of the factors considered:

- Payors (for example, counties, managed care or other insurance, or client) have different reimbursement/payment methodologies.
- Length of a client's service/episode of care.
- Nature or line of service provided by the Organization.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

Donated Services and In-Kind Contributions - Donated materials are valued and recorded at their estimated fair market value, determined by management referencing local market inputs and the types of goods donated, at the date of receipt. Donated services are recorded in the statement of activities at estimated market value only if the services create or enhance a nonfinancial asset or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided through donation. The Organization received \$26,758 of free rent during the year ended June 30, 2023 for the Minneapolis lease used in the Change Institute program. No significant contributions of such goods or services were received during the year ended June 30, 2022.

(Continued)

CHANGE INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2023 and 2022

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, no amounts have been recognized for these services because they do not meet the criteria described above.

Leases - The Organization assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. Leases with an initial term of 12 months or less are not recorded on the statement of financial position.

Right of use (ROU) assets represent the Organization's right to use an underlying asset for the lease term, and lease liabilities represent the Organization's obligation to make lease payments. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Organization uses the implicit rate when it is readily determinable. When the leases do not provide an implicit rate, to determine the present value of lease payments, management uses the risk free rate at lease commencement. Lease expense is recognized for these leases on a straight-line basis over the lease term. The Organization's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise the option. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.

Use of Estimates - The preparation of financial statements in conformity with the regulatory basis of accounting 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 expense during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses - The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, payroll taxes and benefits, professional and outside services, staff development, minor equipment and maintenance, supplies, printing and postage, and depreciation, which are allocated on the basis of estimates of time and effort or a square footage usage allocation.

(Continued)

CHANGE INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status - The Organization is incorporated under the laws of Minnesota as a not-for-profit corporation and is exempt from federal income tax under Internal Revenue Code 501(c)(3) as a public charity and not as a private foundation. Management believes the Corporation does not have any uncertain tax positions in 2023 or 2022.

Reclassifications - Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

3. AVAILABILITY AND LIQUIDITY

The Organization's financial assets available within one year of the statement of financial position date for general expenditure, that is, without restrictions limiting their use, are as follows:

	2023	2022
Cash and cash equivalents	\$ 30,870	\$ 81,091
Accounts receivable	457,440	337,292
Grants receivable	1,201,178	693,974
	<u>\$ 1,689,488</u>	<u>\$ 1,112,357</u>

The Organization is primarily funded by government grants and earned revenue. Both revenue streams are paid via reimbursement. Therefore, the Organization must maintain adequate cash to cover program expenses while awaiting cash reimbursement on a monthly or quarterly basis. The Organization seeks to deepen its cash reserves to aid in the potential shortage this situation poses. To this end, the Board of Directors adopted a policy to establish and maintain an Operating Reserve sufficient to fund 90 days operating expenses. The Operating Reserve does not yet have an established funding source other than surpluses from operations.

The Board of Directors designated approximately \$19,400 and \$28,000 at June 30, 2023 and 2022, respectively, for capital spending plans in future years. These include making plans for a renovation of GAP School and expansion of the office in Northeast Minneapolis.

(Continued)

CHANGE INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2023 and 2022

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2023	2022	Depreciation lives - years
Land	\$ 6,400	\$ 6,400	-
Building and improvements	2,745,829	2,748,272	10 - 40
Equipment, furniture and fixtures	207,718	449,684	3 - 10
Vehicles	26,383	26,383	5
Leasehold improvements	140,254	114,424	10
Total property and equipment	3,126,584	3,345,163	
Less: accumulated depreciation	(2,217,996)	(2,387,199)	
Net property and equipment	\$ 908,588	\$ 957,964	

5. NOTES PAYABLE

Notes payable consist of the following:

	2023	2022
U.S. Small Business Administration - 2.75% note payable, due in monthly installments, payments start on January 2023 and are, due through June 2050. Secured by the building and all assets.	\$ 150,000	\$ 150,000
Propel - 3.0% note payable, interest only payments start on February 28, 2023, all outstanding principal and interest due on March 31, 2025. Secured by receivables.	249,302	300,000
Propel - 7.25% note payable, interest only payments thru June 30, 2024 when all outstanding principal and interest were due. The Organization is in the process of negotiating an extension. Secured by the ERTC receivable.	150,000	-
	\$ 549,302	\$ 450,000

(Continued)

CHANGE INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2023 and 2022

5. NOTES PAYABLE (Continued)

Maturities of notes payables are as follows:

2024	\$	245,319
2025		60,435
2026		62,263
2027		46,659
2028		4,107
Thereafter		<u>130,519</u>
	\$	<u>549,302</u>

6. LINE OF CREDIT

The Organization has a line of credit agreement for \$300,000 with Propel, which includes interest at 5.25% which matures on March 31, 2025. There were \$268,747 and \$174,307 of borrowings outstanding on the line of credit at June 30, 2023 and 2022. The balance is secured by all business assets.

7. ENDOWMENT

The Organization's endowment (the Endowment) consists of one individual fund established by donors to provide annual funding for general operations.

The Board of Directors has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (the UPMIFA) as requiring the preservation of the fair value of the original gift as of the dates of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2023 and 2022, there were no such donor stipulations. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts donated to the Endowment) and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by the UPMIFA.

(Continued)

CHANGE INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2023 and 2022

7. ENDOWMENT (Continued)

The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the organization and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the organization; and
- The investment policies of the organization.

Endowment net asset composition by type of fund is as follows, as of June 30:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds - Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor:			
2023	\$ -	\$ 33,065	\$ 33,065
2022		33,065	33,065

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted the UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no underwater endowments as of June 30, 2023 and 2022.

As of June 30, 2023, an investment and spending policy is not in place for the Endowment due to the small balance of the endowment fund.

There were no changes in endowment net assets for the years ended June 30, 2023 and 2022.

(Continued)

CHANGE INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2023 and 2022

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30:

	2023	2022
Subject to expenditure for specified purpose		
Crossroads	\$ 14,167	\$ -
Community Outreach	40,000	-
Education	30,000	-
BIPOC SBMH Intern Stipends	25,000	-
Food	16,400	-
YET	9,833	5
Rites of Passages	-	29,308
Scholarships	5,502	5,502
Computers & IT	19,197	27,946
Other/CSC	2,500	-
	162,599	62,761
Subject to the passage of time	-	-
	162,599	62,761
Endowments		
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation		
General use	33,065	33,065
	\$ 195,664	\$ 95,826

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

	2023	2022
Distributions (proceeds are not restricted by donors)		
Beneficial interests in charitable trusts held by others	\$ 9,232	\$ 9,042
Net assets released from restriction		
General Operations	-	75,000
Community School Collaborative	-	60,000
Rites of Passages	29,308	-
Scholarships	-	500
Computers	27,946	23,283
Other	5	41,943
	\$ 66,491	\$ 209,768

(Continued)

CHANGE INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2023 and 2022

9. LEASE COMMITMENTS

Lease Receivable: In 2000, the Organization entered into a cell tower lease to allow the cell provider to put a lease on the roof of their building. This lease was amended in 2013, to update the rent amount. The lease is for a 5-year period, with the option of 5 five-year extensions. Rent is \$1,150 per month increasing by 3% annually. Future minimum rents, assuming extensions are executed, consist of the following:

2024	\$	18,732
2025		19,293
2026		19,872
2027		20,468
2028		21,082
Thereafter		313,288

Lease Payable: Equipment is leased under various operating leases, expiring at various dates through 2025. In August 2023, these leases were all terminated.

The Organization occupies office space for its operations in Minneapolis under a noncancelable operating lease which expires March 30, 2032. In addition to base rent, the Organization pays utilities, repairs, insurance, taxes, and other operating expenses on the leased property (CAM).

Lease Term and Discount Rate:	2023	2022
Weighted Average Remaining Lease Term (years)	8.68	N/A
Weighted Average Discount Rate	2.88	N/A

Minimum future rental payments required under the above mentioned leases are as follows:

2024	\$	185,308
2025		184,090
2026		184,090
2027		184,090
2028		184,090
Thereafter		690,336
Total lease payments		1,612,004
Less: interest		(207,756)
Present value of lease liabilities		\$ 1,404,248

(Continued)

CHANGE INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2023 and 2022

9. LEASE COMMITMENTS (Continued)

The following tables provide quantitative information concerning the Organization's leases for the year ended June 30:

Lease Cost	Classification	2023	2022
Operating - equipment	Minor Equipment and Maintenance	\$ 7,308	\$ 33,441
Short-term leases - equipment	Minor Equipment and Maintenance	6,897	-
Operating - office	Occupancy	184,090	66,796
Variable lease payments (CAM)	Occupancy	93,165	38,397
Net lease cost		<u>\$ 291,460</u>	<u>\$ 138,634</u>

10. EMPLOYEE BENEFITS

The Organization has a Salary Reduction Retirement Plan which is qualified under Section 403(b) of the Internal Revenue Code. Eligible employees can elect to participate by contributing pre-tax dollars from payroll checks to the plan. The Organization matches 100% of the first 4% of the employee's contributions. For the period ended June 30, 2023 and 2022, the Organization contributed \$111,748 and \$111,902, respectively, to the 403(b) Plan.

11. COMMITMENT, CONTINGENCIES and CONCENTRATIONS

During the years ended June 30, 2023 and 2022, approximately 48% and 83%, respectively, of government grant revenue reported on the statement of activities was earned from four payors. 74% and 82% of outstanding receivables were due from three payors and five payors at June 30, 2023 and 2022, respectively.

The Organization received cost-reimbursable grants of \$5,042,945 and \$2,624,204 that have not been recognized at June 30, 2023 and 2022, respectively, because qualifying expenditures have not yet been incurred.

(Continued)

CHANGE INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2023 and 2022

12. SUBSEQUENT EVENTS

In September 2023, the 448 Page Street E property was sold for \$330,000. The Organization recognized a gain on sale of \$5,680.

Management has evaluated subsequent events through March 20, 2024, the date on which the financial statements were available for issue and identified no further significant events or transactions to disclose.

SUPPLEMENTARY INFORMATION

CHANGE INC.

STATEMENTS OF PROGRAM EXPENSES

For the Years Ended June 30, 2023 and 2022

2023

	Program Services								
	GAP School			Community and School Collaborative				Change Institute	Total
	Education	Youth Training and Employment	Food Service	Community Outreach	Clinic	Crossroads	School-based Mental Health		
Salaries	\$ 806,012	\$ 619,317	\$ 91,750	\$ 470,937	\$ 470,489	\$ 544,479	\$ 1,571,902	\$ 130,322	\$ 4,705,208
Payroll taxes	59,474	45,959	6,857	35,559	22,654	40,676	112,672	9,229	333,080
Employee benefits	117,313	79,134	14,279	49,338	45,533	47,577	192,719	21,521	567,414
Total personnel costs	982,799	744,410	112,886	555,834	538,676	632,732	1,877,293	161,072	5,605,702
Professional fees	13,951	12,557	1,310	26,424	241,574	5,391	130,446	36,215	467,868
Staff development	4,486	7,494	-	16,115	230	751	17,145	19,485	65,706
Occupancy	93,763	94,652	15,845	34,174	72,021	27,617	75,830	47,834	461,736
Minor equipment and maintenance	6,296	6,402	3,335	3,928	3,410	4,485	11,299	1,886	41,041
Supplies	8,674	7,325	40,281	6,727	10,685	1,924	20,389	678	96,683
Printing and postage	1,413	1,227	33	151	829	145	1,385	1,042	6,225
Vehicle expense	403	10,530	-	5,193	-	308	1,241	68	17,743
Student activities, transportation and stipends	34,703	125,353	-	3,025	78	812	-	-	163,971
Bank account expense	-	-	-	49	-	-	-	-	49
Miscellaneous expense	-	-	-	-	-	-	34,193	-	34,193
Depreciation	12,920	12,920	2,982	7,951	4,969	12,920	32,797	1,988	89,447
	<u>\$ 1,159,408</u>	<u>\$ 1,022,870</u>	<u>\$ 176,672</u>	<u>\$ 659,571</u>	<u>\$ 872,472</u>	<u>\$ 687,085</u>	<u>\$ 2,202,018</u>	<u>\$ 270,268</u>	<u>\$ 7,050,364</u>

2022

	Program Services								
	GAP School			Community and School Collaborative				Change Institute	Total
	Education	Youth Training and Employment	Food Service	Community Outreach	Clinic	Crossroads	School-based Mental Health		
Salaries	\$ 873,084	\$ 741,754	\$ 87,879	\$ 366,304	\$ 187,474	\$ 390,710	\$ 1,757,803	\$ 68,264	\$ 4,473,272
Payroll taxes	60,155	51,106	6,055	25,238	12,917	26,920	121,111	4,703	308,205
Employee benefits	111,559	113,647	17,597	44,944	18,009	46,033	224,507	9,624	585,920
Total personnel costs	1,044,798	906,507	111,531	436,486	218,400	463,663	2,103,421	82,591	5,367,397
Professional fees	34,514	25,261	7,162	25,295	98,038	10,328	289,884	49,719	540,201
Staff development	10,211	2,537	510	21,490	490	2,986	29,489	11,386	79,099
Occupancy	99,729	99,729	13,182	9,628	26,404	6,422	37,595	12,313	305,002
Minor equipment and maintenance	30,922	12,331	2,075	1,358	6,558	707	5,075	1,462	60,488
Supplies	25,865	28,728	83,999	7,266	9,977	1,338	10,901	3,978	172,052
Printing and postage	3,907	4,780	347	221	1,225	136	990	668	12,274
Vehicle expense	443	4,589	9	2,292	7	352	1,954	3	9,649
Student activities, transportation and stipends	33,141	58,241	-	17,917	-	-	120	221	109,640
Bank account expense	142	142	44	134	18	111	284	9	884
Miscellaneous expense	228	228	771	195	29	143	456	14	2,064
Depreciation	28,735	28,735	3,483	1,742	7,837	871	7,837	3,483	82,723
	<u>\$ 1,312,635</u>	<u>\$ 1,171,808</u>	<u>\$ 223,113</u>	<u>\$ 524,024</u>	<u>\$ 368,983</u>	<u>\$ 487,057</u>	<u>\$ 2,488,006</u>	<u>\$ 165,847</u>	<u>\$ 6,741,473</u>

See accompanying notes to financial statements.