Financial Statements
June 30, 2022 and 2021

# Change, Inc.

EideBailly®

eidebailly.com

**Independent Auditor's Report**

The Board of Directors
Change, Inc.
St. Paul, Minnesota

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the financial statements of Change, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2022 and 2021, 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 accompanying financial statements referred to above present fairly, in all material respects, the financial position of Change, Inc as of June 30, 2022 and 2021 , 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities of the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***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.

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 the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

***Auditor's Responsibilities of 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 GAAS 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 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 GAAS, 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 the Organization'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 the Organization'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.

Eide Bailly LLP

Minneapolis, Minnesota
May 12, 2023

| | 2022 | 2021 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ 81,091 | $ 749,816 |
| Accounts receivable | 1,031,265 | 988,812 |
| Pass-through receivable | 418,790 | - |
| Prepaid expenses and other assets | 184,300 | 70,634 |
| Property and equipment, net | 1,235,708 | 1,079,298 |
| Investments | 15,715 | 15,715 |
| Cash held for endowment | 33,065 | 33,065 |
| Total assets | $ 2,999,934 | $ 2,937,340 |
| Liabilities and Net Assets | | |
| Accounts payable | $ 155,195 | $ 43,607 |
| Accrued salaries and payroll liabilites | 425,197 | 286,109 |
| Other liabilities | 27,143 | 38,438 |
| Pass-through liability | 418,790 | 123,949 |
| Line of credit | 174,307 | - |
| Notes payable | 450,000 | 150,000 |
| Total liabilities | 1,650,632 | 642,103 |
| Net Assets | | |
| Without donor restrictions | | |
| Undesignated | 1,225,502 | 1,880,247 |
| Board-designated | 27,974 | 157,746 |
| | 1,253,476 | 2,037,993 |
| With donor restrictions | 95,826 | 257,244 |
| Total net assets | 1,349,302 | 2,295,237 |
| Total liabilities and net assets | $ 2,999,934 | $ 2,937,340 |

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenue, Support, and Gains | | | |
| Government grants | $ 4,099,468 | $ - | $ 4,099,468 |
| Program service fees | 996,247 | - | 996,247 |
| Individual, foundation, and corporate grants and 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, support, and gains | 7,034,026 | (161,418) | 6,872,608 |
| Expenses | | | |
| Program services expense | 6,741,473 | - | 6,741,473 |
| Supporting services expense | | | |
| Management and general | 868,832 | - | 868,832 |
| Fundraising and development | 208,238 | - | 208,238 |
| Total supporting services expenses | 1,077,070 | - | 1,077,070 |
| Total expenses and losses | 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 |

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenue, Support, and Gains | | | |
| Government grants | $ 4,137,492 | $ - | $ 4,137,492 |
| Program service fees | 687,597 | - | 687,597 |
| Individual, foundation, and corporate | | | - |
| grants and contributions | 230,168 | 224,354 | 454,522 |
| Net investment return | 7,142 | - | 7,142 |
| Medical billings | 1,165,687 | - | 1,165,687 |
| Contributions received under PPP | 337,024 | - | 337,024 |
| | | | - |
| Other income | 57,681 | - | 57,681 |
| Gain on sale of property and equipment | 127,244 | - | 127,244 |
| Distributions from beneficial interests | | | - |
| in assets held by others | - | 8,599 | 8,599 |
| Net assets released from restrictions | 171,373 | (171,373) | - |
| Total revenue, support, and gains | 6,921,408 | 61,580 | 6,982,988 |
| Expenses | | | |
| Program services expense | 5,538,102 | - | 5,538,102 |
| Supporting services expense | | | - |
| Management and general | 770,639 | - | 770,639 |
| Fundraising and development | 164,716 | - | 164,716 |
| Total supporting services expenses | 935,355 | - | 935,355 |
| Total expenses and losses | 6,473,457 | - | 6,473,457 |
| Change in Net Assets | 447,951 | 61,580 | 509,531 |
| Net Assets, Beginning of Year | 1,590,042 | 195,664 | 1,785,706 |
| Net Assets, End of Year | $ 2,037,993 | $ 257,244 | $ 2,295,237 |

# Change, Inc.

## Statement of Functional Expenses

## Year Ended June 30, 2022

| | Program Services | | | | | | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Education | Youth Training and Employment | Food Service | Community Outreach | Clinic | Crossroads | School-based Mental Health | Change Institute | Total | Management and General | Fundraising and Development | Total | Total Expenses |
| Salaries and Wages | $ 873,084 | $ 741,754 | $ 87,879 | $ 366,304 | $ 187,474 | $ 390,710 | $ 1,757,803 | $ 68,264 | $ 4,473,272 | $ 625,120 | $ 147,054 | $ 772,174 | $ 5,245,446 |
| Payroll Taxes and Benefits | 171,714 | 164,753 | 23,652 | 70,182 | 30,926 | 72,953 | 345,618 | 14,327 | 894,125 | 58,413 | 25,890 | 84,303 | 978,428 |
| Professional and Outside Services | 34,514 | 25,261 | 7,162 | 25,295 | 98,038 | 10,328 | 289,884 | 49,719 | 540,201 | 108,370 | 28,656 | 137,026 | 677,227 |
| Staff Development | 10,211 | 2,537 | 510 | 21,490 | 490 | 2,986 | 29,489 | 11,386 | 79,099 | 28,592 | 1,066 | 29,658 | 108,757 |
| Occupancy | 99,729 | 99,729 | 13,182 | 9,628 | 26,404 | 6,422 | 37,595 | 12,313 | 305,002 | 13,320 | 3,563 | 16,883 | 321,885 |
| Minor Equipment and Maintenace | 30,922 | 12,331 | 2,075 | 1,358 | 6,558 | 707 | 5,075 | 1,462 | 60,488 | 10,238 | 427 | 10,665 | 71,153 |
| Supplies | 25,865 | 28,728 | 83,999 | 7,266 | 9,977 | 1,338 | 10,901 | 3,978 | 172,052 | 11,374 | 222 | 11,596 | 183,648 |
| Printing and Postage | 3,907 | 4,780 | 347 | 221 | 1,225 | 136 | 990 | 668 | 12,274 | 1,128 | 439 | 1,567 | 13,841 |
| Vehicle Expense | 443 | 4,589 | 9 | 2,292 | 7 | 352 | 1,954 | 3 | 9,649 | (563) | 3 | (560) | 9,089 |
| Student Activities, Transportation and Stipends | 33,141 | 58,241 | - | 17,917 | - | - | 120 | 221 | 109,640 | (45) | - | (45) | 109,595 |
| Bank Account Expense | 142 | 142 | 44 | 134 | 18 | 111 | 284 | 9 | 884 | 10,015 | 18 | 10,033 | 10,917 |
| Miscellaneous Expense | 228 | 228 | 771 | 195 | 29 | 143 | 456 | 14 | 2,064 | 210 | 29 | 239 | 2,303 |
| Depreciation | 28,735 | 28,735 | 3,483 | 1,742 | 7,837 | 871 | 7,837 | 3,483 | 82,723 | 2,660 | 871 | 3,531 | 86,254 |
| | $ 1,312,635 | $ 1,171,808 | $ 223,113 | $ 524,024 | $ 368,983 | $ 487,057 | $ 2,488,006 | $ 165,847 | $ 6,741,473 | $ 868,832 | $ 208,238 | $ 1,077,070 | $ 7,818,543 |

# Change, Inc.
## Statement of Functional Expenses
## Year Ended June 30, 2021

| | Program Services | | | | | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Education | Youth Training and Employment | Food Service | Community Outreach | Welcome & Keep | School-based Mental Health | Change Institute | Total | Management and General | Fundraising and Development | Total | Total Expenses |
| Salaries and Wages | $ 668,243 | $ 638,757 | $ 105,895 | $ 483,541 | $ 194,447 | $ 1,335,717 | $ 137,702 | $ 3,564,302 | $ 373,069 | $ 132,617 | $ 505,686 | $ 4,069,988 |
| Payroll Taxes and Benefits | 135,768 | 139,631 | 19,410 | 77,873 | 36,510 | 288,653 | 26,176 | 724,021 | 97,121 | 23,491 | 120,612 | 844,633 |
| Professional and Outside Services | 11,629 | 3,533 | 219 | 11,076 | 219 | 215,826 | 48,263 | 290,765 | 192,375 | 3,816 | 196,191 | 486,956 |
| Staff Development | 18,089 | 1,737 | 843 | 1,019 | 3,438 | 11,941 | 6,725 | 43,792 | 27,560 | 1,026 | 28,586 | 72,378 |
| Occupancy | 37,161 | 77,383 | 7,627 | 14,865 | 7,432 | 73,450 | 29,397 | 247,315 | 12,060 | 1,486 | 13,546 | 260,861 |
| Minor Equipment and Maintenace | 28,025 | 11,953 | 2,929 | 9,740 | 1,708 | 32,282 | 1,868 | 88,505 | 7,544 | 342 | 7,886 | 96,391 |
| Supplies | 18,618 | 28,387 | 130,768 | 6,648 | 627 | 9,116 | 1,393 | 195,557 | 6,613 | 84 | 6,697 | 202,254 |
| Printing and Postage | 511 | 1,845 | 76 | 151 | 76 | 264 | 60 | 2,983 | 3,147 | 1,014 | 4,161 | 7,144 |
| Vehicle Expense | 220 | 1,587 | 1,560 | 1,447 | - | 4,275 | - | 9,089 | 435 | - | 435 | 9,524 |
| Transportation and Stipends | 131,423 | 150,450 | - | 9,178 | - | 300 | - | 291,351 | - | - | - | 291,351 |
| Bank Account Expense | - | - | - | - | - | - | 30 | 30 | 9,648 | - | 9,648 | 9,678 |
| Miscellaneous Expense | - | (34) | 1,431 | - | - | - | - | 1,397 | 36,865 | - | 36,865 | 38,262 |
| Depreciation | 21,009 | 29,413 | 4,202 | 8,404 | 4,202 | 8,404 | 3,361 | 78,995 | 4,202 | 840 | 5,042 | 84,037 |
| | $ 1,070,696 | $ 1,084,642 | $ 274,960 | $ 623,942 | $ 248,659 | $ 1,980,228 | $ 254,975 | $ 5,538,102 | $ 770,639 | $ 164,716 | $ 935,355 | $ 6,473,457 |

| | 2022 | 2021 |
|---|---|---|
| Operating Activities | | |
| Change in net assets | $ (945,935) | $ 509,531 |
| Adjustments to reconcile change in net assets to net cash from (used for) operating activities | | |
| Depreciation | 86,254 | 84,037 |
| Gain on sale of property and equipment | - | (127,244) |
| Contribution recognized related to Paycheck Protection Program note payable | - | (337,024) |
| Changes in operating assets and liabilities | | |
| Accounts receivable, net | (42,453) | (222,307) |
| Prepaid expenses and other assets | (113,666) | (54,398) |
| Accounts payable | 111,588 | (12,098) |
| Accrued salaries and payroll liabilites | 139,088 | 99,116 |
| Pass-through liability | (123,949) | 115,333 |
| Other liabilities | (11,295) | 28,977 |
| Net Cash from (used for) Operating Activities | (900,368) | 83,923 |
| Investing Activities | | |
| Purchases of property and equipment | (242,664) | (140,672) |
| Proceeds from sales of property and equipment | - | 188,086 |
| Net Cash from (used for) Investing Activities | (242,664) | 47,414 |
| Financing Activities | | |
| Net borrowings under PPP advance | - | - |
| Proceeds from issuance of note payable | 300,000 | 150,000 |
| Net borrowings (repayments) under line of credit | 174,307 | (195,000) |
| Net Cash from (used for) Financing Activities | 474,307 | (45,000) |
| Net Change in Cash, Cash Equivalents, and Restricted Cash | (668,725) | 86,337 |
| Cash, Cash Equivalents, and Restricted Cash, Beginning of Year | 782,881 | 696,544 |
| Cash, Cash Equivalents, and Restricted Cash End of Year | $ 114,156 | $ 782,881 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the year for | | |
| Interest | $ - | $ 7,829 |
| Cash and cash equivalents | $ 81,091 | $ 749,816 |
| Cash held for endowment | 33,065 | 33,065 |
| Total Cash, Cash Equivalents and Restricted Cash | $ 114,156 | $ 782,881 |

## Note 1 - Principal Activity and Significant Accounting Policies

### Organization

Change Inc. (hereafter referred to as 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. has been described as having “grit,” in that they consistently work to overcome difficult situations and find ways to creatively empower participants. The barriers our community faces do not have a single solution; instead, they require an ongoing organizational desire to change and adapt. Staff are empowered to be persistent, courageous, and to utilize their strength of character and culture alongside that of those they serve. This creates an atmosphere that is nimble, responsive, and built on a collaborative foundation to actively respond to community needs.

Change Inc. serves the farthest out kids; the kids facing the most barriers to success in school. In Minnesota, the farthest out kids are most often from Black, Indigenous, or People of Color (BIPOC), low income, immigrant/refugee, and English Language Learner communities. Additionally, most often, the farthest out kids have experienced trauma, often extreme, in their short lives.

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.

**Cash and Cash Equivalents**

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to endowments that are perpetual in nature or other long-term purposes are excluded from this definition.

**Receivables and Credit Policies**

Accounts receivable consist primarily of noninterest-bearing amounts due on fee-for-service contracts. Allowance for uncollectable on receivables 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, 2022 and 2021, the allowance was $0.

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, 2022 and 2021.

**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 ranging from 3 to 40 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statement of activities. 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.

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long 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 these net assets with donor restrictions to net assets without donor restrictions at that time.

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2022 or 2021.

**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, 2022 and 2021, approximately $231,538 and $250,151, respectively, was held in the Foundation related to these contributions. Grants of $9,042 and $8,599 have been distributed from these funds during the year ended period June 30, 2022 and 2021, respectively.

**Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

**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 and proceeds are anticipated related to cost-reimbursement grants whereby Change, Inc. is the pass-through entity.

**Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein 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) restrictions. Some donor imposed (or grantor) 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 restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. 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 ends, or purpose restriction is accomplished) 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, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

**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. 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. There are no significant revenues with related performance obligations satisfied at a point in time.

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. The Organization received cost-reimbursable grants of $2,624,204 and $1,557,247 that have not been recognized at June 30, 2021 and 2020, respectively, because qualifying expenditures have not yet been incurred. The Organization's receivables as of July 1, 2020, was $766,505 and as of July 1, 2021, was $988,812, respectively.

**Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the years ended June 30, 2022 or 2021.

**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.

**Income Taxes**

The Organization is organized as a Minnesota nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an entity described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction, and has been determined not to be a private foundation. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entity is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires the Organization to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

**Financial Instruments, Concentration, and Credit Risk**

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed by the Organization to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and payors supportive of the Organization's mission.

During the years ended June 30, 2022 and 2021, approximately 83% and 65%, respectively, of government grant revenue reported on the statement of activities was earned from four payors for both years. 82% and 81% of outstanding receivables were due from five payors and seven payors at June 30, 2022 and 2021, respectively.

The Organization maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor, per insured bank, for each account ownership category. At June 30, 2022 and 2021, the Organization had approximately $0 and $394,184 in excess of FDIC-insured limits.

**Subsequent Events**

The Organization has evaluated subsequent events through May 12, 2023, the date the financial statements were available to be issued.

## Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

| | 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents | $ 81,091 | $ 749,816 |
| Accounts receivable | 1,031,265 | 988,812 |
| | $ 1,112,356 | $ 1,738,628 |

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 $27,000 and $157,000 at June 30, 2022 and 2021, respectively, for capital spending plans in future years. These include making plans for a renovation of GAP School and expansion of our office in Northeast Minneapolis.

## Note 3 - Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

> Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.
>
> Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.
>
> Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's assessment of the quality, risk, or liquidity profile of the asset or liability.

The fair value of the donated gemstones is considered to be a Level 3 measurement.

Fair values of assets measured on a nonrecurring basis at June 30, 2022 and 2021, are as follows:

| | | Fair Value Measurements at Report Date Using | | | |
|---|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Losses |
| Long-lived asset held and used gemstones | $ 15,715 | $ - | $ - | $ 15,715 | $ - |

Fair value for the donated gemstones is based on estimation provided by an appraiser and was written down in 2012 to the estimated fair market value. Management does not believe there has been any significant change in value of these gemstones since the last appraisal was performed, therefore no appraisal was obtained as of June 30, 2022 and 2021. These assets are reported within the investments on the statement of financial position.

## Note 4 - Property and Equipment

Property and equipment consist of the following at June 30, 2022 and 2020:

| | 2022 | 2021 |
|---|---|---|
| Land | $ 6,400 | $ 6,400 |
| Buildings and improvements | 2,748,272 | 2,734,074 |
| Equipment and furniture and fixtures | 449,684 | 444,309 |
| Vehicles | 26,383 | 26,383 |
| Leashold improvements | 114,424 | 25,000 |
| Construction in progress | 277,744 | 144,079 |
| | 3,622,907 | 3,380,245 |
| Less accumulated depreciation and amortization | (2,387,199) | (2,300,947) |
| | $ 1,235,708 | $ 1,079,298 |

The construction in progress 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.

Depreciation expense totaled $86,254 and $84,037 for the years ended June 30, 2022 and 2021, respectively.

## Note 5 - Note Payable

Notes payable consist of the following at June 30, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| 2.75% note payable, due in monthly installments, payments start on January 2023 from U.S. Small Business Administration | $ 150,000 | $ 150,000 |
| 3.0% note payable, due in monthly installments, payments start on February 28, 2023 from Propel | 300,000 | - |
| | 450,000 | 150,000 |
| Less current maturities | (20,150) | (5,000) |
| Long-term debt, less current maturities and unamortized debt issuance costs | $ 429,850 | $ 145,000 |

Future maturities of notes payable are as follows:

| Years Ending June 30, | Amount |
|---|---|
| 2023 | $ 20,150 |
| 2024 | 65,600 |
| 2025 | 65,600 |
| 2026 | 65,600 |
| 2027 | 47,971 |
| Thereafter | 185,079 |
| Total | $ 450,000 |

(*) The Organization was granted an $801,295 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner in 2020. The loan was uncollateralized and was fully guaranteed by the Federal Government. The Organization was eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. For the years ended June 30, 2021, the Organization has recorded contribution revenue (debt forgiveness) of $337,024, respectively, based on management's assessment that there is no longer a measurable performance or other barrier and a right to return. These amounts are reflected on the statements of activities for the year ended June 30, 2021. The Organization received notice of full forgiveness from the SBA during the year ended June 30, 2022.

## Note 6 - Line of Credit

The Organization had a $300,000 line of credit with Propel as of June 30, 2022. Borrowings under the line bore interest at 5.25%. There was $174,300 outstanding on the line of credit as of June 30, 2022.

## Note 7 - Leases

Equipment is leased under various operating leases, expiring at various dates through 2025.

Future minimum lease payments are as follows:

| Years Ending June 30, | Amount |
|---|---|
| 2023 | $ 193,887 |
| 2024 | 190,202 |
| 2025 | 194,021 |
| 2026 | 198,829 |
| | $ 776,939 |

Rent expenses charged to operations under these leases amounted to $66,796 and $70,659 for the years ended June 30, 2022 and 2021, respectively.

## Note 8 - 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 date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2022 and 2021, 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. 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.

As of June 30, 2022 and 2021, endowment net asset composition by type of fund is as follows:

| 2022 | Without Donor Restriction | With Donor Restrictions | Total |
|---|---|---|---|
| Donor-restricted endowment funds | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | $ - | $ 33,065 | $ 33,065 |
| | $ - | $ 33,065 | $ 33,065 |

| 2021 | Without Donor Restriction | With Donor Restrictions | Total |
|---|---|---|---|
| Donor-restricted endowment funds | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | $ - | $ 33,065 | $ 33,065 |
| | $ - | $ 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, 2022 and 2021.

As of June 30, 2022, 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 year ended June 30, 2022 and 2021.

## Note 9 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Subject to expenditure for specified purpose | | |
| Community School Collaborative | $ - | $ 60,000 |
| Rites of Passages | 29,308 | - |
| Scholarships | 5,502 | 5,500 |
| Computers | 27,946 | 51,229 |
| Other | 5 | 32,450 |
| | 62,761 | 149,179 |
| Subject to the passage of time | - | 75,000 |
| | 62,761 | 224,179 |
| Endowments | | |
| Perpetual in nature, earnings from which are subject to endowment spending policy appropriation | | |
| General use | 33,065 | 33,065 |
| | $ 95,826 | $ 257,244 |

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 donors as follows for the period ended June 30, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Distributions (proceeds are not restricted by donors) | | |
| Beneficial interests in charitable trusts held by others | $ 9,042 | $ 8,599 |
| Net assets released from restriction | | |
| General Operations | $ 75,000 | $ - |
| Community School Collaborative | 60,000 | 80,000 |
| Opportunity reboot | - | 47,883 |
| Council of Black Men Success | - | 16,665 |
| Scholarships | 500 | 1,539 |
| Computers | 23,283 | 6,125 |
| Other | 41,943 | 10,562 |
| | $ 200,726 | $ 162,774 |

## Note 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, 2022 and 2021, the Organization contributed $111,902 and $104,311, respectively, to the 403(b) Plan.