

INTERCHANGE, INC.
MILWAUKEE, WISCONSIN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2022 AND 2021

INTERCHANGE, INC.
MILWAUKEE, WISCONSIN

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Independent Auditor's Report

Board of Directors
Interchange, Inc.
Milwaukee, Wisconsin

Opinion

We have audited the accompanying financial statements of Interchange, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 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 financial statements referred to above present fairly, in all material respects, the financial position of Interchange, Inc. as of December 31, 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. 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 Interchange, 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Interchange, 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 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, 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 Interchange, 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 Interchange, 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.



Krause & Associates, SC
Grafton, Wisconsin
November 13, 2023

INTERCHANGE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 185,292	\$ 222,474
Contributions receivable	19,224	26,710
Grants receivables	79,766	-
Inventory, donated	21,466	25,626
Prepaid expenses	<u>167</u>	<u>80</u>
	<u>305,915</u>	<u>274,890</u>
PROPERTY AND EQUIPMENT		
Equipment	65,285	40,951
Vehicles	<u>53,821</u>	<u>19,318</u>
	119,106	60,269
Less accumulated depreciation	<u>(25,798)</u>	<u>(34,329)</u>
Property and equipment, net	<u>93,308</u>	<u>25,940</u>
TOTAL ASSETS	<u>\$ 399,223</u>	<u>\$ 300,830</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 1,043	\$ 1,078
Accrued payroll and payroll taxes	<u>-</u>	<u>-</u>
Total liabilities	1,043	1,078
NET ASSETS		
Without donor restrictions	378,956	273,042
With donor restrictions	<u>19,224</u>	<u>26,710</u>
Total net assets	<u>398,180</u>	<u>299,752</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 399,223</u>	<u>\$ 300,830</u>

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

INTERCHANGE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Contributions and grants	\$ 385,789	\$ 19,224	\$ 405,013	\$ 223,391	\$ 26,710	\$ 250,101
In-kind contributions						
Donations of food	599,743	-	599,743	911,196	-	911,196
Space	1,200	-	1,200	1,200	-	1,200
Miscellaneous	9,848	-	9,848	-	-	-
Interest income	77	-	77	39	-	39
Net assets released from restrictions	26,710	(26,710)	-	13,825	(13,825)	-
Total revenue and support	1,023,367	(7,486)	1,015,881	1,149,651	12,885	1,162,536
EXPENSES						
Program:						
Pantry operations	856,002	-	856,002	1,072,253	-	1,072,253
Supporting services:						
Administration	31,552	-	31,552	22,779	-	22,779
Fundraising	29,899	-	29,899	5,495	-	5,495
Total expenses	917,453	-	917,453	1,100,527	-	1,100,527
Changes in net assets	105,914	(7,486)	98,428	49,124	12,885	62,009
Beginning net assets	273,042	26,710	299,752	223,918	13,825	237,743
Ending net assets	\$ 378,956	\$ 19,224	\$ 398,180	\$ 273,042	\$ 26,710	\$ 299,752

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

INTERCHANGE, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022				2021			
	Program	Supporting services		Total	Program	Supporting services		Total
	Pantry Operations	Administration	Fundraising		Pantry Operations	Administration	Fundraising	
Depreciation	\$ 10,787	\$ -	\$ -	\$ 10,787	\$ 7,800	\$ -	\$ -	\$ 7,800
Equipment	2,646	-	-	2,646	705	-	-	705
Food and hygiene products	776,211	-	-	776,211	957,461	-	-	957,461
Insurance	464	197	252	913	1,052	168	65	1,285
Occupancy	5,469	1,814	2,317	9,600	19,965	3,004	1,161	24,130
Payroll Expenses:								
Salaries and wages	46,057	19,573	25,000	90,630	61,844	9,900	3,825	75,569
Payroll taxes	3,355	1,426	1,821	6,602	6,063	970	375	7,408
Professional fees	439	5,037	238	5,714	723	7,366	45	8,134
Supplies and other	4,807	3,414	155	8,376	8,406	1,308	-	9,714
Telephone	213	91	116	420	393	63	24	480
Vehicle	5,554	-	-	5,554	7,841	-	-	7,841
Total Expenses	<u>\$ 856,002</u>	<u>\$ 31,552</u>	<u>\$ 29,899</u>	<u>\$ 917,453</u>	<u>\$ 1,072,253</u>	<u>\$ 22,779</u>	<u>\$ 5,495</u>	<u>\$ 1,100,527</u>

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

INTERCHANGE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 98,428	\$ 62,009
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation expense	10,787	7,800
(Increase) decrease in in-kind food inventory	4,160	(716)
Investment income	-	(21)
(Increase) decrease in contributions receivable	7,486	(12,885)
(Increase) decrease in grants receivable	(79,766)	-
(Increase) decrease in prepaid expenses	(87)	331
Increase (decrease) in accounts payable	(353)	1,078
Increase (decrease) in accrued payroll taxes	-	(5,507)
Net cash provided by (used in) operating activities	40,973	52,089
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in certificate of deposit	-	41,740
Proceeds from investments	-	-
Additions to property and equipment	(78,155)	(18,569)
Net cash provided by (used in) investing activities	(78,155)	23,171
Net increase (decrease) in cash and cash equivalents	(37,182)	75,260
Cash and cash equivalents at beginning of year	222,474	147,214
Cash and cash equivalents at end of year	\$ 185,292	\$ 222,474

Supplemental cash flow information:

In-kind contributions received	\$ 600,943	\$ 912,396
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No cash paid for interest or income taxes during 2022 and 2021.

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

INTERCHANGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Organization and business activity

Interchange, Inc. (Interchange) is a Wisconsin non-stock nonprofit corporation, whose primary purpose is to provide emergency food assistance to needy individuals in Milwaukee, Wisconsin. The pantry has one permanent location, which is open four times weekly, and two satellite food pantries. One satellite pantry is open once a week, and the other is open twice a month.

2. Cash and cash equivalents

Interchange considers all 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, to be cash and cash equivalents.

3. Contributions and Contributions and Grants Receivable

Interchange 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 statements of activities. Interchange determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. Interchange has no contributions receivable at December 31, 2022 and 2021.

4. Prepaid expenses

Prepaid expenses represent disbursements paid in advance for the subsequent fiscal year.

5. Inventory

Inventory consists of food and is stated at donated value. Any purchased inventory is stated at the lower of cost or market value.

INTERCHANGE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Investments

Interchange records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Investment income is reported in the statements of activities and consists of interest and dividend income, unrealized capital gains and losses, and realized gains and losses less external investment expenses.

Investment securities, in general, are inherently subject to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and statements of activities.

7. Property and equipment

Property and equipment are recorded at cost or fair market value if donated. Interchange's policy is to capitalize all tangible assets which separately or in the aggregate have an acquisition cost of \$500 or greater. Major additions and improvements are capitalized. Property and equipment are depreciated over the estimated useful lives of the assets using the straight-line method. 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 statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Depreciation expense for the years ended December 31, 2022 and 2021 was \$10,787 and \$7,800, respectively.

8. Net assets

Interchange follows the accrual method of accounting wherein revenues and expenses are recorded in the period earned or incurred. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes 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.

INTERCHANGE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Net assets - continued

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Interchange 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 statements of activities as net assets released from restrictions.

9. Revenue and Revenue Recognition

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.

During 2022, Interchange was awarded a cost-reimbursable state grant, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when we have incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position.

Consequently, as of December 31, 2022, cost reimbursed grants totaling \$198,186 have not been recognized in the accompanying financial statements because qualifying expenditures have not yet been incurred. No amounts have been received in advance under the grant.

As of December 31, 2021, Interchange has no conditional contributions.

INTERCHANGE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. Donated services and in-kind contributions

Volunteers contribute significant amounts of time to our 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. Interchange records donated professional services at the respective fair values of the services received (see Note E).

11. Allocation of functional expenses

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 occupancy, depreciation, salaries and wages, benefits, payroll taxes, professional services, office expenses, supplies, insurance, and other, which are allocated on the basis of estimates of time and effort.

12. Use of estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management 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.

13. Income taxes

Interchange is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Interchange evaluates its tax positions and assesses their uncertainty, if any, through review and application of various sources of tax authority including statutes, regulations, rulings, court cases and widely held administrative practices.

Interchange's informational returns are subject to examination by the IRS, generally for three years after they were filed. Management believes that no uncertain tax positions exist for Interchange at December 31, 2022 and 2021. Interchange has not incurred any interest or penalties for income taxes for the years ended December 31, 2022 and 2021.

INTERCHANGE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

14. New Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance in *Topic 840, Leases*. The FASB subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; ASU 2018-20, *Narrow-scope Improvements for Lessors*; ASU 2019-01, *Leases (Topic 842): Codification Improvements*; ASU 2020-05, *Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments*; and ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*. Topic 842 amends both lessor and lessee accounting with the most significant change being the requirement for lessees to recognize right-of-use (ROU) assets and lease liabilities on the statement of financial position for operating leases.

Interchange adopted the leasing standards effective January 1, 2022, using the modified retrospective approach with January 1, 2022 as the initial date of application. Interchange elected to use all available practical expedients provided in the transition guidance. These allowed Interchange to not reassess the identification, classification and initial direct costs of lessor agreements and to use hindsight in lessee and lessor agreements for determining lease term and right-of-use asset impairment. Topic 842 had no effect to beginning net assets or statement of financial position accounts related to lessor accounting. Interchange has elected the short-term exemption for all leases with a term of 12 months or less for both existing and ongoing leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on a short-term basis. See note F.

15. Subsequent events

Management has evaluated subsequent events for recognition and disclosure in the financial statements through November 13, 2023, which is the date that the financial statements were available to be issued.

INTERCHANGE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

B – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date of December 31, 2022 and 2021, comprise the following:

	2022	2021
Cash and cash equivalents	\$ 185,292	\$ 222,474
Contributions receivable	19,224	26,710
Grants receivable	79,766	-
	\$ 284,282	\$ 249,184

As part of its liquidity plan, Interchange invests cash in excess of daily requirements in short-term money market funds.

C – CONTRIBUTIONS AND GRANTS RECEIVABLE

At December 31, 2022 and 2021, contributions and grants receivable consist of outstanding donations and grants awarded to Interchange and total \$19,224 and \$79,766 and \$26,710 and \$0, respectively. Interchange considers all contributions and grants receivable to be fully collectible; accordingly, no provision for doubtful accounts is included. If amounts become uncollectible, they will be charged to operations when that determination is made. All contributions and grants receivable amounts are due within 12 months of the year end.

D – NET ASSETS

Contributions received are recorded as temporarily restricted net assets depending on the existence and or nature of any donor-imposed restrictions. As restrictions are met and funds expended, assets are released from restrictions. Net assets with donor restrictions are restricted for the following purposes as of December 31, 2022 and 2021:

	2022	2021
Subject to passage of time	\$ 19,224	\$ 26,710

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 years ended December 31, 2022 and 2021:

Passage of time	\$ 26,710	\$ 13,825
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INTERCHANGE, INC.
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 DECEMBER 31, 2022 AND 2021

E – DONATED FACILITIES, SERVICES AND PERSONAL PROPERTY

Interchange receives and distributes food and personal hygiene items. For the years ended December 31, 2022 and 2021, Interchange received approximately 318,721 and 509,048 pounds of food respectively. Interchange bases the per pound value on a study performed by Feeding America which was \$1.92 and \$1.79 per pound for the years ended December 31, 2022 and 2021 and totaled approximately \$599,743 and \$911,196, respectively. The estimated value of this food is recorded as both revenue and expense at the time of receipt and is valued at fair market value on the date of the donation.

Interchange also received use of designated space at Immanuel Church at no cost. Interchange recognized \$1,200 of in-kind donations of rent in 2022 and 2021.

The approximate fair value of donated goods and services for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Donated food	\$ 599,743	\$ 911,196
Pantry space	1,200	1,200
Total	\$ 600,943	\$ 912,396

A number of unpaid volunteers have made significant contributions of their time in conjunction with Interchange’s programs and services. The value of this contributed time is not included in these financial statements, as they do not meet the criteria for recognition.

F - LEASE COMMITMENTS

As noted in footnote E, Interchange receives the use of donated space at Immanuel Church. Interchange recognized \$1,200 of in-kind donations of rent in 2022 and 2021.

Interchange utilizes space at Village Church. In lieu of rental payments, Interchange pays a portion of the utilities, as specified in an annual building usage agreement. The building usage agreement is for a period of 12 months, through December 31, 2022. Interchange paid \$8,400 and \$11,250 for the years ended December 31, 2022 and 2021, respectively. In addition, for the year ended December 31, 2021, Interchange contributed an additional \$11,680 toward common maintenance and repair expenses. Subsequent to year end, the building usage agreement for the year ended December 31, 2023 was signed. Required payments in 2023 total \$11,370.

Occupancy expenses for the years ended December 31, 2022 and 2021 amounted to \$9,600 and \$24,130, respectively.

INTERCHANGE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022 AND 2021

G – CONCENTRATIONS

As noted in footnote E, Interchange receives a substantial amount of donated food. The majority of the donated food is received from one source. Without this donated food, the amount of food distributed to the community would be greatly impacted.