

**MERRICK, INC.**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

For The Years Ended  
June 30, 2018 and 2017

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**MERRICK, INC.**  
**TABLE OF CONTENTS**

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		<u>Page Number</u>
Independent Auditor's Report		1
<b>FINANCIAL STATEMENTS</b>		
Statements of Financial Position	Statement 1	4
Statements of Activities	Statement 2	5
Statements of Functional Expenses	Statement 3	6
Statements of Cash Flows	Statement 4	8
Notes to Financial Statements		9

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Merrick, Inc.  
Vadnais Heights, Minnesota

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

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Gambling Fund of Merrick, Inc., which statements reflect total assets of \$258,619 as of June 30, 2018 and \$225,382 as of June 30, 2017, and total revenues of \$354,227 (special fundraising gross receipts of \$28,914,214 less expenses of \$28,559,987) for the year ended June 30, 2018, and \$381,762 (special fundraising gross receipts of \$25,140,001 less expenses of \$24,758,239) for the year ended June 30, 2017. Those statements, which were prepared in accordance with the regulatory basis of accounting prescribed by the Minnesota Department of Revenue, were audited by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of the Gambling Fund of Merrick, Inc., which conform those financial statements to accounting principles generally accepted in the United States of America (as described in Note 15 to the financial statements). Our opinion, insofar as it relates to the amounts included for the Gambling Fund of Merrick, Inc., prior to these adjustments, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

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

*Redpath and Company, Ltd.*

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

November 15, 2018

## **FINANCIAL STATEMENTS**

**MERRICK, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2018 and 2017

**Statement 1**

	<u>2018</u>	<u>2017</u>
Assets:		
Cash and cash equivalents	\$635,896	\$1,022,616
Accounts receivable, net of allowance for doubtful accounts:		
Day training and habilitation	516,006	424,338
Work activities	260,734	229,805
Newtrax	737	-
Other	1,675	1,730
Inventory	26,819	51,172
Prepaid expenses and other assets	109,740	86,573
Investments	373,615	257,097
Notes receivable - Newtrax	67,060	32,486
Investment in joint venture - Newtrax	822,766	841,173
Fixed assets, net	<u>4,638,543</u>	<u>4,899,550</u>
Total assets	<u><u>\$7,453,591</u></u>	<u><u>\$7,846,540</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$216,056	\$278,323
Accounts payable - Newtrax	23,013	21,203
Accrued payroll, withholdings and bonus	222,131	230,476
Accrued paid time off (PTO)	132,839	131,273
Notes and loans payable	<u>2,755,787</u>	<u>2,951,013</u>
Total liabilities	<u><u>3,349,826</u></u>	<u><u>3,612,288</u></u>
Net assets:		
Temporarily restricted	63,398	57,088
Unrestricted:		
Designated	536,026	356,536
Undesignated	<u>3,504,341</u>	<u>3,820,628</u>
Total net assets	<u><u>4,103,765</u></u>	<u><u>4,234,252</u></u>
Total liabilities and net assets	<u><u>\$7,453,591</u></u>	<u><u>\$7,846,540</u></u>

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



**MERRICK, INC.**  
**STATEMENTS OF ACTIVITIES**  
For The Years Ended June 30, 2018 and 2017

**Statement 2**

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and gains:						
Day training and habilitation (DT&H):						
MMISII	\$5,851,234	\$ -	\$5,851,234	\$6,034,049	\$ -	\$6,034,049
GoTo revenue	422,325	-	422,325	263,850	-	263,850
County revenues	325,922	-	325,922	333,160	-	333,160
Work activities:						
General	1,143,811	-	1,143,811	1,109,140	-	1,109,140
Paper sales	996,557	-	996,557	1,097,219	-	1,097,219
Charges for services - Newtrax	-	-	-	10,011	-	10,011
Donations and grants	123,957	15,000	138,957	94,389	98,000	192,389
Interest on notes receivable	1,783	-	1,783	2,127	-	2,127
Investment income (loss)	(3,482)	-	(3,482)	1,097	-	1,097
Miscellaneous income	26,537	-	26,537	30,093	-	30,093
Increase (decrease) of investment in joint venture - Newtrax	(18,407)	-	(18,407)	29,598	-	29,598
Gain on disposal of fixed assets	1,205	-	1,205	2,400	-	2,400
Subtotal	8,871,442	15,000	8,886,442	9,007,133	98,000	9,105,133
Special fundraising:						
Gross receipts	29,092,607	15,781	29,108,388	25,302,366	18,249	25,320,615
Less - direct expenses	(28,624,371)	-	(28,624,371)	(24,845,050)	-	(24,845,050)
Net special fundraising	468,236	15,781	484,017	457,316	18,249	475,565
Net assets released from restrictions	24,471	(24,471)	-	140,812	(140,812)	-
Total revenues and gains	9,364,149	6,310	9,370,459	9,605,261	(24,563)	9,580,698
Expenses:						
Program	8,094,519	-	8,094,519	7,985,526	-	7,985,526
Administration	1,193,832	-	1,193,832	1,110,694	-	1,110,694
Development	212,595	-	212,595	186,271	-	186,271
Total expenses	9,500,946	0	9,500,946	9,282,491	0	9,282,491
Increase (decrease) in net assets	(136,797)	6,310	(130,487)	322,770	(24,563)	298,207
Net assets - beginning	4,177,164	57,088	4,234,252	3,854,394	81,651	3,936,045
Net assets - ending	\$4,040,367	\$63,398	\$4,103,765	\$4,177,164	\$57,088	\$4,234,252

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

**MERRICK, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
For The Years Ended June 30, 2018 and 2017

	2018			Total
	Program	Administration	Development	
Expenses:				
Salaries	\$3,161,933	\$433,425	\$136,778	\$3,732,136
Payroll taxes	273,890	27,283	8,377	309,550
Employee benefits	681,143	93,526	39,636	814,305
Total personnel expenses	<u>4,116,966</u>	<u>554,234</u>	<u>184,791</u>	<u>4,855,991</u>
Professional fees	43,419	114,117	-	157,536
Contractual services - clients	778,648	10,483	-	789,131
Contractual services - GoTo	308,317	-	-	308,317
Contractual services - other	319,863	-	-	319,863
Program activity and supplies	138,502	37,158	6,023	181,683
Telephone and cellular phones	7,182	4,099	882	12,163
Occupancy	223,468	129,626	226	353,320
Licenses and fees	8,088	1,680	-	9,768
DT&H vehicle expense	80,725	6,883	-	87,608
DT&H transportation expense - Newtrax	994,783	-	-	994,783
Office supplies and equipment	29,731	35,838	4,861	70,430
Repairs and maintenance	9,277	10,053	-	19,330
Insurance	915	40,562	-	41,477
Interest	57,696	19,882	4,769	82,347
Postage	148	8,127	673	8,948
Miscellaneous	37,818	12,690	10,370	60,878
Depreciation	50,762	208,400	-	259,162
Subtotal expenses	<u>7,206,308</u>	<u>1,193,832</u>	<u>212,595</u>	<u>8,612,735</u>
Cost of paper sales	888,211	-	-	888,211
Total expenses	<u><u>\$8,094,519</u></u>	<u><u>\$1,193,832</u></u>	<u><u>\$212,595</u></u>	<u><u>\$9,500,946</u></u>

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

	2017			Total
	Program	Administration	Development	
Expenses:				
Salaries	\$3,146,482	\$411,806	\$106,363	\$3,664,651
Payroll taxes	307,250	28,568	6,583	342,401
Employee benefits	602,718	87,364	37,786	727,868
Total personnel expenses	4,056,450	527,738	150,732	4,734,920
Professional fees	47,139	94,294	15,394	156,827
Contractual services - clients	748,226	20,410	-	768,636
Contractual services - GoTo	198,845	-	-	198,845
Contractual services - other	312,142	-	-	312,142
Program activity and supplies	125,836	696	2,124	128,656
Telephone and cellular phones	9,984	3,250	898	14,132
Occupancy	207,698	109,755	247	317,700
Licenses and fees	7,377	700	-	8,077
DT&H vehicle expense	96,451	12,508	-	108,959
DT&H transportation expense - Newtrax	1,027,322	-	-	1,027,322
Office supplies and equipment	37,635	29,520	3,999	71,154
Repairs and maintenance	7,634	15,980	-	23,614
Insurance	915	36,562	-	37,477
Interest	61,749	21,278	5,224	88,251
Postage	47	5,269	982	6,298
Bad debt expense	(36,855)	-	-	(36,855)
Miscellaneous	18,138	13,658	6,671	38,467
Depreciation	76,397	219,076	-	295,473
Subtotal expenses	7,003,130	1,110,694	186,271	8,300,095
Cost of paper sales	982,396	-	-	982,396
Total expenses	\$7,985,526	\$1,110,694	\$186,271	\$9,282,491

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

**MERRICK, INC.**  
**STATEMENTS OF CASH FLOWS**  
For The Years Ended June 30, 2018 and 2017

**Statement 4**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	(\$130,487)	\$298,207
Adjustments:		
Depreciation	259,162	295,473
Gain on disposal of fixed assets	(1,205)	(2,400)
(Gain) loss in fair value of investments	12,563	3,055
(Increase) decrease in accounts receivable	(123,279)	(42,787)
(Increase) decrease in inventory	24,353	(2,249)
(Increase) decrease in prepaid expenses	(23,167)	(1,140)
(Increase) decrease in investment in joint venture	18,407	(29,598)
Increase (decrease) in accounts payable	(60,457)	92,987
Increase (decrease) in accrued liabilities	<u>(6,779)</u>	<u>(135,425)</u>
Net cash provided by (used in) operating activities	<u>(30,889)</u>	<u>476,123</u>
Cash flows from investing activities:		
Purchase of fixed assets	(6,000)	(118,602)
Proceeds from the sale of fixed assets	9,050	2,400
Repayment of notes receivable - Newtrax	20,426	16,031
Disbursement of notes receivable - Newtrax	(55,000)	-
Additions to investment pool, including reinvested income	<u>(129,081)</u>	<u>(260,152)</u>
Net cash provided by (used in) investing activities	<u>(160,605)</u>	<u>(360,323)</u>
Cash flows from financing activities:		
Repayment of notes payable	<u>(195,226)</u>	<u>(188,154)</u>
Net increase (decrease) in cash and cash equivalents	(386,720)	(72,354)
Cash and cash equivalents - beginning	<u>1,022,616</u>	<u>1,094,970</u>
Cash and cash equivalents - end	<u><u>\$635,896</u></u>	<u><u>\$1,022,616</u></u>
Supplemental data:		
Interest paid	<u><u>\$82,347</u></u>	<u><u>\$88,251</u></u>

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

**Note 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

NATURE OF ACTIVITIES

Merrick, Inc., (Merrick) is a private, non-profit 501(c)(3) corporation, licensed by the Minnesota Department of Human Services (DHS) as an Adult Day Services (ADS), Day Training & Habilitation (DT&H) and Employment Services provider. Merrick is dedicated to serving adults with intellectual or developmental disabilities by providing services that offer (i) **meaningful work** where the client is engaged in preferred tasks, completed by them, in a setting of their choice (center, crew, or hired), working desired hours, and earning a satisfactory wage; (ii) **unique and interesting life enrichment activities** that include therapeutic (e.g. art, horticulture, music, OT, pet, PT, theater, yoga, etc.), leisure, and volunteer activities intended to maintain or slow the decline of cognitive and physical health; and (iii) **self-advocacy** opportunities for clients to connect with their legislators, serve on local Boards and/or committees, attend training conferences, and realize their civic rights – adding value to their lives and communities. Most of the clients in our program have a primary diagnosis of an intellectual disability and a number have secondary conditions that include: non-ambulatory, sight impaired/blind, hearing impaired/deaf, non-verbal, and special dietary concerns (i.e. G-Tubes, dietary restrictions, modified diets, etc.). In addition, many clients have secondary diagnoses that include Alzheimer’s, autism, cerebral palsy, dementia, epilepsy, mental illness, seizure disorders, and other related conditions.

Incorporated in 1972, the concept of Merrick began on March 6, 1959 when 6 adults with mental retardation living in the Merrick Community Center’s area attended an organizational meeting and, on October 1, 1964, Merrick became one of the first 7 Day Activity Centers to begin operating as a pilot program. From this, Merrick has expanded its service to nearly 375 people, operating more than 15 charitable gambling pulltab sites, employing 155 professional staff, maintaining a fleet of 30 vehicles, and developing job sites with over 100 businesses throughout the metropolitan area. Merrick offers a variety of workforce solutions that are cost effective, meet or exceed a company’s service or production standards, and includes the support necessary to make the partnership work. Capabilities include: packaging and assembly, plastic recycling, copy paper sales, document destruction, digital imaging, office support, retail, food service, and more. We also offer life enrichment and therapeutic programs for clients that have retired, cannot work because of health concerns, or have chosen not to work. All of our DT&H and Employment Services are coordinated through our renovated and very energy efficient building located in Vadnais Heights with ADS offered at our site in North St. Paul; and rides can usually be arranged to and from the client’s home through Newtrax, Inc., or a public carrier.

Merrick’s mission is “*to empower adults with disabilities through vocational and social opportunities, and to guide them toward realizing their goals and dreams.*” Through our business partnerships, employees, and the reliable, loyal, and enthusiastic characteristics of our client workforce, society has a better understanding that employing people with disabilities is good for business and for our communities.

BASIS OF PRESENTATION

These financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

#### CONTRIBUTIONS AND RESTRICTED NET ASSETS

Contributions received and unconditional promises to give are measured at their fair value and are reported as an increase in net assets. Merrick reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Merrick reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Unless there are explicit donor stipulations about how long those long-lived assets must be maintained, Merrick reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

#### CASH AND CASH EQUIVALENTS

Cash consists of checking, savings, and petty cash. Merrick does not consider cash held with brokers to be cash equivalents. For purposes of the Statement of Cash Flows, "cash equivalents" exclude certificates of deposit with original maturities greater than three months.

#### ACCOUNTS RECEIVABLE

The majority of Merrick's accounts receivable balance is usually comprised of amounts owed by the State of Minnesota and local counties. Historical collection rates for these amounts are high. Accounts receivable are considered past due if not collected within 30 days of the billing date, and an allowance for doubtful accounts is recorded once a receivable is 90 days past due. When collection efforts have been exhausted, bad debts are written-off against the related allowance. At June 30, 2018 and 2017, the allowance for bad debts was \$1,000 for both years.

#### INVENTORY

Inventory consists of paper held for resale and prize inventory of Merrick's charitable gambling activity, both of which are recorded at the lower of cost or net realizable value.

#### INVESTMENTS

Investments are designated for longer-term use. Investments in mutual funds and other publicly traded securities are recorded at fair value based upon quoted market prices.

**MERRICK, INC.**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

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FIXED ASSETS

Fixed assets are valued at cost, or in the case of donated equipment and land, at estimated market value on the date of the gift. Merrick capitalizes expenditures for equipment with an individual cost of more than \$5,000. Depreciation is charged as an expense against operations by the straight-line method over the following estimated useful lives:

Building	5 - 40 years
Leasehold improvements	3 - 5 years
Equipment	5 - 10 years
Vehicles	4 - 5 years

ACCRUED PAID TIME OFF (PTO)

Merrick follows the practice of accruing PTO pay in the period in which the employee earns such PTO.

UNEMPLOYMENT TRUST

Merrick self-insures for Minnesota unemployment claims via the Unemployment Services Trust. Merrick's unemployment trust balance per contract would be fully refunded to Merrick upon payment of all outstanding unemployment claims. The balance of the Unemployment Services Trust is based on an estimate of actual claims. The net recorded balance at June 30, 2018 was \$95,893, which consists of a gross balance of \$103,893 less estimated claims payable of \$8,000. The net recorded balance at June 30, 2017 was \$72,500, which consists of a gross balance of \$90,231 less estimated claims payable of \$17,731.

DONATED MATERIALS, EQUIPMENT AND SERVICES

Donated land, materials, equipment and services are recorded at their estimated fair market value at the date of receipt. Merrick utilizes and relies upon the services of volunteers. However, these volunteer services do not meet the recognition criteria of GAAP, and therefore, no revenue or corresponding expense has been reflected for such services in these financial statements.

FUNCTIONAL EXPENSE ALLOCATION

Expenses are allocated to the various programs and support services directly when possible and indirectly using predetermined percentages derived from payroll and occupancy statistics. Fundraising expenses are classified as Development on the Statement of Functional Expenses.

INCOME TAXES

Merrick is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified as a publicly supported charity.

**MERRICK, INC.**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

Merrick's charitable gambling activities are reported as unrelated business taxable income, however, no material amount of tax was due for 2017, or is expected to be due for 2018.

Tax expense or benefit from an uncertain income tax position (including tax-exempt status) may be recognized only when it is more likely than not that the position will be sustained upon examination by taxing authorities. Management believes Merrick has no uncertain income tax positions that would result in an accrual, expense or benefit under the more likely than not standard.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in these financial statements. Actual results could differ from those estimates.

**Note 2 INVESTMENTS**

Investments consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Investments at fair value:		
Cash deposits	\$30,464	\$ -
Money market mutual funds	-	10,006
Time deposit and savings bond	19,172	-
Corporate bonds	316,073	232,272
Fixed income mutual funds	7,906	14,819
	<u>          </u>	<u>          </u>
Total	<u>\$373,615</u>	<u>\$257,097</u>

Investment income or loss (including gains and losses on investments, interest and dividends) is included as earned in the Statement of Activities as increases or decreases in unrestricted net assets. Management believes there are no significant concentrations of credit risk.

Net investment income is comprised of the following for the year end June 30:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$12,229	\$6,444
Change in fair value	(12,563)	(3,055)
Investment fees	(3,148)	(2,292)
	<u>          </u>	<u>          </u>
Total	<u>(\$3,482)</u>	<u>\$1,097</u>



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**Note 3 FAIR VALUE MEASUREMENT**

Under GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy categorized into three levels based on the inputs used. Generally, the three levels are as follows:

- Level 1 – Quoted prices in active markets for identical assets.
- Level 2 – Significant other observable inputs.
- Level 3 – Significant unobservable inputs.

Level 1 investments include those traded on active markets with quoted prices. These include corporate stock, money market funds, mutual funds, exchange traded funds (ETFs) and U.S. treasury bills. Level 2 investments include those valued using dates which may include market data and/or quoted market prices from markets that are not active or are for the same or similar assets in active markets. These include governmental bonds not included in Level 1, corporate bonds and negotiable certificates of deposit.

Significant assets or liabilities that are measured at fair value on a reoccurring basis as of June 30 are as follows:

	2018		
	Level 1	Level 2	Total
Investments:			
Time deposit and savings bond	\$ -	\$19,172	\$19,172
Corporate bonds	-	316,073	316,073
Fixed income mutual funds	7,906	-	7,906
	<u>7,906</u>	<u>-</u>	<u>7,906</u>
Total	<u>\$7,906</u>	<u>\$335,245</u>	<u>\$343,151</u>

	2017		
	Level 1	Level 2	Total
Investments:			
Money market mutual funds	\$10,006	\$ -	\$10,006
Corporate bonds	-	232,272	232,272
Fixed income mutual funds	14,819	-	14,819
	<u>14,819</u>	<u>-</u>	<u>14,819</u>
Total	<u>\$24,825</u>	<u>\$232,272</u>	<u>\$257,097</u>

**MERRICK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**Note 4**    **NOTES RECEIVABLE**

Merrick has outstanding unsecured notes from Newtrax, Inc. (see Note 14). A recap is as follows:

	<u>2018</u>	<u>2017</u>
Note receivable in monthly installments of \$737, including 4% interest, matured in November 2017.	\$ -	\$12,155
Note receivable in monthly installments of \$737, including 4% interest, scheduled to mature in November 2018.	12,060	20,331
Note receivable in monthly installments of \$1,013, including 4% interest, scheduled to mature in June 2020.	<u>55,000</u>	<u>-</u>
Total notes receivable	<u><u>\$67,060</u></u>	<u><u>\$32,486</u></u>

**Note 5**    **FIXED ASSETS**

Fixed assets at June 30, 2018 and 2017, are as follows:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Land	\$565,000	\$565,000
Building	6,441,332	6,449,177
Leasehold improvements	184,442	184,442
Equipment	351,280	351,280
Vehicles	<u>729,639</u>	<u>845,327</u>
Total	8,271,693	8,395,226
Less - accumulated depreciation	<u>(3,633,150)</u>	<u>(3,495,676)</u>
Net fixed assets	<u><u>\$4,638,543</u></u>	<u><u>\$4,899,550</u></u>

**MERRICK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**Note 6 NOTES AND LOANS PAYABLE**

June 30, 2018 and 2017, long-term debt consisted of the following:

	June 30,	
	2018	2017
\$3,244,800 Revenue Note, Series 2015, due in monthly payments of \$22,020 through May 2030, secured by Merrick's building. Interest rate is fixed at 2.75% through May 2025. Thereafter, the interest rate will equal 0.7% plus the FHLB Advance Rate.	\$2,685,525	\$2,871,797
Community Development Block Grant loan from Ramsey County, due in quarterly payments of \$1,167 beginning July 1, 2007 and ending April 1, 2022 secured by mortgage. \$70,000 face amount, noninterest bearing note, discounted to its present value based on an imputed interest rate of 5.5%.	15,921	20,713
Community Development Block Grant loan from Ramsey County, due in quarterly payments of \$1,875 beginning January 1, 2008 and ending October 1, 2027 secured by mortgage. \$150,000 face amount, noninterest bearing note, discounted to its present value based on an imputed interest rate of 5.86%.	54,341	58,503
Total notes and loans payable	<u>\$2,755,787</u>	<u>\$2,951,013</u>

At June 30, 2018, scheduled principal payments on notes and loans payable are as follows:

Year Ending June 30,	Total
2019	\$200,196
2020	206,986
2021	213,015
2022	219,430
2023	220,863
Thereafter	<u>1,695,297</u>
Total	<u>\$2,755,787</u>

**MERRICK, INC.**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**Note 7 NET ASSETS**

At June 30, 2018 and 2017, net assets were restricted by donors or designated internally as follows:

	June 30,	
	2018	2017
Temporarily restricted:		
Client holiday party	\$4,313	\$3,624
Technology purchase	162	162
AS-Upstream art foundation	15,000	5,000
Multi-passenger vehicle	25,000	25,000
Time restricted - unamortized 0% note discount	18,923	23,302
	<u>\$63,398</u>	<u>\$57,088</u>
Internal designations:		
Charitable gambling fund	\$142,284	\$79,345
Building and capital improvement accrual	393,742	277,191
	<u>\$536,026</u>	<u>\$356,536</u>

**Note 8 CONTINGENT LIABILITIES**

Merrick has received two CDBG grants, parts of which are repayable if Merrick ceases to operate at its current location as a 501(c)(3) charity supporting adults with intellectual or developmental disabilities. Merrick's management believes the chances of having to repay such items are remote and thus no corresponding liability is recorded. Amounts subject to potential repayment at June 30, 2018 total \$220,000 with \$150,000 scheduled to be fully forgiven on December 31, 2027. The remaining \$70,000 has no such forgivable date.

Merrick has an open workers compensation claim that could exceed \$50,000. Merrick is disputing the claim and believes it is unlikely to result in a material liability, although that is a possibility.

From time-to-time in the normal course of business, Merrick, Inc. is named in various claims and legal actions. Based upon counsel and management's opinion, the outcome of such known other matters are not expected to have a material adverse effect on the company's financial position or changes in net assets.

**Note 9 MAJOR REVENUE SOURCE**

A material portion of Merrick's revenue consists of MMISII funds from the State of Minnesota. The receipt of these funds are derived from the aggregate of a service authorization for each client served, the loss of which would have a materially adverse effect on Merrick. For each of 2018 and 2017, MMISII revenue accounted for approximately 67%, of total support and revenue.

**MERRICK, INC.**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

**Note 10 RETIREMENT PLAN**

Merrick sponsors a 403(b)(7) tax deferred retirement plan. Employees may make voluntary contributions to the Plan not to exceed the limits established by law. Merrick may make discretionary contributions. Employer contributions to the Plan for 2018 and 2017 were \$35,514 and \$37,110 respectively.

**Note 11 LINE OF CREDIT**

Merrick has a \$350,000 line of credit with a commercial bank which bears an interest rate of 4.50% and expires December 28, 2018, secured by inventory, accounts, equipment and general intangibles. At June 30, 2018 and 2017, there was no amount drawn on the line of credit.

**Note 12 SPECIAL FUNDRAISING EVENTS**

Special fundraising events consisted of the following:

	2018			2017		
	Gross Receipts	Direct Expenses	Net	Gross Receipts	Direct Expenses	Net
Charitable gambling	\$28,914,214	(\$28,559,987)	\$354,227	\$25,140,001	(\$24,758,239)	\$381,762
Golden gala	101,797	(28,314)	73,483	78,128	(47,271)	30,857
Golf tournament	42,407	(15,658)	26,749	49,343	(19,393)	29,950
Client holiday party	15,781	(15,092)	689	15,749	(14,741)	1,008
Bowl-a-thon	34,189	(5,320)	28,869	37,394	(5,406)	31,988
Total special fundraising events	<u>\$29,108,388</u>	<u>(\$28,624,371)</u>	<u>\$484,017</u>	<u>\$25,320,615</u>	<u>(\$24,845,050)</u>	<u>\$475,565</u>

**Note 13 OPERATING LEASES**

During 2018, Merrick leased building space at its North St. Paul facility. Rental expense under noncancellable operating leases with initial terms of at least one year was \$163,665 and \$168,336 for 2018 and 2017, respectively. Merrick exercised its option to renew this lease for another three-year term. Effective July 1, 2015, Merrick entered into a three year lease for facility space with Newtrax, Inc., a related party (see Note 14). The lease is effective through June 30, 2018 with automatic annual renewals through June 30, 2025, unless written notice terminating the agreement is provided.

**MERRICK, INC.**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

Future minimum rental payments on these leases are as follows:

	Newtrax Lease	Other Leases	Total
2019	\$93,280	\$69,181	\$162,461
2020	-	71,257	71,257
2021	-	30,055	30,055

**Note 14 RELATED PARTY TRANSACTIONS**

**BENEFITS MANAGEMENT**

Merrick uses a company to broker and manage its health care insurance benefit programs including health, dental, life and long-term disability. In fiscal year 2015, an RFP was issued and, after a committee interview and review, a decision was made to continue with the same company to broker and manage the Company's benefit programs. A Trustee of the Board is a principal with this benefits management company. Premiums of \$624,579 and \$580,666 were paid directly to the insurance providers during 2018 and 2017, respectively, and the amount of compensation earned by the benefits management company from the insurance providers is not known.

Merrick uses a company to broker and manage its 403(b)(7) tax deferred retirement plan (see Note 10). In fiscal year 2016, an RFP was issued and, after committee interview and review, a decision was made to move the 403(b) funds to a different retirement plan company. A Trustee of the Board represents a number of retirement funds including this retirement plan company. The amount of compensation earned by the plan representative and the retirement plan company is not known.

It is the policy of Merrick to prevent self-dealing and that Trustees, committee members and key employees must be free from conflicts of interest that could adversely influence their judgment, objectivity, or loyalty to Merrick, in conducting company business and from receiving any improper personal gain or profit as a result. Merrick recognizes that such persons may take part in legitimate financial, business, charitable and other activities outside their involvement with Merrick and that at times, such dual interests may be of no harm to or even be in the best interest of Merrick. Nonetheless, any potential conflict of interest raised by those activities must be disclosed promptly in accordance with this policy. Accordingly, these Trustees and key employees have annually disclosed these conflicts of interest and have not been involved in any Board decisions related to applicable contracts.

**MERRICK, INC.**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

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**INVESTMENT IN JOINT VENTURE - NEWTRAX, INC.**

During 2011, Merrick, along with Phoenix Alternatives, Inc. (PAI) (together, “the Members”) created Newtrax, Inc. (Newtrax). Newtrax is a charitable, 501(c)(3) Minnesota Corporation with the mission to increase the potential of each member organization to advance their charitable mission more effectively and with greater efficiency. Newtrax began its operations on November 7, 2011 and is currently providing daily transportation, information technology, fleet maintenance, building maintenance, and financial services to both PAI and Merrick.

Each of the members has 50% equity and voting interests.

Merrick accounts for its investment using the equity method, based on Newtrax’s fiscal year end of June 30. Merrick’s recorded investment of \$822,766 and \$841,173 at June 30, 2018 and 2017, respectively, is equal to 50% of Newtrax’s net assets at those dates.

Newtrax charges Merrick for warehouse space at Newtrax’s facility (see Note 13).

Merrick has notes receivable from Newtrax (see Note 4).

Revenue and expenses as a result of these charges are displayed separately on the financial statements, along with related party balances at year end.

Condensed financial information for Newtrax is as follows:

**Statement of Financial Position**

	2018	2017
Current assets	\$310,716	\$315,891
Property and equipment	1,920,522	1,812,342
Other assets	30,792	32,430
Total assets	<u>\$2,262,030</u>	<u>\$2,160,663</u>
Liabilities	\$616,499	\$478,319
Net assets	<u>1,645,531</u>	<u>1,682,344</u>
Total liabilities and net assets	<u>\$2,262,030</u>	<u>\$2,160,663</u>

**Statement of Activities**

	2018	2017
Revenue	\$3,561,832	\$3,310,751
Expenses	<u>(3,598,645)</u>	<u>(3,251,556)</u>
Change in net assets	(36,813)	59,195
Net assets - beginning of year	<u>1,682,344</u>	<u>1,623,149</u>
Net assets - end of year	<u>\$1,645,531</u>	<u>\$1,682,344</u>

**MERRICK, INC.**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

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**Note 15 CHARITABLE GAMBLING BASIS OF ACCOUNTING**

Merrick maintains its charitable gambling books on the regulatory basis of accounting, as prescribed by the Minnesota Department of Revenue. Under the regulatory basis, most expenses and revenues are recognized on the cash basis. Prior to fiscal year 2016, the net differences between regulatory and accrual bases of accounting were considered immaterial and not recorded. During fiscal year 2016, the regulatory basis was modified by the Minnesota Department of Revenue whereby certain gambling taxes previously accrued are now expensed on the cash basis.

A reconciliation for 2018 and 2017 is as follows:

Gambling Fund:	<u>2018</u>	<u>2017</u>
Net income - regulatory basis	\$325,875	\$458,005
GAAP adjustments:		
Gambling tax accrual - end of year	(114,453)	(135,170)
Gambling tax accrual - beginning of year	135,170	67,743
Intra-company receivable adjustment - end of year	(1,181)	(8,816)
Intra-company receivable adjustment - beginning of year	<u>8,816</u>	<u>-</u>
Net income - accrual basis	<u>\$354,227</u>	<u>\$381,762</u>

**Note 16 SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 15, 2018, the date the financial statements were available to be issued, and concluded that there are no subsequent events that require disclosure.