

MERRICK, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For The Years Ended
June 30, 2019 and 2018

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MERRICK, INC.
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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, 2019 and 2018, 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 \$272,512 as of June 30, 2019 and \$258,169 as of June 30, 2018, and total revenues of \$422,124 (special fundraising gross receipts of \$31,503,489 less expenses of \$31,081,365) for the year ended June 30, 2019, and \$354,227 (special fundraising gross receipts of \$28,914,214 less expenses of \$28,559,987) for the year ended June 30, 2018. 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 16 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, 2019 and 2018, 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 17 to the financial statements, Merrick, Inc. implemented the provisions of the Accounting Standards Update (ASU) 2016-14 Not-For-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Redpath and Company, Ltd." in a cursive script.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

December 31, 2019

FINANCIAL STATEMENTS

MERRICK, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

Statement 1

| | 2019 | 2018 |
|--|--------------------|--------------------|
| Assets: | | |
| Cash and cash equivalents | \$805,881 | \$635,896 |
| Accounts receivable, net of allowance for doubtful accounts: | | |
| Day training and habilitation | 520,331 | 516,006 |
| Work activities | 276,020 | 260,734 |
| Newtrax | 873 | 737 |
| Other | 1,763 | 1,675 |
| Inventory | 50,302 | 26,819 |
| Prepaid expenses and other assets | 104,973 | 109,740 |
| Investments | 529,563 | 373,615 |
| Notes receivable - Newtrax | 44,629 | 67,060 |
| Investment in joint venture - Newtrax | 846,287 | 822,766 |
| Fixed assets, net | 4,479,506 | 4,638,543 |
| Total assets | <u>\$7,660,128</u> | <u>\$7,453,591</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable | \$224,462 | \$216,056 |
| Accounts payable - Newtrax | 22,768 | 23,013 |
| Accrued payroll, withholdings and bonus | 223,073 | 222,131 |
| Accrued paid time off (PTO) | 136,453 | 132,839 |
| Notes and loans payable | 2,556,241 | 2,755,787 |
| Total liabilities | <u>3,162,997</u> | <u>3,349,826</u> |
| Net assets: | | |
| Without donor restrictions | 4,476,132 | 4,040,367 |
| With donor restrictions | 20,999 | 63,398 |
| Total net assets | <u>4,497,131</u> | <u>4,103,765</u> |
| Total liabilities and net assets | <u>\$7,660,128</u> | <u>\$7,453,591</u> |

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

MERRICK, INC.
STATEMENTS OF ACTIVITIES
For The Years Ended June 30, 2019 and 2018

Statement 2

| | 2019 | | | 2018 | | |
|---|----------------------------------|-------------------------------|--------------|----------------------------------|-------------------------------|--------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenues and gains: | | | | | | |
| Day training and habilitation (DT&H): | | | | | | |
| MMISII | \$6,223,537 | \$ - | \$6,223,537 | \$5,851,234 | \$ - | \$5,851,234 |
| GoTo revenue | 529,689 | - | 529,689 | 422,325 | - | 422,325 |
| County revenues | 279,342 | - | 279,342 | 325,922 | - | 325,922 |
| Work activities: | | | | | | |
| General | 1,156,899 | - | 1,156,899 | 1,143,811 | - | 1,143,811 |
| Paper sales | 1,078,820 | - | 1,078,820 | 996,557 | - | 996,557 |
| Donations and grants | 101,254 | 5,568 | 106,822 | 123,957 | 15,000 | 138,957 |
| Interest on notes receivable | 2,436 | - | 2,436 | 1,783 | - | 1,783 |
| Investment income (loss) | 15,948 | - | 15,948 | (3,482) | - | (3,482) |
| Miscellaneous income | 49,225 | - | 49,225 | 26,537 | - | 26,537 |
| Increase (decrease) of investment in joint venture - Newtrax | 23,521 | - | 23,521 | (18,407) | - | (18,407) |
| Gain on disposal of fixed assets | 7,300 | - | 7,300 | 1,205 | - | 1,205 |
| Subtotal | 9,467,971 | 5,568 | 9,473,539 | 8,871,442 | 15,000 | 8,886,442 |
| Special fundraising: | | | | | | |
| Gross receipts | 31,649,252 | 15,978 | 31,665,230 | 29,092,607 | 15,781 | 29,108,388 |
| Less: direct expenses | (31,139,038) | - | (31,139,038) | (28,624,371) | - | (28,624,371) |
| Net special fundraising | 510,214 | 15,978 | 526,192 | 468,236 | 15,781 | 484,017 |
| Net assets released from restrictions | 63,945 | (63,945) | - | 24,471 | (24,471) | - |
| Total revenues and gains | 10,042,130 | (42,399) | 9,999,731 | 9,364,149 | 6,310 | 9,370,459 |
| Expenses: | | | | | | |
| Program | 8,003,678 | - | 8,003,678 | 8,094,519 | - | 8,094,519 |
| Administration | 1,395,352 | - | 1,395,352 | 1,193,832 | - | 1,193,832 |
| Development | 207,335 | - | 207,335 | 212,595 | - | 212,595 |
| Total expenses | 9,606,365 | 0 | 9,606,365 | 9,500,946 | 0 | 9,500,946 |
| Increase (decrease) in net assets | 435,765 | (42,399) | 393,366 | (136,797) | 6,310 | (130,487) |
| Net assets - beginning | 4,040,367 | 63,398 | 4,103,765 | 4,177,164 | 57,088 | 4,234,252 |
| Net assets - ending | \$4,476,132 | \$20,999 | \$4,497,131 | \$4,040,367 | \$63,398 | \$4,103,765 |

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

MERRICK, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For The Years Ended June 30, 2019 and 2018

| | 2019 | | | |
|--|-------------|----------------|--------------|--------------|
| | Program | Administration | Development | Total |
| Expenses: | | | | |
| Salaries | \$2,989,521 | \$509,952 | \$129,172 | \$3,628,645 |
| Payroll taxes | 286,107 | 31,160 | 8,586 | 325,853 |
| Employee benefits | 661,596 | 102,937 | 40,007 | 804,540 |
| Total personnel expenses | 3,937,224 | 644,049 | 177,765 | 4,759,038 |
| Professional fees | 42,166 | 126,768 | - | 168,934 |
| Contractual services - clients | 771,983 | 11,402 | - | 783,385 |
| Contractual services - GoTo | 413,774 | - | - | 413,774 |
| Contractual services - other | 273,068 | - | - | 273,068 |
| Program activity and supplies | 112,029 | 76,579 | 8,842 | 197,450 |
| Telephone and cellular phones | 6,344 | 6,052 | 1,044 | 13,440 |
| Occupancy | 202,577 | 152,668 | 2,176 | 357,421 |
| Licenses and fees | 8,088 | 1,015 | - | 9,103 |
| DT&H vehicle expense | 89,242 | 10,110 | - | 99,352 |
| DT&H transportation expense - Newtrax | 1,073,389 | - | - | 1,073,389 |
| Office supplies and equipment | 20,823 | 41,350 | 4,482 | 66,655 |
| Repairs and maintenance | 7,579 | 12,083 | - | 19,662 |
| Insurance | 915 | 49,139 | - | 50,054 |
| Interest | 40,842 | 29,173 | 6,844 | 76,859 |
| Postage | 300 | 6,159 | 910 | 7,369 |
| Miscellaneous | 38,633 | 15,574 | 5,272 | 59,479 |
| Depreciation | 32,245 | 213,231 | - | 245,476 |
| Subtotal expenses | 7,071,221 | 1,395,352 | 207,335 | 8,673,908 |
| Cost of paper sales | 932,457 | - | - | 932,457 |
| Direct expenses from special fundraising | - | - | 31,139,038 | 31,139,038 |
| Total expenses | 8,003,678 | 1,395,352 | 31,346,373 | 40,745,403 |
| Less: expenses included with revenues on the statement of activities: | | | | |
| Direct expenses from special fundraising | - | - | (31,139,038) | (31,139,038) |
| Total expenses included in the expenses section on the statement of activities | 8,003,678 | \$1,395,352 | \$207,335 | \$9,606,365 |

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

| 2018 | | | | |
|--|-------------|----------------|--------------|--------------|
| | Program | Administration | Development | Total |
| 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 | 4,116,966 | 554,234 | 184,791 | 4,855,991 |
| 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 | 7,206,308 | 1,193,832 | 212,595 | 8,612,735 |
| Cost of paper sales | 888,211 | - | - | 888,211 |
| Direct expenses from special fundraising | - | - | 28,624,371 | 28,624,371 |
| Total expenses | 8,094,519 | 1,193,832 | 28,836,966 | 38,125,317 |
| Less: expenses included with revenues on the statement of activities: | | | | |
| Direct expenses from special fundraising | - | - | (28,624,371) | (28,624,371) |
| Total expenses included in the expenses section on the statement of activities | 8,094,519 | 1,193,832 | 212,595 | 9,500,946 |

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

MERRICK, INC.**STATEMENTS OF CASH FLOWS**

For The Years Ended June 30, 2019 and 2018

Statement 4

| | 2019 | 2018 |
|---|-------------------------|-------------------------|
| Cash flows from operating activities: | | |
| Increase (decrease) in net assets | \$393,366 | (\$130,487) |
| Adjustments: | | |
| Depreciation | 245,476 | 259,162 |
| Gain on disposal of fixed assets | (7,300) | (1,205) |
| (Gain) loss in fair value of investments | (11,804) | 12,563 |
| (Increase) decrease in accounts receivable | (19,835) | (123,279) |
| (Increase) decrease in inventory | (23,483) | 24,353 |
| (Increase) decrease in prepaid expenses | 4,767 | (23,167) |
| (Increase) decrease in investment in joint venture | (23,521) | 18,407 |
| Increase (decrease) in accounts payable | 8,161 | (60,457) |
| Increase (decrease) in accrued liabilities | 4,556 | (6,779) |
| Net cash provided by (used in) operating activities | <u>570,383</u> | <u>(30,889)</u> |
| Cash flows from investing activities: | | |
| Purchase of fixed assets | (86,439) | (6,000) |
| Proceeds from the sale of fixed assets | 7,300 | 9,050 |
| Repayment of notes receivable - Newtrax | 77,431 | 20,426 |
| Disbursement of notes receivable - Newtrax | (55,000) | (55,000) |
| Additions to investment pool, including reinvested income | <u>(144,144)</u> | <u>(129,081)</u> |
| Net cash used in investing activities | <u>(200,852)</u> | <u>(160,605)</u> |
| Cash flows from financing activities: | | |
| Repayment of notes payable | <u>(199,546)</u> | <u>(195,226)</u> |
| Net increase (decrease) in cash and cash equivalents | 169,985 | (386,720) |
| Cash and cash equivalents - beginning | <u>635,896</u> | <u>1,022,616</u> |
| Cash and cash equivalents - end | <u><u>\$805,881</u></u> | <u><u>\$635,896</u></u> |
| Supplemental data: | | |
| Interest paid | <u><u>\$76,859</u></u> | <u><u>\$82,347</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 (I/DD) by providing services that offer (i) **meaningful work activities** 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, emotional 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 I/DD 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 20 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, customers, 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 and green 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. The contributions 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. The governing board has designated, from net assets without donor restrictions, net assets for charitable gambling and building and capital improvement accrual (see Note 8).

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 the resources be maintained in perpetuity. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as without donor restrictions support.

As of June 30, 2019 and 2018, Merrick did not have any restrictions that were perpetual in nature.

Merrick reports gifts of goods and equipment as net assets without donor restrictions 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 with donor 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, 2019 and 2018, 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.

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

INVESTMENTS

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

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, 2019 was \$95,892, which consists of a gross balance of \$111,980 less estimated claims payable of \$16,088. 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.

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

The costs of providing programs and services have been summarized on a functional basis in the Statements of Activities. The Statements of Functional Expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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. Allocated expenses include salaries and related expenses, consulting and professional fees, supplies, telephone, occupancy, vehicle expense, insurance, and other miscellaneous, which are allocated on the estimated basis of time and effort.

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's charitable gambling activities are reported as unrelated business taxable income, however, no material amount of tax was due for 2018, or is expected to be due for 2019.

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 LIQUIDITY AND AVAILABILITY

The following represents Merrick's financial assets available to meet cash needs for general expenditures within one year as of June 30, 2019:

| | |
|-------------------------------------|---------------------------|
| Cash | \$805,881 |
| Accounts receivable, net | 798,987 |
| Investments | 529,563 |
| Notes receivable - Newtrax, current | <u>44,629</u> |
| | <u><u>\$2,179,060</u></u> |

Merrick closely monitors cash balances and structures financial assets to be available as general expenditures, liabilities and other obligations come due. Net assets with donor restrictions have been restricted for specific purposes that are not considered to be general in nature. The accounts receivable are subject to collection, but are expected to be collected within one year and are presented net of allowance. The investments are board designated for future building and capital improvements (Note 8), but are considered to be available for general expenditure as the board could re-designate these funds in the event of unanticipated liquidity need. The note receivable from Newtrax will be paid in monthly installments, with the total remaining balance to be paid June 1, 2020. Merrick also has a \$500,000 line of credit available as needed (Note 12).

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 3 INVESTMENTS

Investments consist of the following at June 30:

| | <u>2019</u> | <u>2018</u> |
|------------------------------------|-----------------------------|-----------------------------|
| Investments at fair value: | | |
| Cash deposits | \$8,799 | \$30,464 |
| Negotiable certificates of deposit | 164,835 | - |
| Time deposit and savings bond | - | 19,172 |
| Corporate bonds | 180,551 | 316,073 |
| Mutual funds and ETFs | <u>175,378</u> | <u>7,906</u> |
| Total | <u><u>\$529,563</u></u> | <u><u>\$373,615</u></u> |

Investment income or loss (including gains and losses on investments, interest and dividends) is included as earned in the Statements of Activities as increases or decreases in net assets without donor restrictions. 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>2019</u> | <u>2018</u> |
|------------------------|----------------------------|-----------------------------|
| Interest and dividends | \$5,844 | \$12,229 |
| Change in fair value | 11,804 | (12,563) |
| Investment fees | <u>(1,700)</u> | <u>(3,148)</u> |
| Total | <u><u>\$15,948</u></u> | <u><u>(\$3,482)</u></u> |

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 4 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:

| | 2019 | | |
|------------------------------------|------------------|------------------|------------------|
| | Level 1 | Level 2 | Total |
| Investments: | | | |
| Negotiable certificates of deposit | \$ - | \$164,835 | \$164,835 |
| Corporate bonds | - | 180,551 | 180,551 |
| Mutual funds and ETFs | 175,378 | - | 175,378 |
| Total | <u>\$175,378</u> | <u>\$345,386</u> | <u>\$520,764</u> |

| | 2018 | | |
|---------------------------|----------------|------------------|------------------|
| | Level 1 | Level 2 | Total |
| Investments: | | | |
| Money market mutual funds | \$ - | \$19,172 | \$19,172 |
| Corporate bonds | - | 316,073 | 316,073 |
| Fixed income mutual funds | 7,906 | - | 7,906 |
| Total | <u>\$7,906</u> | <u>\$335,245</u> | <u>\$343,151</u> |

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 5 NOTES RECEIVABLE

Merrick has outstanding unsecured notes from Newtrax, Inc. (see Note 15). A recap is as follows:

| | June 30, | |
|--|-----------------|-----------------|
| | 2019 | 2018 |
| Note receivable in monthly installments of \$737, including 4% interest, which matured in November 2018. | \$ - | \$12,060 |
| Note receivable in monthly installments of \$1,013, including 4% interest, scheduled to mature in June 2020. | 44,629 | 55,000 |
| Total notes receivable | <u>\$44,629</u> | <u>\$67,060</u> |

Note 6 FIXED ASSETS

Fixed assets at June 30, 2019 and 2018, are as follows:

| | June 30, | |
|--------------------------------|--------------------|--------------------|
| | 2019 | 2018 |
| Land | \$565,000 | \$565,000 |
| Building | 6,441,332 | 6,441,332 |
| Leasehold improvements | 184,442 | 184,442 |
| Equipment | 353,724 | 351,280 |
| Vehicles | 686,176 | 729,639 |
| Total | 8,230,674 | 8,271,693 |
| Less: accumulated depreciation | <u>(3,751,168)</u> | <u>(3,633,150)</u> |
| Net fixed assets | <u>\$4,479,506</u> | <u>\$4,638,543</u> |

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 7 NOTES AND LOANS PAYABLE

June 30, 2019 and 2018, long-term debt consisted of the following:

| | June 30, | |
|---|--------------------|--------------------|
| | 2019 | 2018 |
| \$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. | \$2,494,219 | \$2,685,525 |
| 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%. | 12,092 | 15,921 |
| Community Development Block Grant loan from Ramsey County, due in quarterly payments of \$1,875 beginning March 1, 2008 and ending December 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%. | 49,930 | 54,341 |
| Total notes and loans payable | <u>\$2,556,241</u> | <u>\$2,755,787</u> |

At June 30, 2019, scheduled principal payments on notes and loans payable are as follows:

| Year Ending June 30, | Total |
|-------------------------|--------------------|
| 2020 | \$206,986 |
| 2021 | 213,015 |
| 2022 | 219,430 |
| 2023 | 220,863 |
| 2024 | 227,193 |
| Thereafter | <u>1,468,754</u> |
| Total | <u>\$2,556,241</u> |

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 8 NET ASSETS

At June 30, 2019 and 2018, net assets were restricted by donors or designated internally as shown below. All donor restrictions are temporary for time and/or purpose.

| | June 30, | |
|--|------------------|------------------|
| | 2019 | 2018 |
| With donor restrictions: | | |
| Client holiday party | \$273 | \$4,313 |
| Technology purchase | 162 | 162 |
| AS-Upstream art foundation | 5,000 | 15,000 |
| Multi-passenger vehicle | - | 25,000 |
| Equipment | 568 | - |
| Time restricted - unamortized 0% note discount | 14,996 | 18,923 |
| | <u>\$20,999</u> | <u>\$63,398</u> |
| Total donor restrictions | | |
| Without donor restrictions: | | |
| Board designations: | | |
| Charitable gambling fund | \$112,366 | \$142,284 |
| Building and capital improvement accrual | 529,563 | 393,742 |
| | <u>\$641,929</u> | <u>\$536,026</u> |
| Total board designations | | |

Note 9 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, 2019 total \$220,000 with \$150,000 scheduled to be fully forgiven on December 31, 2027. The remaining \$70,000 has no such forgivable date.

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 10 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 2019 and 2018, MMISII revenue accounted for approximately 68% and 67%, of total support and revenue.

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 11 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 2019 and 2018 were \$36,353 and \$35,514 respectively.

Note 12 LINE OF CREDIT

Merrick has a \$500,000 line of credit with a commercial bank which bears an interest rate of 5.50% and expires December 20, 2019, secured by inventory, accounts receivable, equipment and general intangibles. At June 30, 2019 and 2018, there was no amount drawn on the line of credit.

Note 13 SPECIAL FUNDRAISING EVENTS

Special fundraising events consisted of the following:

| | 2019 | | | 2018 | | |
|----------------------------------|---------------------|-----------------------|------------------|---------------------|-----------------------|------------------|
| | Gross Receipts | Direct Expenses | Net | Gross Receipts | Direct Expenses | Net |
| Charitable gambling | \$31,503,489 | (\$31,081,365) | \$422,124 | \$28,914,214 | (\$28,559,987) | \$354,227 |
| Golden gala | - | - | - | 101,797 | (28,314) | 73,483 |
| Empower luncheon | 61,094 | (10,390) | 50,704 | - | - | - |
| Golf tournament | 38,026 | (19,273) | 18,753 | 42,407 | (15,658) | 26,749 |
| Client holiday party | 15,978 | (20,018) | (4,040) | 15,781 | (15,092) | 689 |
| Online auction | 5,915 | (1,090) | 4,825 | - | - | - |
| Bowl-a-thon | 40,728 | (6,902) | 33,826 | 34,189 | (5,320) | 28,869 |
| Total special fundraising events | <u>\$31,665,230</u> | <u>(\$31,139,038)</u> | <u>\$526,192</u> | <u>\$29,108,388</u> | <u>(\$28,624,371)</u> | <u>\$484,017</u> |

Note 14 OPERATING LEASES

On July 27, 2012, Merrick entered into a lease agreement for building space at its North St. Paul facility. This lease was renewed for a three-year term ending November 30, 2020 at a monthly rate of \$5,666 with annual increases of 3%.

On July 1, 2015, Merrick entered into a lease agreement for office space in Gem Lake with Newtrax, Inc., a related party (see Note 15). In July 2018, this lease was amended to allow for automatic annual renewals unless either party provides a 90-day notice. The lease has monthly rate of \$7,773.

Rental expense was \$165,425 and \$163,665 for 2019 and 2018, respectively.

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Future minimum rental payments on these leases are as follows:

| | <u>Newtrax Lease</u> | <u>North St. Paul Lease</u> | <u>Total</u> |
|------|--------------------------|---------------------------------|--------------|
| 2020 | \$96,078 | \$71,257 | \$167,335 |
| 2021 | - | 30,055 | 30,055 |

Note 15 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 \$607,463 and \$624,579 were paid directly to the insurance providers during 2019 and 2018, 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 11). In fiscal year 2019, 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
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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 \$846,287 and \$822,766 at June 30, 2019 and 2018, 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 14).

Merrick has notes receivable from Newtrax (see Note 5).

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

| | 2019 | 2018 |
|----------------------------------|--------------------|--------------------|
| Current assets | \$823,883 | \$310,716 |
| Property and equipment | 1,919,380 | 1,920,522 |
| Other assets | 36,459 | 30,792 |
| Total assets | <u>\$2,779,722</u> | <u>\$2,262,030</u> |
| Liabilities | \$1,087,149 | \$616,499 |
| Net assets | <u>1,692,573</u> | <u>1,645,531</u> |
| Total liabilities and net assets | <u>\$2,779,722</u> | <u>\$2,262,030</u> |

Statement of Activities

| | 2019 | 2018 |
|--------------------------------|--------------------|--------------------|
| Revenue | \$3,943,654 | \$3,561,832 |
| Expenses | <u>(3,896,612)</u> | <u>(3,598,645)</u> |
| Change in net assets | 47,042 | (36,813) |
| Net assets - beginning of year | <u>1,645,531</u> | <u>1,682,344</u> |
| Net assets - end of year | <u>\$1,692,573</u> | <u>\$1,645,531</u> |

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 16 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 2019 and 2018 is as follows:

| | | |
|---|------------------|------------------|
| Gambling Fund: | 2019 | 2018 |
| Net income - regulatory basis | \$464,975 | \$325,875 |
| GAAP adjustments: | | |
| Gambling tax accrual - end of year | (153,730) | (114,453) |
| Gambling tax accrual - beginning of year | 114,453 | 135,170 |
| Intra-company receivable adjustment - end of year | (4,755) | (1,181) |
| Intra-company receivable adjustment - beginning of year | 1,181 | 8,816 |
| Net income - accrual basis | <u>\$422,124</u> | <u>\$354,227</u> |

Note 17 CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2018 the Organization implemented the provisions of Accounting Standards Update (ASU)s 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements for Not-for-Profit Entities*. This update addresses the complexities and understandability of the net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expense and investment return. The presentation of the financial statements has been adjusted accordingly. Net assets as of July 1, 2017 were restated by category with no impact on total net assets.

Note 18 SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 31, 2019, the date the financial statements were available to be issued. As of this date, Merrick received email confirmation that the Line of Credit (Note 12) had been extended and that final documentation would be provided in January 2020.

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