

**MERRICK, INC.**

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

For The Years Ended  
June 30, 2020 and 2019

**- This page intentionally left blank -**

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

---

	<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

**- This page intentionally left blank -**



## 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, 2020 and 2019, 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 \$300,274 as of June 30, 2020 and \$272,512 as of June 30, 2019, and total revenues of \$202,649 (special fundraising gross receipts of \$29,047,879 less expenses of \$28,845,230) for the year ended June 30, 2020, and \$422,124 (special fundraising gross receipts of \$31,503,489 less expenses of \$31,081,365) for the year ended June 30, 2019. 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, 2020 and 2019, 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.

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

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

December 1, 2020

## **FINANCIAL STATEMENTS**

**MERRICK, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2020 and 2019

**Statement 1**

	2020	2019
Assets:		
Cash and cash equivalents	\$1,258,588	\$805,881
Accounts receivable, net of allowance for doubtful accounts:		
Day training and habilitation	357,892	520,331
Work activities	161,950	276,020
Newtrax	1,013	873
Other	200	1,763
Inventory	96,603	50,302
Prepaid expenses	5,175	9,081
Unemployment services trust asset	-	95,892
Investments	629,870	529,563
Note receivable - Newtrax	34,308	44,629
Investment in joint venture - Newtrax	770,287	846,287
Fixed assets, net	4,255,252	4,479,506
Total assets	<u>\$7,571,138</u>	<u>\$7,660,128</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$228,583	\$224,462
Accounts payable - Newtrax	24,671	22,768
Accrued payroll, withholdings and bonus	243,067	223,073
Deferred revenue	30,062	-
Accrued paid time off (PTO)	152,610	136,453
Unemployment services trust liability	6,071	-
Notes and loans payable	2,400,915	2,556,241
Total liabilities	<u>3,085,979</u>	<u>3,162,997</u>
Net assets:		
Without donor restrictions	4,448,670	4,476,132
With donor restrictions	36,489	20,999
Total net assets	<u>4,485,159</u>	<u>4,497,131</u>
Total liabilities and net assets	<u>\$7,571,138</u>	<u>\$7,660,128</u>

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



**MERRICK, INC.**  
**STATEMENTS OF ACTIVITIES**  
For The Years Ended June 30, 2020 and 2019

**Statement 2**

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue						
Contracts with customers:						
Day training and habilitation (DT&H):						
MMISII	\$5,139,225	\$ -	\$5,139,225	\$6,223,537	\$ -	\$6,223,537
County revenues	141,884	-	141,884	279,342	-	279,342
GoTo revenue	533,652	-	533,652	529,689	-	529,689
Work activities:						
General	1,142,735	-	1,142,735	1,156,899	-	1,156,899
Paper sales	943,272	-	943,272	1,078,820	-	1,078,820
Support and other:						
Donations and grants	93,248	23,637	116,885	101,254	5,568	106,822
COVID-19 client wage relief contribution	51,496	-	51,496	-	-	-
PPP loan forgiveness	952,700	-	952,700	-	-	-
Interest on notes receivable	1,449	-	1,449	2,436	-	2,436
Investment income (loss)	10,307	-	10,307	15,948	-	15,948
Miscellaneous income	70,063	-	70,063	49,225	-	49,225
Increase (decrease) of investment in joint venture - Newtrax	(76,000)	-	(76,000)	23,521	-	23,521
Gain on disposal of fixed assets	9,021	-	9,021	7,300	-	7,300
Subtotal	9,013,052	23,637	9,036,689	9,467,971	5,568	9,473,539
Special fundraising:						
Gross receipts	29,110,143	18,396	29,128,539	31,649,252	15,978	31,665,230
Less: direct expenses	(28,876,433)	-	(28,876,433)	(31,139,038)	-	(31,139,038)
Net special fundraising	233,710	18,396	252,106	510,214	15,978	526,192
Net assets released from restrictions	26,543	(26,543)	-	63,945	(63,945)	-
Total revenues	9,273,305	15,490	9,288,795	10,042,130	(42,399)	9,999,731
Expenses:						
Program	7,692,081	-	7,692,081	8,003,678	-	8,003,678
Administration	1,411,594	-	1,411,594	1,395,352	-	1,395,352
Development	197,092	-	197,092	207,335	-	207,335
Total expenses	9,300,767	0	9,300,767	9,606,365	0	9,606,365
Increase (decrease) in net assets	(27,462)	15,490	(11,972)	435,765	(42,399)	393,366
Net assets - beginning	4,476,132	20,999	4,497,131	4,040,367	63,398	4,103,765
Net assets - ending	\$4,448,670	\$36,489	\$4,485,159	\$4,476,132	\$20,999	\$4,497,131

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

**MERRICK, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
For The Years Ended June 30, 2020 and 2019

	2020			
	Program	Administration	Development	Total
Expenses:				
Salaries	\$3,180,786	\$574,539	\$127,256	\$3,882,581
Payroll taxes	334,257	44,302	9,569	388,128
Employee benefits	694,496	128,423	30,431	853,350
Total personnel expenses	4,209,539	747,264	167,256	5,124,059
Professional fees	23,653	137,613	5,000	166,266
Contractual services - clients	655,082	6,263	-	661,345
Contractual services - GoTo	393,119	-	-	393,119
Contractual services - other	213,278	-	-	213,278
Program activity and supplies	115,094	6,941	-	122,035
Telephone and cellular phones	5,933	6,996	640	13,569
Occupancy	207,324	139,020	2,337	348,681
Licenses and fees	8,092	1,165	-	9,257
DT&H vehicle expense	68,083	6,699	-	74,782
DT&H transportation expense - Newtrax	845,591	-	-	845,591
Office supplies and equipment	21,666	49,248	4,727	75,641
Repairs and maintenance	3,416	13,888	-	17,304
Insurance	915	43,704	-	44,619
Interest	37,619	26,871	6,134	70,624
Postage	-	2,544	728	3,272
Miscellaneous	31,623	10,334	10,270	52,227
Depreciation	34,075	213,044	-	247,119
Subtotal expenses	6,874,102	1,411,594	197,092	8,482,788
Cost of paper sales	817,979	-	-	817,979
Direct expenses from special fundraising	-	-	28,876,433	28,876,433
Total expenses	7,692,081	1,411,594	29,073,525	38,177,200
Less: expenses included with revenues on the statement of activities:				
Direct expenses from special fundraising	-	-	(28,876,433)	(28,876,433)
Total expenses included in the expenses section on the statement of activities	<u>\$7,692,081</u>	<u>\$1,411,594</u>	<u>\$197,092</u>	<u>\$9,300,767</u>

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

	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.

**MERRICK, INC.**  
**STATEMENTS OF CASH FLOWS**  
For The Years Ended June 30, 2020 and 2019

**Statement 4**

	2020	2019
Cash flows from operating activities:		
Increase (decrease) in net assets	(\$11,972)	\$393,366
Adjustments:		
Depreciation	247,119	245,476
Gain on disposal of fixed assets	(9,021)	(7,300)
(Gain) loss in fair value of investments	(2,846)	(11,804)
(Increase) decrease in accounts receivable	277,932	(19,835)
(Increase) decrease in inventory	(46,301)	(23,483)
(Increase) decrease in prepaid expenses	3,906	4,767
(Increase) decrease in unemployment services trust asset	95,892	-
(Increase) decrease in investment in joint venture	76,000	(23,521)
Increase (decrease) in accounts payable	6,024	8,161
Increase (decrease) in accrued liabilities	36,151	4,556
Increase (decrease) in unemployment services trust liability	6,071	-
Increase (decrease) in deferred revenue	30,062	-
Net cash provided by operating activities	<u>709,017</u>	<u>570,383</u>
Cash flows from investing activities:		
Purchase of fixed assets	(43,036)	(86,439)
Proceeds from the disposal of fixed assets	29,192	7,300
Repayment of notes receivable - Newtrax	10,321	77,431
Disbursement of notes receivable - Newtrax	-	(55,000)
Additions to investment pool, including reinvested income	<u>(97,461)</u>	<u>(144,144)</u>
Net cash used in investing activities	<u>(100,984)</u>	<u>(200,852)</u>
Cash flows from financing activities:		
Repayment of notes payable	<u>(155,326)</u>	<u>(199,546)</u>
Net increase in cash and cash equivalents	452,707	169,985
Cash and cash equivalents - beginning	<u>805,881</u>	<u>635,896</u>
Cash and cash equivalents - ending	<u><u>\$1,258,588</u></u>	<u><u>\$805,881</u></u>
Supplemental data:		
Interest paid	<u><u>\$70,624</u></u>	<u><u>\$76,859</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, 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.

COVID-19 PANDEMIC

COVID-19 pandemic was a significant event in fiscal year 2020 and Merrick's programs were suspended by the MN Department of Human Services beginning mid-March and began to slowly reopen in mid-June. As a result, Merrick was unable to bill for any program services for 12 weeks and does not expect to be back to typical program revenue until December 2020. Merrick did receive a PPP loan, and subsequent to June 30, 2020, a HHS Federal Provider Relief Grant, a Minnesota Public Health Grant, and a Minnesota Retention Grant that will help to offset this loss of program revenue. Additionally, Merrick was granted a 3-month principal deferment on their revenue note and allowed a 6-month extension to Newtrax on their note receivable.

#### 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, 2020 and 2019, 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, 2020 and 2019, the allowance for bad debts was \$1,000. Unbilled accounts receivable at June 30, 2020 and 2019 were \$142,429 and \$120,882, respectively, and are presented with the day training and habilitation accounts receivable on the statement of net position.

**MERRICK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

---

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, 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 and improvements	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 or payable from Merrick after consideration of payment for all outstanding unemployment claims are made. The balance of the Unemployment Services Trust asset is reported net of the estimated claims liability, which for fiscal year 2020 is net of COVID-19 related assistance of 50%. The net recorded liability balance at June 30, 2020 was (\$6,071), which consists of a gross balance of \$99,796 less estimated claims liability of \$105,867. The net recorded asset balance at June 30, 2019 was \$95,892, which consists of a gross balance of \$111,980 less estimated claims liability of \$16,088.

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, 2020 and 2019

---

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 2019, or is expected to be due for 2020.

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.

**REVENUE & REVENUE RECOGNITION**

DT&H (Day Training and Habilitation) revenue consists of: 1 – State MMISII and county payments for services provided by Merrick to its' clients. Payments are based on contractual rates and subject to certain limits. DT&H revenue is recognized over time as services are provided; and, 2 – GoTo revenue, which is for services provided to the county and consists of cost reimbursement plus service fees. General work activities revenue consists of providing contracted services or piecework. Revenue from contracted services is recognized over time as services are provided and revenue from piecework is recognized at a point in time when the pieces are delivered. Paper sales is recognized at a point in time when the paper is delivered by Merrick. Special fundraising revenue consists mainly of revenue from charitable gambling which is recognized as a fees for service at the point of sale. Other special fundraising revenue is recognized at a point in time when the event is held.

Merrick recognizes contributions when cash or an unconditional promise to give is received. Conditional promises to give, that is, those with a measureable performance or other barriers, and a right of return, are not recognized until the conditions on which they depend have been substantially met. See Note 17 for treatment of the PPP loan received in fiscal year 2020.

**USE OF 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.

**RECLASSIFICATIONS**

Certain prior year amounts have been reclassified to conform to current year presentation. There was no impact from reclassification on the fiscal year 2019 net assets or changes in net assets.



**MERRICK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

---

**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:

	<u>2020</u>	<u>2019</u>
Cash	\$1,258,588	\$805,881
Accounts receivable, net	521,055	798,987
Investments	629,870	529,563
Note receivable - Newtrax, current	<u>34,308</u>	<u>44,629</u>
Total	<u><u>\$2,443,821</u></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. Accounts receivable are subject to collection, but are expected to be collected within one year and are presented net of allowance. 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. Merrick also has a \$500,000 line of credit available as needed (Note 12).

**Note 3 INVESTMENTS**

Investments consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Cash deposits	\$181,000	\$8,799
Negotiable certificates of deposit	163,763	164,835
Corporate bonds	46,195	180,551
Mutual funds and ETFs	<u>238,912</u>	<u>175,378</u>
Total	<u><u>\$629,870</u></u>	<u><u>\$529,563</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.

**MERRICK, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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

	2020	2019
Interest and dividends	\$11,706	\$5,844
Change in fair value	2,846	11,804
Investment fees	(4,245)	(1,700)
Total	<u>\$10,307</u>	<u>\$15,948</u>

**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:

	2020		
	Level 1	Level 2	Total
Investments:			
Negotiable certificates of deposit	\$ -	\$163,763	\$163,763
Corporate bonds	-	46,195	46,195
Mutual funds and ETFs	238,912	-	238,912
Total	<u>\$238,912</u>	<u>\$209,958</u>	<u>\$448,870</u>
	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>

**MERRICK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

---

**Note 5**    **NOTE RECEIVABLE**

Merrick has an outstanding unsecured note from Newtrax, Inc. (see Note 15). The agreement states monthly installments of \$1,013 which includes a 4% interest rate that was originally scheduled to mature in June 2020. In June of 2020, Merrick entered into an agreement with Newtrax, Inc. that deferred the final payment due June 30, 2020 until January 1, 2021.

**Note 6**    **FIXED ASSETS**

Fixed assets are as follows:

	June 30,	
	2020	2019
Land	\$565,000	\$565,000
Building	6,457,283	6,441,332
Leasehold improvements	184,442	184,442
Equipment	371,658	353,724
Vehicles	661,707	686,176
Total	8,240,090	8,230,674
Less: accumulated depreciation	(3,984,838)	(3,751,168)
Net fixed assets	<u>\$4,255,252</u>	<u>\$4,479,506</u>

**MERRICK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**Note 7    NOTES AND LOANS PAYABLE**

June 30, 2020 and 2019, long-term debt consisted of the following:

	June 30,	
	2020	2019
\$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. In light of COVID-19, Lake Area Bank deferred April, May, and June 2020 principal payments, which effectively extends the payment schedule and final maturity by three months.	\$2,347,613	\$2,494,219
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%.	8,048	12,092
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%.	45,254	49,930
Total notes and loans payable	<u>\$2,400,915</u>	<u>\$2,556,241</u>

At June 30, 2020, scheduled principal payments on notes and loans payable are as follows:

Year Ending June 30,	Total
2021	\$210,574
2022	217,793
2023	219,390
2024	225,679
2025	232,153
Thereafter	<u>1,295,326</u>
Total	<u>\$2,400,915</u>

**MERRICK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

---

**Note 8    NET ASSETS**

At June 30, 2020 and 2019, net assets were restricted by donors or designated internally as shown below. All donor restrictions are temporary for time and/or purpose.

	June 30,	
	2020	2019
With donor restrictions:		
Client holiday party	\$573	\$273
Technology purchase	162	162
Arts program	23,637	5,000
Equipment	568	568
Time restricted - unamortized 0% note discount	11,549	14,996
	<u>\$36,489</u>	<u>\$20,999</u>
Total donor restrictions		
Without donor restrictions:		
Board designations:		
Charitable gambling fund	\$61,895	\$112,366
Building and capital improvement accrual	629,870	529,563
	<u>\$691,765</u>	<u>\$641,929</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, 2020 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 2020 and 2019, MMISII revenue accounted for approximately 60% and 68%, of total support and revenue.

**MERRICK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**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 2020 and 2019 were \$33,861 and \$36,353 respectively.

**Note 12 LINE OF CREDIT**

Merrick has a \$500,000 line of credit with a commercial bank which bears an interest rate of 4.75% and expires December 20, 2020, secured by inventory, accounts receivable, equipment and general intangibles. At June 30, 2020 and 2019, there was no amount drawn on the line of credit.

**Note 13 SPECIAL FUNDRAISING EVENTS**

Special fundraising events consisted of the following:

	2020			2019		
	Gross Receipts	Direct Expenses	Net	Gross Receipts	Direct Expenses	Net
Charitable gambling	\$29,047,879	(\$28,845,230)	\$202,649	\$31,503,489	(\$31,081,365)	\$422,124
Empower luncheon	51,349	(11,424)	39,925	61,094	(10,390)	50,704
Golf tournament	5,100	(568)	4,532	38,026	(19,273)	18,753
Client holiday party	18,396	(18,096)	300	15,978	(20,018)	(4,040)
Online auction	5,815	(288)	5,527	5,915	(1,090)	4,825
Bowl-a-thon	-	(827)	(827)	40,728	(6,902)	33,826
Total special fundraising events	<u>\$29,128,539</u>	<u>(\$28,876,433)</u>	<u>\$252,106</u>	<u>\$31,665,230</u>	<u>(\$31,139,038)</u>	<u>\$526,192</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 \$170,902 and \$165,425 for 2020 and 2019, respectively.

**MERRICK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

---

Future minimum rental payments on these leases are as follows:

	<u>Newtrax Lease</u>	<u>North St. Paul Lease</u>	<u>Total</u>
2021	\$98,961	\$30,055	\$129,016

**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 \$620,777 and \$607,463 were paid directly to the insurance providers during 2020 and 2019, 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  
June 30, 2020 and 2019

**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 audited financial statements with a fiscal year end of June 30. As of December 1, 2020, Newtrax, Inc.’s audited financial statements as of June 30, 2020 are not available. Amounts reported below for 2020 are based on Newtrax’s draft financial statements.

Merrick’s recorded investment of \$770,287 and \$846,287 at June 30, 2020 and 2019, 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 a note 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**

	(Rounded) 2020	2019
Current assets	\$665,000	\$823,883
Property and equipment	1,946,000	1,919,380
Other assets	24,000	36,459
Total assets	<u>\$2,635,000</u>	<u>\$2,779,722</u>
Liabilities	\$1,095,000	\$1,087,149
Net assets	<u>1,540,000</u>	<u>1,692,573</u>
Total liabilities and net assets	<u>\$2,635,000</u>	<u>\$2,779,722</u>

**Statement of Activities**

	(Rounded) 2020	2019
Revenue	\$3,834,000	\$3,943,654
Expenses	<u>(3,986,000)</u>	<u>(3,896,612)</u>
Change in net assets	(152,000)	47,042
Net assets - beginning of year	<u>1,692,000</u>	<u>1,645,531</u>
Net assets - end of year	<u>\$1,540,000</u>	<u>\$1,692,573</u>



**MERRICK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

---

**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.

A reconciliation for 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Gambling Fund:		
Net income - regulatory basis	\$280,922	\$464,975
GAAP adjustments:		
Gambling tax accrual - end of year	(174,290)	(153,730)
Gambling tax accrual - beginning of year	153,730	114,453
Intra-company receivable adjustment - end of year	(62,468)	(4,755)
Intra-company receivable adjustment - beginning of year	<u>4,755</u>	<u>1,181</u>
Net income - accrual basis	<u>\$202,649</u>	<u>\$422,124</u>

**Note 17 PPP LOAN**

Merrick entered into an unsecured loan agreement with Lake Area Bank (the Lender) on April 17, 2020 for \$952,700, pursuant to the Paycheck Protection Program (PPP) created by Section 1102 of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The loan proceeds are to be used for payroll costs, payments on mortgage interest, rent, utilities, and interest on other debt obligations, with at least 60% of the amount to be used for payroll costs. Merrick believes the entire amount of the loan will be forgiven and is recognizing the transaction as a conditional grant. Revenue is recognized as eligible expenditures are incurred. Any amount not forgiven would be repayable at 1.0% interest over a two-year term. As of June 30, 2020, the entire loan proceeds have been recognized as revenue without donor restrictions (PPP loan forgiveness).

**Note 18 CHANGES IN ACCOUNTING PRINCIPLE**

Merrick implemented the provisions of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) and 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Neither standard resulted in any changes to amounts previously reported and, accordingly, no restatement was applicable.

ASU 2014-09 provides new revenue recognition standards, eliminating the transaction- and industry-specific revenue recognition guidance and replaces it with a principle-based approach for determining revenue recognition.

ASU 2018-08 assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional.

**Note 19 SUBSEQUENT EVENTS AND UNCERTAINTIES**

Management has evaluated subsequent events for recognition and disclosure through December 1, 2020, which is the date that the report was available to be issued.

The COVID-19 pandemic continues to cause rapidly changing disruptions worldwide. Management has evaluated these conditions and believes that it is not possible to reasonably estimate the financial impact, if any, of COVID-19 on the Organization's future operations. See Note 1 COVID-19 Pandemic section for additional information.