

MERRICK, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For The Years Ended
June 30, 2021 and 2020

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, 2021 and 2020, 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 \$214,527 as of June 30, 2021 and \$300,274 as of June 30, 2020, and total revenues of \$792,308 (special fundraising gross receipts of \$41,008,175 less expenses of \$40,215,867) for the year ended June 30, 2021, and \$202,649 (special fundraising gross receipts of \$29,047,879 less expenses of \$28,845,230) for the year ended June 30, 2020. 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, 2021 and 2020, 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 2, 2021

FINANCIAL STATEMENTS

MERRICK, INC.**STATEMENTS OF FINANCIAL POSITION**

June 30, 2021 and June 30, 2020

Statement 1

	2021	2020
Assets:		
Cash and cash equivalents	\$3,030,020	\$1,258,588
Accounts receivable, net of allowance for doubtful accounts:		
Day program	859,994	357,892
Production activities	286,997	161,950
Newtrax	-	1,013
Other	675	200
Inventory	50,573	96,603
Prepaid expenses	88,501	5,175
Unemployment Services Trust asset, net	121,605	-
Investments	715,644	629,870
Note receivable - Newtrax	-	34,308
Investment in joint venture - Newtrax	1,102,030	770,287
Fixed assets, net	4,330,844	4,255,252
Total assets	<u>\$10,586,883</u>	<u>\$7,571,138</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$344,783	\$228,583
Accounts payable - Newtrax	61,958	24,671
Accrued payroll, withholdings and bonus	251,369	243,067
Deferred revenue	-	30,062
Accrued paid time off (PTO)	153,861	152,610
Unemployment Services Trust liability, net	-	6,071
Notes and loans payable	2,187,269	2,400,915
Total liabilities	<u>2,999,240</u>	<u>3,085,979</u>
Net assets:		
Without donor restrictions	7,542,526	4,448,670
With donor restrictions	45,117	36,489
Total net assets	<u>7,587,643</u>	<u>4,485,159</u>
Total liabilities and net assets	<u>\$10,586,883</u>	<u>\$7,571,138</u>

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

MERRICK, INC.
STATEMENTS OF ACTIVITIES
For The Years Ended June 30, 2021 and 2020

Statement 2

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue						
Contracts with customers:						
Day program:						
MMISII	\$5,821,915	\$ -	\$5,821,915	\$5,139,225	\$ -	\$5,139,225
County revenues	230,584	-	230,584	141,884	-	141,884
GoTo revenue	494,125	-	494,125	533,652	-	533,652
Production activities:						
General	1,396,869	-	1,396,869	1,142,735	-	1,142,735
Paper sales	647,301	-	647,301	943,272	-	943,272
Support and other:						
Donations and grants	197,317	25,000	222,317	93,248	23,637	116,885
COVID-19 client wage relief contributions	1,522,828	-	1,522,828	51,496	-	51,496
PPP loan forgiveness	952,700	-	952,700	952,700	-	952,700
Interest on notes receivable	1,740	-	1,740	1,449	-	1,449
Investment income	75,774	-	75,774	10,307	-	10,307
Miscellaneous income	66,128	-	66,128	70,063	-	70,063
Increase (decrease) of investment in joint venture - Newtrax	331,743	-	331,743	(76,000)	-	(76,000)
Gain on disposal of fixed assets	8,670	-	8,670	9,021	-	9,021
Subtotal	11,747,694	25,000	11,772,694	9,013,052	23,637	9,036,689
Special fundraising:						
Gross receipts	41,126,778	14,623	41,141,401	29,110,143	18,396	29,128,539
Less: direct expenses	(40,265,928)	-	(40,265,928)	(28,876,433)	-	(28,876,433)
Net special fundraising	860,850	14,623	875,473	233,710	18,396	252,106
Net assets released from restrictions	30,995	(30,995)	-	26,543	(26,543)	-
Total revenues	12,639,539	8,628	12,648,167	9,273,305	15,490	9,288,795
Expenses:						
Program	7,839,648	-	7,839,648	7,692,081	-	7,692,081
Administration	1,509,139	-	1,509,139	1,411,594	-	1,411,594
Development	196,896	-	196,896	197,092	-	197,092
Total expenses	9,545,683	0	9,545,683	9,300,767	0	9,300,767
Increase (decrease) in net assets	3,093,856	8,628	3,102,484	(27,462)	15,490	(11,972)
Net assets - beginning	4,448,670	36,489	4,485,159	4,476,132	20,999	4,497,131
Net assets - ending	\$7,542,526	\$45,117	\$7,587,643	\$4,448,670	\$36,489	\$4,485,159

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

MERRICK, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For The Years Ended June 30, 2021 and 2020

	2021			
	Program	Administration	Development	Total
Expenses:				
Salaries	\$3,220,968	\$591,879	\$133,168	\$3,946,015
Payroll taxes	205,543	37,058	8,687	251,288
Employee benefits	694,932	130,600	32,749	858,281
Total personnel expenses	4,121,443	759,537	174,604	5,055,584
Professional fees	33,268	137,319	-	170,587
Contractual services - clients	750,915	8,072	-	758,987
Contractual services - GoTo	331,044	-	-	331,044
Contractual services - other	132,202	-	-	132,202
Program activity and supplies	93,245	35,152	508	128,905
Telephone and cellular phones	5,968	9,762	664	16,394
Occupancy	199,409	151,142	1,772	352,323
Licenses and fees	8,301	-	-	8,301
Day program vehicle expense	77,087	6,445	-	83,532
Day program transportation expense - Newtrax	1,401,730	-	-	1,401,730
Office supplies and equipment	18,216	56,128	4,807	79,151
Repairs and maintenance	10,010	19,860	-	29,870
Insurance	-	46,015	-	46,015
Interest	35,614	25,439	5,407	66,460
Postage	-	5,584	1,881	7,465
Miscellaneous	30,518	26,824	7,253	64,595
Depreciation	38,053	221,860	-	259,913
Subtotal expenses	7,287,023	1,509,139	196,896	8,993,058
Cost of paper sales	552,625	-	-	552,625
Direct expenses from special fundraising	-	-	40,265,928	40,265,928
Total expenses	7,839,648	1,509,139	40,462,824	49,811,611
Less: expenses included with revenues on the statement of activities:				
Direct expenses from special fundraising	-	-	(40,265,928)	(40,265,928)
Total expenses included in the expenses section on the statement of activities	<u>\$7,839,648</u>	<u>\$1,509,139</u>	<u>\$196,896</u>	<u>\$9,545,683</u>

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

	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
Day program vehicle expense	68,083	6,699	-	74,782
Day program 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.

MERRICK, INC.
STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2021 and 2020

Statement 4

	2021	2020
Cash flows from operating activities:		
Increase (decrease) in net assets	\$3,102,484	(\$11,972)
Adjustments:		
Depreciation	259,913	247,119
Gain on disposal of fixed assets	(8,670)	(9,021)
Gain on fair value of investments	(71,570)	(2,846)
Changes in assets and liabilities, net:		
Accounts receivable, net	(626,611)	277,932
Inventory	46,030	(46,301)
Prepaid expenses	(83,326)	3,906
Unemployment Services Trust asset, net	(121,605)	95,892
Investment in joint venture	(331,743)	76,000
Accounts payable	153,487	6,024
Accrued liabilities	9,553	36,151
Unemployment Services Trust liability, net	(6,071)	6,071
Deferred revenue	(30,062)	30,062
Net cash provided by operating activities	<u>2,291,809</u>	<u>709,017</u>
Cash flows from investing activities:		
Purchase of fixed assets	(335,504)	(43,036)
Proceeds from the disposal of fixed assets	8,669	29,192
Repayment of notes receivable - Newtrax	34,308	10,321
Additions to investment pool, including reinvested income	(14,204)	(97,461)
Net cash used in investing activities	<u>(306,731)</u>	<u>(100,984)</u>
Cash flows from financing activities:		
Repayment of notes payable	<u>(213,646)</u>	<u>(155,326)</u>
Net increase in cash and cash equivalents	1,771,432	452,707
Cash and cash equivalents - beginning	<u>1,258,588</u>	<u>805,881</u>
Cash and cash equivalents - ending	<u><u>\$3,030,020</u></u>	<u><u>\$1,258,588</u></u>
Supplemental data:		
Interest paid	<u><u>\$66,460</u></u>	<u><u>\$70,624</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 a Day Support Services (DSS), Day Training & Habilitation (DT&H), Employment Services, and Prevocational 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, community inclusion, horticulture, music, pet, 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 I/DD (formerly mental retardation) living in the catchment area of the Merrick Community Center 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 services are coordinated from our renovated and very energy efficient and green building located in Vadnais Heights 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 occurring during the fiscal period ending June 30, 2020 and Merrick's programs were suspended by the MN Department of Human Services beginning mid-March 2020 and began to slowly reopen in mid-June 2020. As a result, Merrick was unable to bill for any program services for 12 weeks and was only serving 90% of its former clients as of June 30, 2021. Merrick received a PPP loan during the fiscal period ending June 30, 2020 and another during the fiscal year ending June 30, 2021. In the fiscal period ending June 30, 2021, Merrick received two HHS Federal Provider Relief Grants, a Minnesota Public Health Grant, a Minnesota Retention Grant, and a Ramsey County Grant that helped to offset this loss of program revenue and provide resources to mitigate the transmission of the Covid-19 virus. 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, mission and property 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, 2021 and 2020, 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, 2021 and 2020, the allowance for bad debts was \$1,000. Unbilled accounts receivable at June 30, 2021 and 2020 were \$268,041 and \$142,429, respectively, and are presented with the day program accounts receivable on the Statements of Financial Position.

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% and 100% for fiscal year 2021. The net recorded asset balance at June 30, 2021 was \$121,605, which consists of a gross balance of \$121,605 less estimated claims liability of \$0. 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.

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, 2021 and 2020

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 2020, or is expected to be due for 2021.

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

Day program 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. Day program 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 production 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 measurable 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 loans received in fiscal years 2020 and 2021.

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.

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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>2021</u>	<u>2020</u>
Cash	\$3,030,020	\$1,258,588
Accounts receivable, net	1,147,666	521,055
Investments	715,644	629,870
Note receivable - Newtrax, current	<u>-</u>	<u>34,308</u>
Total	<u>\$4,893,330</u>	<u>\$2,443,821</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 Merrick's mission and property accrual (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>2021</u>	<u>2020</u>
Cash deposits	\$313,549	\$181,000
Negotiable certificates of deposit	-	163,763
Corporate bonds	-	46,195
Mutual funds and ETFs	<u>402,095</u>	<u>238,912</u>
Total	<u>\$715,644</u>	<u>\$629,870</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, 2021 and 2020

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

	2021	2020
Interest and dividends	\$7,852	\$11,706
Change in fair value	71,570	2,846
Investment fees	(3,648)	(4,245)
Total	<u>\$75,774</u>	<u>\$10,307</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:

		2021		
		Level 1	Level 2	Total
Investments:				
Mutual funds and ETFs		\$402,095	\$ -	\$402,095
		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>

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

Note 5 NOTE RECEIVABLE

Merrick had an outstanding unsecured note from Newtrax, Inc. (see Note 15) that was paid off in full during the year ended June 30, 2021. The agreement stated monthly installments of \$1,013 which included 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,	
	2021	2020
Land	\$565,000	\$565,000
Building	6,577,134	6,457,283
Leasehold improvements	184,442	184,442
Equipment	371,658	371,658
Vehicles	813,313	661,707
Total	8,511,547	8,240,090
Less: accumulated depreciation	(4,180,703)	(3,984,838)
Net fixed assets	<u>\$4,330,844</u>	<u>\$4,255,252</u>

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
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Note 7 NOTES AND LOANS PAYABLE

As of June 30, 2021 and 2020, long-term debt consisted of the following:

	June 30,	
	2021	2020
\$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.	\$2,146,971	\$2,347,613
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
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%.	40,298	45,254
Total notes and loans payable	<u>\$2,187,269</u>	<u>\$2,400,915</u>

At June 30, 2021, scheduled principal payments on notes and loans payable are as follows:

Year Ending June 30,	Total
2022	\$213,498
2023	218,454
2024	224,678
2025	231,332
2026	238,063
Thereafter	<u>1,061,244</u>
Total	<u>\$2,187,269</u>

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

Note 8 NET ASSETS

At June 30, 2021 and 2020, net assets were restricted by donors or designated internally as shown below. All donor restrictions are temporary for time and/or purpose.

	June 30,	
	2021	2020
With donor restrictions:		
Client holiday party	\$ -	\$573
Technology purchase	-	162
Music therapy	15,000	-
Life enrichment	1,605	-
Arts program	20,060	23,637
Equipment	-	568
Time restricted - unamortized 0% note discount	8,452	11,549
	<u>\$45,117</u>	<u>\$36,489</u>
Total donor restrictions		
Without donor restrictions:		
Board designations:		
Charitable gambling fund	\$ -	\$61,895
Mission and property accrual	715,644	529,563
	<u>\$715,644</u>	<u>\$591,458</u>
Total board designations		

The gambling fund balance as of June 30, 2021 is negative \$34,042, and thus there is no amount designated.

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, 2021 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 2021 and 2020, MMISII revenue accounted for approximately - 51% and 60%, of total support and revenue.

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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 2021 and 2020 were \$33,507 and \$33,861 respectively.

Note 12 LINE OF CREDIT

Merrick has a \$500,000 line of credit with a commercial bank which bears an interest rate of 3.75% and expires December 28, 2021, secured by inventory, accounts receivable, equipment and general intangibles. At June 30, 2021 and 2020, there was no amount drawn on the line of credit.

Note 13 SPECIAL FUNDRAISING EVENTS

Special fundraising events consisted of the following:

	2021			2020		
	Gross Receipts	Direct Expenses	Net	Gross Receipts	Direct Expenses	Net
Charitable gambling	\$41,008,175	(\$40,215,867)	\$792,308	\$29,047,879	(\$28,845,230)	\$202,649
Empower luncheon	5,974	(291)	5,683	51,349	(11,424)	39,925
Golf tournament	95,594	(31,150)	64,444	5,100	(568)	4,532
Client holiday party	14,623	(17,127)	(2,504)	18,396	(18,096)	300
Online auction	5,462	(1,468)	3,994	5,815	(288)	5,527
Bowl-a-thon	11,573	(25)	11,548	-	(827)	(827)
Total special fundraising events	<u>\$41,141,401</u>	<u>(\$40,265,928)</u>	<u>\$875,473</u>	<u>\$29,128,539</u>	<u>(\$28,876,433)</u>	<u>\$252,106</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, 2023 at a monthly rate of \$6,251 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 \$169,678 and \$170,902 for June 30, 2021 and 2020, respectively.

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
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Future minimum rental payments on these leases are as follows:

	Newtrax Lease	North St. Paul Lease	Total
2022	\$101,930	\$76,330	\$178,260
2023	-	78,620	78,620
2024	-	33,161	33,161

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 \$650,273 and \$620,777 were paid directly to the insurance providers during 2021 and 2020 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, Trustees and key employees have to disclose 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, 2021 and 2020

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. Amounts reported below are based on Newtrax’s audited financial statements. 2020 amounts were considered estimates because Newtrax’s 2020 audited financial statements were not available at the time of issuance of Merrick’s 2020 financial statements.

Merrick’s recorded investment of \$1,102,030 and \$770,287 at June 30, 2021 and 2020, 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 had a note receivable from Newtrax (see Note 5) of \$34,308 as of June 30, 2020. The note was paid in full during the year ended June 30, 2021.

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

	(Actual) 2021	(Rounded) 2020
Current assets	\$1,357,029	\$665,000
Property and equipment	1,491,475	1,946,000
Other assets	33,702	24,000
Total assets	<u>\$2,882,206</u>	<u>\$2,635,000</u>
Liabilities	\$678,147	\$1,095,000
Net assets	<u>2,204,059</u>	<u>1,540,000</u>
Total liabilities and net assets	<u>\$2,882,206</u>	<u>\$2,635,000</u>

Statement of Activities

	(Actual) 2021	(Rounded) 2020
Revenue	\$4,907,884	\$3,834,000
Expenses	<u>(4,243,825)</u>	<u>(3,986,000)</u>
Change in net assets	664,059	(152,000)
Net assets - beginning of year	<u>1,540,000</u>	<u>1,692,000</u>
Net assets - end of year	<u>\$2,204,059</u>	<u>\$1,540,000</u>

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
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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 is as follows:

	2021	2020
Gambling Fund:		
Net income (loss) - regulatory basis	\$795,788	\$280,922
GAAP adjustments:		
Gambling tax accrual - end of year	(236,160)	(174,290)
Gambling tax accrual - beginning of year	174,290	153,730
Intra-company receivable adjustment - end of year	(4,078)	(62,468)
Intra-company receivable adjustment - beginning of year	62,468	4,755
	<u>\$792,308</u>	<u>\$202,649</u>
Net income - accrual basis		

Note 17 PPP LOANS AND FORGIVENESS

Merrick obtained unsecured forgivable loans, under the provisions of the Paycheck Protection Program (PPP), dated April 17, 2020 and February 1, 2021, both in the amount of \$952,700. These loans are subject to forgiveness based on qualifying expenditures. Merrick expects all amounts to be forgiven and, accordingly, have treated them as conditional grants. Revenue is recognized as qualifying expenditures are incurred and other conditions met. The first loan amount of \$952,700 was fully recognized as revenue in the year ended June 30, 2020. Forgiveness of this loan was confirmed on April 28, 2021. The second loan of \$952,700 was fully recognized as revenue in the year ended June 30, 2021. Management expects the full amount of the second loan to be forgiven in fiscal year 2022. Any amount not forgiven would be repayable at 1.0% interest over a two-year term.

The expenditures made under this program are subject to review and audit by the SBA for six years from the date the loan was forgiven or paid in full. Management believes that any liability for disallowances, which may arise as a result of an audit, would not be material.

Note 18 SUBSEQUENT EVENTS AND UNCERTAINTIES

Management has evaluated subsequent events for recognition and disclosure through December 2, 2021, which is the date that the report was available to be issued.

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