

MERRICK, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For The Years Ended
June 30, 2022 and 2021

MERRICK, INC.
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INDEPENDENT AUDITOR'S REPORT

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

Qualified Opinion

We have audited the accompanying financial statements of Merrick, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, based on our audits and reports of the other auditors, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of Merrick, Inc. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the Gambling Fund of Merrick, Inc., which statements reflect total assets of \$428,879 as of June 30, 2022 and \$214,527 as of June 30, 2021, and total revenues of \$860,397 (special fundraising gross receipts of \$50,002,404 less expenses of \$49,142,007) for the year ended June 30, 2022, and \$792,308 (special fundraising gross receipts of \$41,008,175 less expenses of \$40,215,867) for the year ended June 30, 2021. 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 reports have been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of the Gambling Fund of Merrick, Inc., which conform those financial statements to accounting principles generally accepted in the United States of America (as described in Note 15 to the financial statements). Our opinion, insofar as it relates to the amounts included for the Gambling Fund of Merrick, Inc., prior to these adjustments, is based solely on the reports of the other auditors.

Basis for Qualified Opinion

The opinion of the other auditors on the 2022 financial statements of the Gambling Fund of Merrick, Inc., was qualified due to electronic pull-tab sales. The distributor of these games electronically calculates the fees, receipts and prizes paid as a service organization. Due to the selling of electronic pull-tabs, the Gambling Fund auditors were unable to obtain sufficient appropriate audit evidence to ensure the accuracy of the data provided by the service organization. The amounts of electronic pull-tab sales are material to the entity as a whole and, accordingly, we have qualified our opinion on the 2022 and 2021 financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Merrick, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Updated Opinion on 2021 Financial Statements

In our report dated December 2, 2021, we expressed an unmodified opinion on the 2021 financial statements. The Gambling Fund auditor for 2021 (a different auditor than that 2022 Gambling Fund auditor) expressed an unmodified opinion on the 2021 Gambling Fund financial statements. Based on the 2022 Basis for Qualified Opinion paragraph above, we believe the 2021 Gambling Fund audit likely should have had the same qualification. Accordingly, our present opinion on the 2021 financial statements, as presented herein, is different from that expressed in our previous opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Merrick's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Merrick Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Merrick Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2023 on our consideration of Merrick Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Merrick Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Merrick, Inc.'s internal control over financial reporting and compliance.

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

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

February 10, 2023

FINANCIAL STATEMENTS

MERRICK, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and June 30, 2021

Statement 1

	2022	2021
Assets:		
Cash and cash equivalents	\$3,164,875	\$3,030,020
Accounts receivable, net of allowance for doubtful accounts:		
Day program	1,160,087	859,994
Production activities	348,221	286,997
Other	9,728	675
Inventory	101,869	50,573
Prepaid expenses	7,438	88,501
Unemployment Services Trust asset, net	107,324	121,605
Investments	758,849	715,644
Investment in joint venture - Newtrax	1,099,153	1,102,030
Fixed assets, net	4,116,043	4,330,844
Total assets	<u>\$10,873,587</u>	<u>\$10,586,883</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$358,781	\$344,783
Accounts payable - Newtrax	81,743	61,958
Accrued payroll, withholdings and bonus	374,041	251,369
Accrued paid time off (PTO)	142,800	153,861
Notes and loans payable	1,974,241	2,187,269
Total liabilities	<u>2,931,606</u>	<u>2,999,240</u>
Net assets:		
Without donor restrictions	7,929,172	7,542,526
With donor restrictions	12,809	45,117
Total net assets	<u>7,941,981</u>	<u>7,587,643</u>
Total liabilities and net assets	<u>\$10,873,587</u>	<u>\$10,586,883</u>

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

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue						
Contracts with customers:						
Day program:						
MMISII	\$6,486,391	\$ -	\$6,486,391	\$5,821,915	\$ -	\$5,821,915
County revenues	201,411	-	201,411	230,584	-	230,584
GoTo revenue	749,633	-	749,633	494,125	-	494,125
Production activities:						
General	1,579,008	-	1,579,008	1,396,869	-	1,396,869
Paper sales	753,030	-	753,030	647,301	-	647,301
Support and other:						
Donations and grants	266,946	-	266,946	197,317	25,000	222,317
COVID-19 client wage relief contributions	-	-	-	1,522,828	-	1,522,828
PPP loan forgiveness	-	-	-	952,700	-	952,700
Interest on notes receivable	-	-	-	1,740	-	1,740
Investment income (loss)	(73,822)	-	(73,822)	75,774	-	75,774
Miscellaneous income	73,522	-	73,522	66,128	-	66,128
Increase (decrease) of investment in joint venture - Newtrax	(2,877)	-	(2,877)	331,743	-	331,743
Gain on disposal of fixed assets	10,150	-	10,150	8,670	-	8,670
Subtotal	10,043,392	0	10,043,392	11,747,694	25,000	11,772,694
Special fundraising:						
Gross receipts	50,132,865	16,143	50,149,008	41,126,778	14,623	41,141,401
Less: direct expenses	(49,216,228)	-	(49,216,228)	(40,265,928)	-	(40,265,928)
Net special fundraising	916,637	16,143	932,780	860,850	14,623	875,473
Net assets released from restrictions	48,451	(48,451)	-	30,995	(30,995)	-
Total revenues	11,008,480	(32,308)	10,976,172	12,639,539	8,628	12,648,167
Expenses:						
Program	8,722,561	-	8,722,561	7,839,648	-	7,839,648
Administration	1,671,615	-	1,671,615	1,509,139	-	1,509,139
Development	227,658	-	227,658	196,896	-	196,896
Total expenses	10,621,834	0	10,621,834	9,545,683	0	9,545,683
Increase (decrease) in net assets	386,646	(32,308)	354,338	3,093,856	8,628	3,102,484
Net assets - beginning	7,542,526	45,117	7,587,643	4,448,670	36,489	4,485,159
Net assets - ending	\$7,929,172	\$12,809	\$7,941,981	\$7,542,526	\$45,117	\$7,587,643

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

MERRICK, INC.**STATEMENTS OF FUNCTIONAL EXPENSES**

For The Years Ended June 30, 2022 and 2021

	2022			
	Program	Administration	Development	Total
Expenses:				
Salaries	\$3,588,689	\$600,702	\$135,222	\$4,324,613
Payroll taxes	345,828	61,220	10,052	417,100
Employee benefits	682,100	128,963	43,464	854,527
Total personnel expenses	4,616,617	790,885	188,738	5,596,240
Professional fees	92,373	145,711	-	238,084
Contractual services - clients	898,066	7,775	-	905,841
Contractual services - GoTo	574,787	-	-	574,787
Contractual services - other	230,002	-	-	230,002
Program activity and supplies	121,535	40,712	-	162,247
Telephone and cellular phones	5,462	7,602	669	13,733
Occupancy	225,136	180,027	2,545	407,708
Licenses and fees	6,081	-	-	6,081
Day program vehicle expense	84,949	9,641	-	94,590
Day program transportation expense - Newtrax	1,079,249	-	-	1,079,249
Office supplies and equipment	21,706	98,671	5,164	125,541
Repairs and maintenance	11,783	6,464	-	18,247
Insurance	-	47,518	-	47,518
Interest	31,619	22,585	4,506	58,710
Postage	-	2,807	1,634	4,441
Miscellaneous	25,976	94,350	24,402	144,728
Depreciation	41,115	216,867	-	257,982
Subtotal expenses	8,066,456	1,671,615	227,658	9,965,729
Cost of paper sales	656,105	-	-	656,105
Direct expenses from special fundraising	-	-	49,216,228	49,216,228
Total expenses	8,722,561	1,671,615	49,443,886	59,838,062
Less: expenses included with revenues on the statement of activities:				
Direct expenses from special fundraising	-	-	(49,216,228)	(49,216,228)
Total expenses included in the expenses section on the statement of activities	<u>\$8,722,561</u>	<u>\$1,671,615</u>	<u>\$227,658</u>	<u>\$10,621,834</u>

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

	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.

MERRICK, INC.
STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2022 and 2021

Statement 4

	2022	2021
Cash flows from operating activities:		
Increase in net assets	\$354,338	\$3,102,484
Adjustments:		
Depreciation	257,982	259,913
Gain on disposal of fixed assets	(10,150)	(8,670)
(Gain)/loss on fair value of investments	85,555	(71,570)
Changes in assets and liabilities, net:		
Accounts receivable, net	(370,370)	(626,611)
Inventory	(51,296)	46,030
Prepaid expenses	81,063	(83,326)
Unemployment Services Trust asset, net	14,281	(127,676)
Investment in joint venture	2,877	(331,743)
Accounts payable	33,783	153,487
Accrued liabilities	111,611	9,553
Deferred revenue	-	(30,062)
Net cash provided by operating activities	<u>509,674</u>	<u>2,291,809</u>
Cash flows from investing activities:		
Purchase of fixed assets	(33,031)	(335,504)
Proceeds from the disposal of fixed assets	-	8,669
Repayment of notes receivable - Newtrax	-	34,308
Additions to investment pool, including reinvested income	<u>(128,760)</u>	<u>(14,204)</u>
Net cash used in investing activities	<u>(161,791)</u>	<u>(306,731)</u>
Cash flows from financing activities:		
Repayment of notes payable	<u>(213,028)</u>	<u>(213,646)</u>
Net increase in cash and cash equivalents	134,855	1,771,432
Cash and cash equivalents - beginning	<u>3,030,020</u>	<u>1,258,588</u>
Cash and cash equivalents - ending	<u><u>\$3,164,875</u></u>	<u><u>\$3,030,020</u></u>
Supplemental data:		
Interest paid	<u><u>\$58,710</u></u>	<u><u>\$66,460</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) and the Department of Employment & Economic Development (DEED) as a Day Support Services (DSS), Day Training & Habilitation (DT&H), Employment Services, Prevocational, and Vocational Rehabilitation 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, 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. More than 90% of the clients in our program have a primary diagnosis of an I/DD (50% mild, 27% moderate, 11% severe, and 3% profound) and a number have secondary conditions that include: sensory impaired (57%), autism (23%), serious and persistent mental illness (20%), non-verbal (15%), and non-ambulatory (7%). In 2022, 64% of the clients lived in a licensed group home, 28% with family, and 8% on their own with supports.

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.

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:

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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 7).

Net Assets With Donor Restrictions – net assets subject to donor (or 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, 2022 and 2021, 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, 2022 and 2021, the allowance for bad debts were \$1,380 and \$1,000, respectively. Unbilled accounts receivable at June 30, 2022 and 2021 were \$1,110,637 and \$268,041, 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.

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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 2021 is net of COVID-19 related assistance of 100%. The net recorded asset balance at June 30, 2022 was \$107,324, which consists of a gross balance of \$107,324 less estimated claims liability of \$0. 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.

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.

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 2021, or is expected to be due for 2022.

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. As of June 30, 2022, Merrick had applied for an Employee Retention Credit of approximately \$400,000. Merrick considers this a conditional grant and will recognize the amount into revenue when the funds are received. See Note 16 for treatment of PPP loans.

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, 2022 and 2021

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>2022</u>	<u>2021</u>
Cash	\$3,164,875	\$3,030,020
Accounts receivable, net	1,518,036	1,147,666
Investments	<u>758,849</u>	<u>715,644</u>
Total	<u>\$5,441,760</u>	<u>\$4,893,330</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 7), 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 11).

Note 3 INVESTMENTS

Investments consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Cash deposits	\$105,439	\$313,549
Mutual funds and ETFs	<u>653,410</u>	<u>402,095</u>
Total	<u>\$758,849</u>	<u>\$715,644</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, 2022 and 2021

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

	2022	2021
Interest and dividends	\$15,765	\$7,852
Change in fair value	(85,556)	71,570
Investment fees	(4,031)	(3,648)
Total	<u>(\$73,822)</u>	<u>\$75,774</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 recurring basis as of June 30 are as follows:

		2022	
	Level 1	Level 2	Total
Investments:			
Mutual funds and ETFs	<u>\$653,410</u>	<u>\$ -</u>	<u>\$653,410</u>
		2021	
	Level 1	Level 2	Total
Investments:			
Mutual funds and ETFs	<u>\$402,095</u>	<u>\$ -</u>	<u>\$402,095</u>

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

Note 5 FIXED ASSETS

Fixed assets are as follows:

	June 30,	
	2022	2021
Land	\$565,000	\$565,000
Building	6,577,134	6,577,134
Leasehold improvements	184,442	184,442
Equipment	402,964	371,658
Vehicles	775,325	813,313
Total	8,504,865	8,511,547
Less: accumulated depreciation	(4,388,822)	(4,180,703)
Net fixed assets	<u>\$4,116,043</u>	<u>\$4,330,844</u>

Note 6 NOTES AND LOANS PAYABLE

As of June 30, 2022 and 2021, long-term debt consisted of the following:

	June 30,	
	2022	2021
\$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. Merrick paid off the loan in September 2022.	\$1,939,195	\$2,146,971
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%. Merrick paid off the loan in July 2022.	35,046	40,298
Total notes and loans payable	<u>\$1,974,241</u>	<u>\$2,187,269</u>

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

Note 7 NET ASSETS

At June 30, 2022 and 2021, net assets were restricted by donors or designated internally as shown below. All donor restrictions are temporary for time and/or purpose.

	June 30,	
	2022	2021
With donor restrictions:		
Music therapy	\$ -	\$15,000
Life enrichment	1,605	1,605
Arts program	5,000	20,060
Time restricted - unamortized 0% note discount	6,204	8,452
	<u> </u>	<u> </u>
Total donor restrictions	<u>\$12,809</u>	<u>\$45,117</u>
Without donor restrictions:		
Board designations:		
Charitable gambling fund	\$191,364	\$ -
Mission and property accrual	758,849	715,644
	<u> </u>	<u> </u>
Total board designations	<u>\$950,213</u>	<u>\$715,644</u>

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

Note 8 CONTINGENT LIABILITIES

Merrick has received two CDBG grants, parts of which are repayable if Merrick ceases to operate at its current location as a 501(c)(3) charity supporting adults with intellectual or developmental disabilities. Merrick's management believes the chances of having to repay such items are remote and thus no corresponding liability is recorded. Amounts subject to potential repayment at June 30, 2022 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 9 MAJOR REVENUE SOURCE

A material portion of Merrick's revenue consists of MMISII funds from the State of Minnesota. The receipt of these funds are derived from the aggregate of a service authorization for each client served, the loss of which would have a materially adverse effect on Merrick. For 2022 and 2021, MMISII revenue accounted for approximately - 59% and 46%, of total support and revenue.

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

Note 10 RETIREMENT PLAN

Merrick sponsors a 403(b)(7) tax deferred retirement plan. Employees may make voluntary contributions to the Plan not to exceed the limits established by law. Merrick may make discretionary contributions. Employer contributions to the Plan for 2022 and 2021 were \$30,398 and \$33,507 respectively.

Note 11 LINE OF CREDIT

Merrick has a \$500,000 line of credit with a commercial bank which bears an interest rate of 3.25% with an initial expiration date of December 21, 2022, extended through March 21, 2023. The line of credit is secured by inventory, accounts receivable, equipment and general intangibles. At June 30, 2022 and 2021, there was no amount drawn on the line of credit.

Note 12 SPECIAL FUNDRAISING EVENTS

Special fundraising events consisted of the following:

	2022			2021		
	Gross Receipts	Direct Expenses	Net	Gross Receipts	Direct Expenses	Net
Charitable gambling	\$50,002,404	(\$49,142,007)	\$860,397	\$41,008,175	(\$40,215,867)	\$792,308
Empower luncheon	35,658	(10,614)	25,044	5,974	(291)	5,683
Golf tournament	57,212	(38,978)	18,234	95,594	(31,150)	64,444
Client holiday party	16,143	(18,966)	(2,823)	14,623	(17,127)	(2,504)
Online auction	1,414	(389)	1,025	5,462	(1,468)	3,994
Bowl-a-thon	36,177	(5,274)	30,903	11,573	(25)	11,548
Total special fundraising events	<u>\$50,149,008</u>	<u>(\$49,216,228)</u>	<u>\$932,780</u>	<u>\$41,141,401</u>	<u>(\$40,265,928)</u>	<u>\$875,473</u>

Note 13 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 14). 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 \$8,494 with annual increases of 3%.

Rental expense was \$180,989 and \$169,678 for June 30, 2022 and 2021, respectively.

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

	<u>Newtrax Lease</u>	<u>North St. Paul Lease</u>	<u>Total</u>
2023	\$104,987	\$78,620	\$183,607
2024	-	33,161	33,161

Note 14 RELATED PARTY TRANSACTIONS

BENEFITS MANAGEMENT

Merrick uses a company to broker and manage its health care insurance benefit programs including health, dental, life and long-term disability. In fiscal year 2015, an RFP was issued and, after a committee interview and review, a decision was made to continue with the same company to broker and manage the Company's benefit programs. A Trustee of the Board is a principal with this benefits management company. Premiums of \$687,754 and \$650,273 were paid directly to the insurance providers during 2022 and 2021 and the amount of compensation earned by the benefits management company from the insurance providers is not known.

Merrick uses a company to broker and manage its 403(b)(7) tax deferred retirement plan (see Note 10). In fiscal year 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
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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 audited financial statements with a fiscal year end of June 30. Amounts reported below are based on Newtrax’s audited financial statements.

Merrick’s recorded investment of \$1,099,153 and \$1,102,030 at June 30, 2022 and 2021, respectively, is equal to 50% of Newtrax’s net assets at those dates.

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

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

	<u>2022</u>	<u>2021</u>
Current assets	\$1,438,770	\$1,357,029
Property and equipment	1,139,987	1,491,475
Other assets	<u>33,621</u>	<u>33,702</u>
Total assets	<u><u>\$2,612,378</u></u>	<u><u>\$2,882,206</u></u>
Liabilities	\$414,073	\$678,147
Net assets	<u>2,198,305</u>	<u>2,204,059</u>
Total liabilities and net assets	<u><u>\$2,612,378</u></u>	<u><u>\$2,882,206</u></u>

Statement of Activities

	<u>2022</u>	<u>2021</u>
Revenue	\$4,769,827	\$4,881,749
Expenses	<u>(4,775,581)</u>	<u>(4,243,825)</u>
Change in net assets	(5,754)	637,924
Net assets - beginning of year	<u>2,204,059</u>	<u>1,566,135</u>
Net assets - end of year	<u><u>\$2,198,305</u></u>	<u><u>\$2,204,059</u></u>

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

Note 15 CHARITABLE GAMBLING BASIS OF ACCOUNTING

Merrick maintains its charitable gambling books on the regulatory basis of accounting, as prescribed by the Minnesota Department of Revenue. Under the regulatory basis, most expenses and revenues are recognized on the cash basis.

A reconciliation is as follows:

	<u>2022</u>	<u>2021</u>
Gambling Fund:		
Net income - regulatory basis	\$848,457	\$795,788
GAAP adjustments:		
Gambling tax accrual - end of year	(228,298)	(236,160)
Gambling tax accrual - beginning of year	236,160	174,290
Intra-company receivable adjustment - end of year	-	(4,078)
Intra-company receivable adjustment - beginning of year	<u>4,078</u>	<u>62,468</u>
Net income - accrual basis	<u>\$860,397</u>	<u>\$792,308</u>

Note 16 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 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. Forgiveness of this loan was confirmed on January 14, 2022.

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. Management believes that any liability for disallowances, which may arise as a result of an audit, would not be material.

Note 17 SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition and disclosure through February 10, 2023, which is the date that the report was available to be issued.

Subsequent to June 30, 2022, Merrick entered into a lease agreement for building space on Willow Lake Boulevard beginning on September 1, 2022. This lease has a five-year term ending August 31, 2027 and monthly rates ranging from \$7,621 to \$16,825.

During July and September 2022, Merrick paid off the notes and loans payable described in Note 6.