

MERRICK, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For The Years Ended
June 30, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022, 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 \$431,864 as of June 30, 2023 and \$428,879 as of June 30, 2022, and total revenues of \$1,086,117 (special fundraising gross receipts of \$62,546,675 less expenses of \$61,460,558) for the year ended June 30, 2023, and \$860,397 (special fundraising gross receipts of \$50,002,404 less expenses of \$49,142,007) for the year ended June 30, 2022. 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 2023 and 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 2023 and 2022 financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 qualified audit 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 generally accepted 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 generally accepted 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.



REDPATH AND COMPANY, LLC
St. Paul, Minnesota

November 16, 2023

FINANCIAL STATEMENTS

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

June 30, 2023 and June 30, 2022

Statement 1

	2023	2022
Assets:		
Cash and cash equivalents	\$979,992	\$3,164,875
Accounts receivable, net of allowance for doubtful accounts:		
Day program	1,296,248	1,160,087
Production activities	363,749	348,221
Other	1,951	9,728
Grants receivable, net of allowance for doubtful accounts	22,500	-
Inventory	42,967	101,869
Prepaid expenses	40,601	7,438
Unemployment Services Trust asset, net	79,678	107,324
Investments	1,195,591	758,849
Investment in joint venture - Newtrax	933,322	1,099,153
Fixed assets, net	4,514,758	4,116,043
Right-of-use operating asset	1,530,097	-
Right-of-use financing asset	61,531	-
Total assets	<u>\$11,062,985</u>	<u>\$10,873,587</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$413,911	\$358,781
Accounts payable - Newtrax	-	81,743
Accrued payroll, withholdings and bonus	305,797	374,041
Accrued paid time off (PTO)	132,128	142,800
Notes and loans payable	-	1,974,241
Operating lease liability	1,604,672	-
Financing lease liability	62,406	-
Total liabilities	<u>2,518,914</u>	<u>2,931,606</u>
Net assets:		
Without donor restrictions	8,471,919	7,929,172
With donor restrictions	72,152	12,809
Total net assets	<u>8,544,071</u>	<u>7,941,981</u>
Total liabilities and net assets	<u>\$11,062,985</u>	<u>\$10,873,587</u>

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

MERRICK, INC.
STATEMENTS OF ACTIVITIES
For The Years Ended June 30, 2023 and 2022

Statement 2

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue						
Contracts with customers:						
Day program:						
MMISII	\$7,365,378	\$ -	\$7,365,378	\$6,486,391	\$ -	\$6,486,391
County revenues	226,685	-	226,685	201,411	-	201,411
GoTo revenue	1,266,976	-	1,266,976	749,633	-	749,633
Production activities:						
General	1,618,454	-	1,618,454	1,579,008	-	1,579,008
Paper sales	857,384	-	857,384	753,030	-	753,030
Support and other:						
Donations and grants	268,358	72,152	340,510	266,946	-	266,946
Investment income (loss)	72,441	-	72,441	(73,822)	-	(73,822)
Miscellaneous income	78,266	-	78,266	73,522	-	73,522
Increase (decrease) of investment in joint venture - Newtrax	(165,831)	-	(165,831)	(2,877)	-	(2,877)
Gain on disposal of fixed assets	-	-	-	10,150	-	10,150
Subtotal	11,588,111	72,152	11,660,263	10,043,392	0	10,043,392
Special fundraising:						
Gross receipts	62,721,426	22,857	62,744,283	50,132,865	16,143	50,149,008
Less: direct expenses	(61,537,999)	-	(61,537,999)	(49,216,228)	-	(49,216,228)
Net special fundraising	1,183,427	22,857	1,206,284	916,637	16,143	932,780
Net assets released from restrictions	35,666	(35,666)	-	48,451	(48,451)	-
Total revenues	12,807,204	59,343	12,866,547	11,008,480	(32,308)	10,976,172
Expenses:						
Program	10,548,836	-	10,548,836	8,722,561	-	8,722,561
Administration	1,531,979	-	1,531,979	1,671,615	-	1,671,615
Development	183,642	-	183,642	227,658	-	227,658
Total expenses	12,264,457	0	12,264,457	10,621,834	0	10,621,834
Increase (decrease) in net assets	542,747	59,343	602,090	386,646	(32,308)	354,338
Net assets - beginning	7,929,172	12,809	7,941,981	7,542,526	45,117	7,587,643
Net assets - ending	\$8,471,919	\$72,152	\$8,544,071	\$7,929,172	\$12,809	\$7,941,981

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

MERRICK, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For The Years Ended June 30, 2023 and 2022

	2023			
	Program	Administration	Development	Total
Expenses:				
Salaries	\$4,198,233	\$519,313	\$138,683	\$4,856,229
Payroll taxes	392,184	64,969	8,878	466,031
Employee benefits	837,131	76,148	18,852	932,131
Total personnel expenses	5,427,548	660,430	166,413	6,254,391
Professional fees	102,316	112,992	160	215,468
Contractual services - clients	932,923	5,622	-	938,545
Contractual services - GoTo	1,029,396	-	-	1,029,396
Contractual services - other	190,372	-	-	190,372
Program activity and supplies	147,671	43,438	50	191,159
Telephone and cellular phones	7,352	13,359	500	21,211
Occupancy	600,546	210,553	-	811,099
Licenses and fees	4,500	-	-	4,500
Day program vehicle expense	131,715	6,035	-	137,750
Day program transportation expense - Newtrax	1,096,049	-	-	1,096,049
Office supplies and equipment	52,185	131,023	5,659	188,867
Repairs and maintenance	7,596	8,982	-	16,578
Insurance	-	49,455	-	49,455
Interest	8,477	13,274	-	21,751
Postage	380	5,707	2,365	8,452
Miscellaneous	12,078	16,002	8,495	36,575
Bad debt	7,870	3,039	-	10,909
Depreciation and amortization	82,010	252,068	-	334,078
Subtotal expenses	9,840,984	1,531,979	183,642	11,556,605
Cost of paper sales	707,852	-	-	707,852
Direct expenses from special fundraising	-	-	61,537,999	61,537,999
Total expenses	10,548,836	1,531,979	61,721,641	73,802,456
Less: expenses included with revenues on the statement of activities:				
Direct expenses from special fundraising	-	-	(61,537,999)	(61,537,999)
Total expenses included in the expenses section on the statement of activities	<u>\$10,548,836</u>	<u>\$1,531,979</u>	<u>\$183,642</u>	<u>\$12,264,457</u>

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

	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
Bad debt	-	-	-	-
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.

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

For The Years Ended June 30, 2023 and 2022

Statement 4

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$602,090	\$354,338
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	334,078	257,982
Noncash operating lease expense	74,575	-
Gain on disposal of fixed assets	-	(10,150)
(Gain)/loss on fair value of investments	(41,830)	85,555
Changes in assets and liabilities, net:		
Accounts receivable, net	(143,912)	(370,370)
Grants receivable, net	(22,500)	-
Inventory	58,902	(51,296)
Prepaid expenses	(33,163)	81,063
Unemployment Services Trust asset, net	27,646	14,281
Investment in joint venture	165,831	2,877
Accounts payable	(26,613)	33,783
Accrued liabilities	(78,916)	111,611
Net cash provided by operating activities	<u>916,188</u>	<u>509,674</u>
Cash flows from investing activities:		
Purchase of fixed assets	(694,468)	(33,031)
Additions to investment pool, including reinvested income	(394,912)	(128,760)
Net cash used in investing activities	<u>(1,089,380)</u>	<u>(161,791)</u>
Cash flows from financing activities:		
Principal payments on financing lease	(37,450)	-
Repayment of notes payable	(1,974,241)	(213,028)
Net cash used in investing activities	<u>(2,011,691)</u>	<u>(213,028)</u>
Net increase in cash and cash equivalents	(2,184,883)	134,855
Cash and cash equivalents - beginning	<u>3,164,875</u>	<u>3,030,020</u>
Cash and cash equivalents - ending	<u><u>\$979,992</u></u>	<u><u>\$3,164,875</u></u>
Supplemental data:		
Interest paid	<u><u>\$21,751</u></u>	<u><u>\$58,710</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, In-Home Services (IHS), Fiscal-Intermediary Transportation Services, Positive Support Services (PSS), Pre-ETS, Prevocational, and Vocational Rehabilitation Services (VRS) provider. Merrick is dedicated to serving adults with intellectual or developmental disabilities (I/DD) by honoring informed choice and providing a full array of services that offer (i) meaningful work activities where the client is engaged in preferred tasks, completed by them, in a setting of their choice (onsite, 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.

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 more than 400 people, operating more than 25 charitable gambling pulltab sites, employing 185 professional staff, maintaining a fleet of 35 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:

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, 2023 and 2022, 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, 2023 and 2022, the allowance for bad debts were \$1,380 and \$1,380, respectively. Unbilled accounts receivable at June 30, 2023 and 2022 were \$739,134 and \$1,110,637, 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.

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

INVESTMENTS

Merrick's investments consist of exchange traded funds (ETFs), US treasury notes, and cash deposits held by the broker. Investments are recorded at fair value using quoted market prices and are designated for longer-term use.

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 net recorded asset balance at June 30, 2023 was \$79,678, which consists of a gross balance of \$89,678 less estimated claims liability of \$10,000. 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.

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, 2023, Merrick had applied for an Employee Retention Credit of \$607,287. Merrick considers this a conditional grant and will recognize the amount into revenue when the funds are received.

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 2022, or is expected to be due for 2023.

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.

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.

LEASES

For any lease with an initial term in excess of 12 months, the related leased asset and liability are recognized on the balance sheet as operating or finance leases at the inception of an agreement where it is determined that a lease exists. Merrick has elected to exclude short-term leases for all classes of underlying assets from balance sheet recognition. A lease is considered to be short-term if it contains a lease term of 12 months or less. Lease expense related to short term leases is recognized on a straight-line basis over the term of the lease. Merrick may enter into leases that contain both lease and non-lease components. Merrick has elected the practical expedient to combine lease and non-lease components for finance leases.

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

Operating lease assets are included in operating lease right-of-use (“ROU”) assets. ROU assets represent the right to use an underlying asset for the lease term and operating lease liabilities represent the obligation to make lease payments arising from the related operating lease. These assets and liabilities are recognized based on the present value of future payments over the lease term at the commencement date. Merrick has elected to use the risk-free rate as the discount factor in lieu of determining the incremental borrowing rate for all classes of underlying assets when the implicit rate is not readily determinable.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

Merrick adopted the provisions of ASC 842, Leases, using the modified retrospective approach with July 1, 2022 as the date of initial adoption. Merrick elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed Merrick to carry forward the historical lease classification. In addition, Merrick elected the practical expedient to use hindsight in determining the lease term for existing leases, which resulted in shortening the lease terms for certain existing leases. Upon implementation, operating ROU assets and lease liabilities increased by \$99,855. Adoption of the new standard did not materially impact Merrick’s net income and had no impact on cash flows.

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>2023</u>	<u>2022</u>
Cash	\$979,992	\$3,164,875
Accounts receivable, net	1,661,948	1,518,036
Investments	<u>1,195,591</u>	<u>758,849</u>
Total	<u><u>\$3,837,531</u></u>	<u><u>\$5,441,760</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 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).

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

Note 3 INVESTMENTS

Investments consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
Cash deposits	\$25,096	\$105,439
Exchange traded funds (ETFs)	917,586	653,410
US treasury notes	<u>252,909</u>	<u>-</u>
Total	<u><u>\$1,195,591</u></u>	<u><u>\$758,849</u></u>

Investment income or loss (including gains and losses on investments, interest and dividends) is included in the Statements of Activities as increases or decreases in net assets without donor restrictions. Management believes there are no significant concentrations of credit risk.

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

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$36,911	\$15,765
Change in fair value	41,830	(85,556)
Investment fees	<u>(6,300)</u>	<u>(4,031)</u>
Total	<u><u>\$72,441</u></u>	<u><u>(\$73,822)</u></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 and notes. 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.

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

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

	2023		
	Level 1	Level 2	Total
Investments:			
Exchange traded funds (ETFs)	917,586	-	917,586
US treasury notes	252,909	-	252,909
Total	<u>\$1,170,495</u>	<u>\$ -</u>	<u>\$1,170,495</u>
	2022		
	Level 1	Level 2	Total
Investments:			
Exchange traded funds (ETFs)	<u>\$653,410</u>	<u>\$ -</u>	<u>\$653,410</u>

Note 5 FIXED ASSETS

Fixed assets consist of the following at June 30:

	2023	2022
Land	\$565,000	\$565,000
Building	6,819,624	6,577,134
Leasehold improvements	495,780	184,442
Equipment	524,871	402,964
Vehicles	794,158	775,325
Total	<u>9,199,433</u>	<u>8,504,865</u>
Less: accumulated depreciation	<u>(4,684,675)</u>	<u>(4,388,822)</u>
Net fixed assets	<u>\$4,514,758</u>	<u>\$4,116,043</u>

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

Note 6 NOTES AND LOANS PAYABLE

All notes and loans payable were paid off during fiscal year 2023.

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

\$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

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%. 35,046
Merrick paid off the loan in July 2022. 35,046

Total notes and loans payable - June 30, 2022 \$1,974,241

Note 7 NET ASSETS

At June 30, 2023 and 2022, net assets were restricted by donors or designated internally as shown below. All donor restrictions are temporary for time and/or purpose.

	2023	2022
With donor restrictions:		
Life enrichment	\$18,000	\$1,605
Music therapy	24,420	-
Arts program	-	5,000
Self advocacy	550	-
Site activities, improvements, and supplies	29,182	6,204
	<u>\$72,152</u>	<u>\$12,809</u>
Total donor restrictions		
Without donor restrictions:		
Board designations:		
Charitable gambling fund	\$146,665	\$191,364
Mission and property accrual	1,195,591	758,849
	<u>\$1,342,256</u>	<u>\$950,213</u>
Total board designations		

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

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, 2023 total \$220,000 with \$150,000 scheduled to be fully forgiven on December 31, 2027. The remaining \$70,000 has no such forgivable date.

Merrick received two Paycheck Protection Program (PPP) loans of \$952,700 each, which were fully forgiven in April 2021 and January 2022. The expenditures made under the PPP loan 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.

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 2023 and 2022, MMISII revenue accounted for approximately 57% and 59%, of total support and revenue.

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 2023 and 2022 were \$64,725 and \$30,398 respectively.

Note 11 LINE OF CREDIT

Merrick has a \$500,000 line of credit with a commercial bank which bears a prime interest rate with an initial expiration date through March 15, 2024. The line of credit is secured by inventory, accounts receivable, equipment and general intangibles. At June 30, 2023 and 2022, there was no amount drawn on the line of credit.

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

Note 12 SPECIAL FUNDRAISING EVENTS

Special fundraising events consisted of the following for the year ended June 30:

	2023			2022		
	Gross Receipts	Direct Expenses	Net	Gross Receipts	Direct Expenses	Net
Charitable gambling	\$62,546,675	(\$61,460,558)	\$1,086,117	\$50,002,404	(\$49,142,007)	\$860,397
Empower luncheon	52,884	(12,880)	40,004	35,658	(10,614)	25,044
Golf tournament	75,998	(37,193)	38,805	57,212	(38,978)	18,234
Client holiday party	22,857	(22,122)	735	16,143	(18,966)	(2,823)
Online auction	6,268	(566)	5,702	1,414	(389)	1,025
Bowl-a-thon	39,601	(4,680)	34,921	36,177	(5,274)	30,903
Total special fundraising events	<u>\$62,744,283</u>	<u>(\$61,537,999)</u>	<u>\$1,206,284</u>	<u>\$50,149,008</u>	<u>(\$49,216,228)</u>	<u>\$932,780</u>

Note 13 LEASING ACTIVITIES

Merrick had a lease agreement for building space at its former North St. Paul facility. Effective December 2022, Merrick terminated this lease agreement. The lease is considered to be short-term, and the related expense was recognized on the straight-line basis.

Merrick has a lease agreement for office space in Gem Lake with Newtrax, Inc., a related party (see Note 14). This lease is an annual lease with automatic renewals unless either party provides a 90-day notice. The lease is considered to be short-term, and the related expense was recognized on the straight-line basis.

Merrick has an operating lease for building space that extends through August 2027. Merrick has the option at the end of the current lease term to renew the lease for 2 additional five-year terms by providing the landlord of its intent to extend no later than nine months prior to the expiration date. The first renewal option is included in the calculation present value of ROU asset and lease liability as management is reasonably certain it will be exercised. The operating ROU asset and lease liability was determined using a discount rate of 3.26%. Additionally, the operating lease agreement requires Merrick to pay a portion of operating expenses, which includes all expenses incurred by the landlord with respect to maintenance and operation of the building and premises.

Merrick has financing leases for two vehicles that extend through May 2024 and November 2025. The ROU asset and lease liabilities was determined using a discount rates of 2.87% and 2.84%. Additionally, Merrick pays variable costs based upon mileage driven.

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

Total rent expense for the year ended June 30, 2023 was as follows:

	<u>2023</u>
Finance lease expense:	
Amortization of ROU assets	\$38,325
Interest on lease liabilities	2,273
Operating lease expense	163,079
Short-term lease expense	143,894
Variable lease expense	<u>47,748</u>
 Total	 <u><u>\$395,319</u></u>

Total rent expense for the year ended June 30, 2022 was \$180,989.

The future maturities of the lease liabilities are as follows:

Year ending June 30	Operating	Finance	Total
2024	\$153,505	\$36,546	\$190,051
2025	193,375	20,662	214,037
2026	198,209	6,887	205,096
2027	201,903	-	201,903
2028	206,108	-	206,108
Thereafter	<u>915,340</u>	<u>-</u>	<u>915,340</u>
Total lease payments	\$1,868,440	\$64,095	\$1,932,535
Less: present value discount	<u>(263,768)</u>	<u>(1,689)</u>	<u>(265,457)</u>
Present value of lease liabilities	<u><u>\$1,604,672</u></u>	<u><u>\$62,406</u></u>	<u><u>\$1,667,078</u></u>

The following table summarizes the supplemental cash flows information for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from finance leases (i.e. interest)	<u>\$2,125</u>
Financing cash flows from finance leases (i.e. principal portion)	<u>\$37,597</u>
Operating cash flows from operating leases	<u><u>\$80,882</u></u>

Right-of-use assets obtained in exchange for new lease liabilities:

Finance leases	<u>\$99,855</u>
Operating leases	<u><u>\$1,641,418</u></u>

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

The following summarizes the weighted-average remaining lease term and weighted-average discount rate as of June 30, 2023:

Weighted average remaining lease term:

Operating leases	9.17
Finance leases	1.96

Weighted average discount rate:

Operating leases	3.26%
Finance leases	2.86%

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 \$692,240 and \$687,754 were paid directly to the insurance providers during 2023 and 2022 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.

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, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

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 \$933,322 and \$1,099,153 at June 30, 2023 and 2022, 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

	2023	2022
Current assets	\$1,246,271	\$1,438,770
Property and equipment	989,952	1,139,987
Other assets	398,478	33,621
Total assets	<u>\$2,634,701</u>	<u>\$2,612,378</u>
Liabilities	\$768,057	\$414,073
Net assets	<u>1,866,644</u>	<u>2,198,305</u>
Total liabilities and net assets	<u>\$2,634,701</u>	<u>\$2,612,378</u>

Statement of Activities

	2023	2022
Revenue	\$4,856,529	\$4,769,827
Expenses	(5,188,190)	(4,775,581)
Change in net assets	(331,661)	(5,754)
Net assets - beginning of year	<u>2,198,305</u>	<u>2,204,059</u>
Net assets - end of year	<u>\$1,866,644</u>	<u>\$2,198,305</u>

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

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 for the year ended June 30:

	<u>2023</u>	<u>2022</u>
Gambling Fund:		
Net income - regulatory basis	\$1,134,690	\$848,457
GAAP adjustments:		
Gambling tax accrual - end of year	(276,871)	(228,298)
Gambling tax accrual - beginning of year	228,298	236,160
Intra-company receivable adjustment - beginning of year	<u>-</u>	<u>4,078</u>
Net income - accrual basis	<u>\$1,086,117</u>	<u>\$860,397</u>

Note 16 SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition and disclosure through November 16, 2023, which is the date that the report was available to be issued.