

MERRICK, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For The Years Ended
June 30, 2025 and 2024

MERRICK, INC.
TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	1
FINANCIAL STATEMENTS	
Statements of Financial Position	Statement 1 5
Statements of Activities	Statement 2 6
Statements of Functional Expenses	Statement 3 7
Statements of Cash Flows	Statement 4 9
Notes to Financial Statements	10

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, 2025 and 2024, 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 audit 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, 2025 and 2024, 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 \$383,780 as of June 30, 2025 and \$476,551 as of June 30, 2024, respectively, and total revenues of \$1,721,396 (special fundraising gross receipts of \$74,284,938 less expenses of \$72,563,542) for the year ended June 30, 2025, and \$1,552,607 (special fundraising gross receipts of \$69,774,667 less expenses of \$68,222,060) for the year ended June 30, 2024, respectively. 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 2025 and 2024 financial statements of the Gambling Fund of Merrick, Inc., was qualified due to electronic pull-tab net revenue of approximately \$6,467,000 and \$6,526,000, respectively. The distributor of these games electronically calculates the fees, receipts and prizes paid as a service organization. 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 net revenue from electronic pull-tab sales are



material to Merrick, Inc. as a whole and, accordingly, we have qualified our opinion on the 2025 and 2024 financial statements.

We conducted our audit 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, Inc.'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

REDPATH AND COMPANY, LLC
St. Paul, Minnesota

December 3, 2025

FINANCIAL STATEMENTS

MERRICK, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2025 and 2024

Statement 1

	2025	2024
Assets:		
Cash and cash equivalents	\$1,239,553	\$1,774,262
Certificates of deposit	191,224	182,094
Accounts receivable, net of allowance for doubtful accounts:		
Day program	1,902,181	1,080,441
Production activities	318,859	344,564
Newtrax	90	-
Other	8,536	6,578
Grants receivable, net of allowance for doubtful accounts	1,076,853	1,500
Inventory	93,904	63,716
Prepaid expenses	46,158	37,480
Unemployment Services Trust asset, net	63,590	78,169
Investments	1,537,263	1,210,379
Investment in joint venture - Newtrax	1,789,731	1,521,731
Fixed assets, net	5,314,940	4,702,258
Right-of-use operating asset	1,328,924	1,384,926
Total assets	\$14,911,806	\$12,388,098
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$1,085,213	\$639,917
Accounts payable - Newtrax	127,131	42,815
Accrued payroll, withholdings and bonus	461,777	327,802
Accrued paid time off (PTO)	216,734	195,002
Operating lease liability	1,450,985	1,501,690
Total liabilities	3,341,840	2,707,226
Net assets:		
Without donor restrictions	11,497,083	9,589,337
With donor restrictions	72,883	91,535
Total net assets	11,569,966	9,680,872
Total liabilities and net assets	\$14,911,806	\$12,388,098

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

MERRICK, INC.
STATEMENTS OF ACTIVITIES

For The Years Ended June 30, 2025 and 2024

Statement 2

	2025			2024		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue						
Contracts with customers:						
Day program:						
MMISII	\$10,023,980	\$ -	\$10,023,980	\$8,724,189	\$ -	\$8,724,189
County revenues	268,187	-	268,187	254,701	-	254,701
FITS revenues	4,825,855	-	4,825,855	2,616,071	-	2,616,071
Production activities:						
General	1,633,172	-	1,633,172	1,587,720	-	1,587,720
Paper sales	967,882	-	967,882	907,471	-	907,471
Support and other:						
Donations and grants	1,414,133	5,000	1,419,133	141,348	85,350	226,698
Investment income	142,919	2,283	145,202	118,967	250	119,217
Miscellaneous income	62,783	-	62,783	63,194	-	63,194
Increase (decrease) of investment in joint venture - Newtrax	268,000	-	268,000	588,409	-	588,409
Gain (loss) on disposal of fixed assets	(72,913)	-	(72,913)	2,752	-	2,752
Subtotal	19,533,998	7,283	19,541,281	15,004,822	85,600	15,090,422
Special fundraising:						
Gross receipts	74,496,469	26,168	74,522,637	69,963,119	23,683	69,986,802
Less: Direct expenses	(72,660,915)	-	(72,660,915)	(68,293,448)	-	(68,293,448)
Net special fundraising	1,835,554	26,168	1,861,722	1,669,671	23,683	1,693,354
Net assets released from restrictions	52,103	(52,103)	-	89,900	(89,900)	-
Total revenues	21,421,655	(18,652)	21,403,003	16,764,393	19,383	16,783,776
Expenses:						
Program	17,178,853	-	17,178,853	13,596,255	-	13,596,255
Administration	2,034,911	-	2,034,911	1,751,732	-	1,751,732
Development	300,145	-	300,145	298,988	-	298,988
Total expenses	19,513,909	0	19,513,909	15,646,975	0	15,646,975
Increase (decrease) in net assets	1,907,746	(18,652)	1,889,094	1,117,418	19,383	1,136,801
Net assets - beginning	9,589,337	91,535	9,680,872	8,471,919	72,152	8,544,071
Net assets - ending	\$11,497,083	\$72,883	\$11,569,966	\$9,589,337	\$91,535	\$9,680,872

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

MERRICK, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For The Years Ended June 30, 2025 and 2024

	2025			
	Program	Administration	Development	Total
Expenses:				
Salaries	\$6,153,982	\$768,865	\$203,817	\$7,126,664
Payroll taxes	536,272	67,711	14,328	618,311
Employee benefits	927,047	137,241	55,301	1,119,589
Total personnel expenses	7,617,301	973,817	273,446	8,864,564
Professional fees	132,792	201,668	-	334,460
Contractual services - clients	1,058,527	7,877	-	1,066,404
Contractual services - FITS	4,340,830	-	-	4,340,830
Contractual services - other	219,403	-	-	219,403
Program activity and supplies	158,040	-	-	158,040
Telephone and cellular phones	24,196	1,650	480	26,326
Occupancy	517,935	179,779	-	697,714
Licenses and fees	9,418	-	-	9,418
Day program vehicle expense	149,060	12,324	-	161,384
Day program transportation expense - Newtrax	1,928,989	-	-	1,928,989
Office supplies and equipment	97,525	174,558	10,845	282,928
Repairs and maintenance	10,071	8,355	-	18,426
Insurance	1,643	69,119	-	70,762
Interest	-	430	-	430
Postage	1,285	876	3,011	5,172
Miscellaneous	36,590	62,082	12,363	111,035
Depreciation and amortization	164,507	342,376	-	506,883
Subtotal expenses	16,468,112	2,034,911	300,145	18,803,168
Cost of paper sales	710,741	-	-	710,741
Direct expenses from special fundraising	-	-	72,660,915	72,660,915
Total expenses	17,178,853	2,034,911	72,961,060	92,174,824
Less: Expenses included with revenues on the statement of activities:				
Direct expenses from special fundraising	-	-	(72,660,915)	(72,660,915)
Total expenses included in the expenses section on the statement of activities	<u>\$17,178,853</u>	<u>\$2,034,911</u>	<u>\$300,145</u>	<u>\$19,513,909</u>

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

	2024			Total
	Program	Administration	Development	
Expenses:				
Salaries	\$5,263,489	\$667,570	\$198,987	\$6,130,046
Payroll taxes	463,202	51,315	13,825	528,342
Employee benefits	807,157	124,214	55,629	987,000
Total personnel expenses	6,533,848	843,099	268,441	7,645,388
Professional fees	120,569	83,617	240	204,426
Contractual services - clients	991,761	6,235	-	997,996
Contractual services - FITS	2,261,266	-	-	2,261,266
Contractual services - other	227,532	-	-	227,532
Program activity and supplies	227,709	60,140	2,928	290,777
Telephone and cellular phones	8,887	12,398	480	21,765
Occupancy	449,169	193,343	-	642,512
Licenses and fees	6,709	-	-	6,709
Day program vehicle expense	131,055	8,655	-	139,710
Day program transportation expense - Newtrax	1,716,922	-	-	1,716,922
Office supplies and equipment	59,765	200,964	6,157	266,886
Repairs and maintenance	8,643	8,662	-	17,305
Insurance	1,608	42,198	-	43,806
Interest	575	-	-	575
Postage	1,790	4,691	2,681	9,162
Miscellaneous	16,936	12,150	18,061	47,147
Depreciation and amortization	117,752	275,580	-	393,332
Subtotal expenses	12,882,496	1,751,732	298,988	14,933,216
Cost of paper sales	713,759	-	-	713,759
Direct expenses from special fundraising	-	-	68,293,448	68,293,448
Total expenses	13,596,255	1,751,732	68,592,436	83,940,423
Less: Expenses included with revenues on the statement of activities:				
Direct expenses from special fundraising	-	-	(68,293,448)	(68,293,448)
Total expenses included in the expenses section on the statement of activities	<u>\$13,596,255</u>	<u>\$1,751,732</u>	<u>\$298,988</u>	<u>\$15,646,975</u>

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

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

For The Years Ended June 30, 2025 and 2024

Statement 4

	2025	2024
Cash flows from operating activities:		
Change in net assets	\$1,889,094	\$1,136,801
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	506,883	393,332
Noncash operating lease expense	5,297	42,189
(Gain) loss on disposal of fixed assets	72,913	(2,000)
(Gain) loss on fair value of investments	(74,049)	(60,312)
(Gain) loss on investment in joint venture	(268,000)	(588,409)
Changes in assets and liabilities, net:		
Accounts receivable, net	(798,083)	230,365
Grants receivable, net	(1,075,353)	21,000
Inventory	(30,188)	(20,749)
Prepaid expenses	(8,678)	3,121
Unemployment Services Trust asset, net	14,579	1,509
Accounts payable	529,612	7,390
Accrued liabilities	155,707	84,879
Net cash provided by operating activities	<u>919,734</u>	<u>1,249,116</u>
Cash flows from investing activities:		
Purchase of fixed assets	(1,220,578)	(558,760)
Proceeds from sale of fixed assets	28,100	2,000
Additions to investment pool, including reinvested income	(361,965)	(203,639)
Withdrawals from investment pool	100,000	249,163
Purchase of certificates of deposits	-	(532,094)
Proceeds from maturity of certificates of deposit	-	350,000
Net cash used in investing activities	<u>(1,454,443)</u>	<u>(693,330)</u>
Cash flows from financing activities:		
Principal payments on financing lease	-	(22,947)
Net (decrease) increase in cash and cash equivalents	(534,709)	532,839
Cash and cash equivalents - beginning	<u>1,774,262</u>	<u>1,241,423</u>
Cash and cash equivalents - ending	<u><u>\$1,239,553</u></u>	<u><u>\$1,774,262</u></u>
Supplemental data:		
Interest paid	<u><u>\$430</u></u>	<u><u>\$575</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 (FITS), 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 pull tab 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. This category includes funds that have been internally designated by Merrick.

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.

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 AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

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. The allowance is also adjusted for management’s assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by Merrick. At June 30, 2025 and 2024, the allowance for bad debts was \$1,380, respectively. Unbilled accounts receivable at June 30, 2025 and 2024 were \$553,530 and \$508,838, 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

Merrick’s investments consist of exchange traded funds (ETFs) 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 SERVICES 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, 2025 was \$63,590, which consists of a gross balance of \$81,048 less estimated claims liability of \$17,458. The net recorded asset balance at June 30, 2024 was \$78,169, which consists of a gross balance of \$88,169 less estimated claims liability of \$10,000.

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 – Fiscal-Intermediary Transportation Services (FITS) 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.

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 2024, or is expected to be due for 2025.

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.

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.

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:

	2025	2024
Cash	\$1,239,553	\$1,774,262
Certificates of deposit	191,224	182,094
Accounts receivable, net	2,229,666	1,431,583
Grants receivable, net	1,076,853	1,500
Investments	1,474,730	1,150,129
Total	<u>\$6,212,026</u>	<u>\$4,539,568</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 and grants receivable are subject to collection, but are expected to be collected within one year and are presented net of allowance. Investments, presented net of the endowment balance (Note 7), are board-designated (see Note 6), 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>2025</u>	<u>2024</u>
Cash equivalents	\$292,694	\$190,269
Exchange traded funds (ETFs)	<u>1,244,569</u>	<u>1,020,110</u>
Total	<u>\$1,537,263</u>	<u>\$1,210,379</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 with and 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>2025</u>	<u>2024</u>
Interest and dividends	\$79,609	\$65,998
Change in fair value	74,049	60,312
Investment fees	<u>(8,456)</u>	<u>(7,093)</u>
Total	<u>\$145,202</u>	<u>\$119,217</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

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2025 and 2024

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:

		2025		
		Level 1	Level 2	Total
Investments:				
Exchange traded funds (ETFs)		\$1,244,569	\$ -	\$1,244,569
		2024		
		Level 1	Level 2	Total
Investments:				
Exchange traded funds (ETFs)		\$1,020,110	\$ -	\$1,020,110

Note 5 FIXED ASSETS

Fixed assets consist of the following at June 30:

	2025	2024
Land	\$565,000	\$565,000
Building	7,574,164	7,075,488
Leasehold improvements	784,118	585,730
Equipment	581,644	581,644
Vehicles	997,787	876,992
Total	10,502,713	9,684,854
Less: Accumulated depreciation	(5,187,773)	(4,982,596)
Net fixed assets	\$5,314,940	\$4,702,258

Note 6 NET ASSETS

At June 30, 2025 and 2024, net assets were restricted by donors or designated internally as shown below:

	<u>2025</u>	<u>2024</u>
With donor restrictions:		
Purpose restrictions:		
Life enrichment	\$ -	\$1,320
Arts program	10,000	5,000
Self advocacy	2,883	657
Vocational Rehabilitation	-	20,000
Site activities, improvements, and supplies	-	4,558
Permanent in nature:		
DeYoung endowment fund	<u>60,000</u>	<u>60,000</u>
 Total donor restrictions	 <u><u>\$72,883</u></u>	 <u><u>\$91,535</u></u>
 Without donor restrictions:		
Board designations:		
Charitable gambling fund	\$35,968	\$165,853
Employee development	102,736	-
Mission and property accrual	<u>1,371,994</u>	<u>1,150,129</u>
 Total board designations	 <u><u>\$1,510,698</u></u>	 <u><u>\$1,315,982</u></u>

Note 7 ENDOWMENTS

GENERAL

Merrick's endowments consist of one individual fund established to support the self-advocacy activities. Its endowment includes donor-restricted endowment funds, which contain purpose restricted components. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

INTERPRETATION OF RELEVANT LAW

Merrick has interpreted the State of Minnesota's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring Merrick to consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds unless there are explicit donor stipulations to the contrary:

1. The duration and preservation of the fund
2. The purposes of Merrick and the endowment fund
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of Merrick
7. The investment policy of Merrick

MERRICK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2025 and 2024

For accounting purposes only, Merrick classifies the net assets that are permanent in nature at (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanent in nature net assets is classified as purpose or time restricted net assets until those amounts are appropriated for expenditure by Merrick.

FINANCIAL INFORMATION

Changes in donor-restricted endowment net assets for the year ended June 30:

	<u>With Donor Restrictions</u>		
	<u>Purpose or Time Restricted</u>	<u>Permanent in Nature</u>	<u>Total</u>
Endowment net assets - June 30, 2023	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other additions:			
Contributions	<u>-</u>	<u>60,000</u>	<u>60,000</u>
Investment return:			
Interest and dividends	<u>250</u>	<u>-</u>	<u>250</u>
Endowment net assets - June 30, 2024	<u>250</u>	<u>60,000</u>	<u>60,250</u>
Other additions:			
Contributions	<u>-</u>	<u>-</u>	<u>-</u>
Investment return:			
Interest and dividends	<u>2,283</u>	<u>-</u>	<u>2,283</u>
Endowment net assets - June 30, 2025	<u><u>\$2,533</u></u>	<u><u>\$60,000</u></u>	<u><u>\$62,533</u></u>

INVESTMENT AND SPENDING POLICIES

The endowment fund is invested in accordance with Merrick's investment policy. The objective of the policy is to provide for consistent long-term growth of principal and income. Merrick will generally allocate 3-5% of the fund balance at the end of every calendar year for use in the following fiscal year.

FUND WITH DEFICIENCIES

From time to time, the fair value of assets associated with the individual donor-restricted endowment fund may fall below the level that the donors require Merrick to retain as a fund of perpetual duration. Merrick has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of June 30, 2025, the fund had no deficiencies reported in net assets with donor restrictions.

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, 2025 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 2025 and 2024, MMISII revenue accounted for approximately 47% and 52% 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 2025 and 2024 were \$113,964 and \$96,026 respectively.

Note 11 LINES 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, 2026. The line of credit is secured by inventory, accounts receivable, equipment and general intangibles. At June 30, 2025 and 2024, there was no amount drawn on the line of credit.

Merrick entered into a \$150,000 line of credit agreement for their charitable gambling activities with a commercial bank on June 21, 2024. The line of credit bore a prime interest rate with an initial expiration date through June 21, 2025. The line of credit was secured by the certificate of deposit held with the commercial bank and all tangible and intangible property held by Merrick. The line of credit was not renewed after expiration. At June 30, 2025 and 2024, there was no amount drawn on the line of credit.

Note 12 SPECIAL FUNDRAISING EVENTS

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

	2025			2024		
	Gross Receipts	Direct Expenses	Net	Gross Receipts	Direct Expenses	Net
Charitable gambling	\$74,284,938	(\$72,563,542)	\$1,721,396	\$69,774,667	(\$68,222,060)	\$1,552,607
Empower luncheon	88,943	(22,505)	66,438	64,433	(10,050)	54,383
Golf tournament	77,406	(45,391)	32,015	76,164	(30,397)	45,767
Client holiday party	26,168	(21,995)	4,173	23,683	(24,350)	(667)
Online auction	4,805	(268)	4,537	6,732	(860)	5,872
Bowl-a-thon	40,377	(7,214)	33,163	41,123	(5,731)	35,392
Total special fundraising events	<u>\$74,522,637</u>	<u>(\$72,660,915)</u>	<u>\$1,861,722</u>	<u>\$69,986,802</u>	<u>(\$68,293,448)</u>	<u>\$1,693,354</u>

Note 13 LEASING ACTIVITIES

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 (remaining term of 7.17 years). The operating ROU asset and lease liability was determined using a discount rate of 3.73%. 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.

Total rent expense for the year ended June 30, 2025 and 2024 was as follows:

	2025	2024
Finance lease expense:		
Amortization of ROU assets	\$ -	\$22,072
Interest on lease liabilities	-	575
Operating lease expense	211,067	195,694
Short-term lease expense	112,660	119,506
Variable lease expense	62,439	54,847
Total	<u>\$386,166</u>	<u>\$392,694</u>

The future maturities of the lease liabilities are as follows:

Year ending June 30	Operating
2026	\$215,819
2027	219,840
2028	224,420
2029	230,031
2030	235,781
Thereafter	530,849
Total lease payments	1,656,740
Less: Present value discount	(205,755)
Present value of lease liabilities	<u>\$1,450,985</u>

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

<u>Cash paid for amounts included in the measurement of lease liabilities:</u>	<u>2025</u>	<u>2024</u>
Operating cash flows from finance leases (i.e. interest)	\$ -	\$723
Financing cash flows from finance leases (i.e. principal portion)	\$ -	\$22,047
Operating cash flows from operating leases	<u>\$205,771</u>	<u>\$153,505</u>
 <u>Right-of-use assets obtained in exchange for new lease liabilities:</u>	 <u>2025</u>	 <u>2024</u>
Operating leases	<u>\$100,246</u>	<u>\$ -</u>

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 Merrick's benefit programs. A Trustee of the Board is a principal with this benefits management company. Premiums of \$804,320 and \$696,349 were paid directly to the insurance providers during 2025 and 2024, respectively, and the amount of compensation earned by the benefits management company from the insurance providers 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, fleet maintenance and financial services to both PAI and Merrick.

Each of the members has 50% equity and voting interests.

Merrick accounts for its investment using the equity method, based on Newtrax’s audited financial statements with a fiscal year end of June 30. As of December 3, 2025, Newtrax’s audited financial statements as of June 30, 2025 are not available. Amounts reported below for 2025 are based on Newtrax’s draft financial statements.

Merrick’s recorded investment of \$1,789,731 and \$1,521,731 at June 30, 2025 and 2024, 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

	(Rounded) 2025	2024
Current assets	\$1,387,000	\$1,506,052
Property and equipment	2,630,000	1,958,186
Other assets	1,400,000	228,577
Total assets	<u>\$5,417,000</u>	<u>\$3,692,815</u>
Liabilities	\$1,837,000	\$649,353
Net assets	<u>3,580,000</u>	<u>3,043,462</u>
Total liabilities and net assets	<u>\$5,417,000</u>	<u>\$3,692,815</u>

Statement of Activities

	2025	2024
Revenue	\$6,798,000	\$6,910,474
Expenses	<u>(6,261,000)</u>	<u>(5,733,656)</u>
Change in net assets	537,000	1,176,818
Net assets - beginning of year	<u>3,043,000</u>	<u>1,866,644</u>
Net assets - end of year	<u>\$3,580,000</u>	<u>\$3,043,462</u>

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:

	2025	2024
Gambling Fund:		
Net income - regulatory basis	\$1,762,392	\$1,572,911
GAAP adjustments:		
Gambling tax accrual - end of year	(338,171)	(297,175)
Gambling tax accrual - beginning of year	<u>297,175</u>	<u>276,871</u>
Net income - accrual basis	<u>\$1,721,396</u>	<u>\$1,552,607</u>

Note 16 SUBSEQUENT EVENTS

On December 1, 2025, Merrick made a loan to Newtrax, Inc. in the amount of \$150,0000. The loan bears an interest rate of 5% and is repayable in 24 monthly installments of \$2,120 commencing on January 1, 2026 through December 1, 2027, at which time a balloon payment of is due.

Management has evaluated subsequent events for recognition and disclosure through December 3, 2025, which is the date that the report was available to be issued.