

MERRICK COMMUNITY SERVICES
AUDITED FINANCIAL STATEMENTS
June 30, 2023 and 2022



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Merrick Community Services
St. Paul, Minnesota

Opinion

We have audited the accompanying financial statements of Merrick Community Services (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Merrick Community Services 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.

Basis for Opinion

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 Community Services and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Adjustment

As discussed in Note 13 to the financial statements, a prior period adjustment was made to record the value of the Unemployment Services Trust account. Our opinion is not modified with respect to this matter.

Management's Responsibility 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 Community Services' 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 the 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 Community Services' 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 Community Services' 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.

Harrington Langer & Associates

September 29, 2023

MERRICK COMMUNITY SERVICES
STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

	2023		Total	2022
	General Fund	Lawful Gambling Fund		
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,275,928	\$ 46,221	\$ 1,322,149	\$ 2,381,675
Accounts receivable	97,819	-	97,819	44,637
Grants and contributions receivable	672,828	-	672,828	444,329
Prepaid expenses	27,927	-	27,927	20,512
Total Current Assets	2,074,502	46,221	2,120,723	2,891,153
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$490,857 and \$407,051, respectively	1,160,040	-	1,160,040	1,182,644
OTHER ASSETS				
Operating lease right-of-use asset, net of right-of-use accumulated amortization of \$100,575	1,894,081	-	1,894,081	-
Finance lease right-of-use asset, net of right-of-use accumulated amortization of \$9,599	19,997	-	19,997	-
Other asset	52,039	-	52,039	52,039
Total other assets	1,966,117	-	1,966,117	52,039
TOTAL ASSETS	\$ 5,200,659	\$ 46,221	\$ 5,246,880	\$ 4,125,836
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current maturities of long-term debt	\$ 63,848	\$ -	\$ 63,848	\$ 60,930
Short-term lease liabilities, current portion	77,846	-	77,846	-
Accounts payable	360,876	1,907	362,783	71,654
Accrued expenses	223,131	25	223,156	458,108
Total Current Liabilities	725,701	1,932	727,633	590,692
LONG-TERM LIABILITIES				
Long-term debt, net of current maturities	119,232	-	119,232	183,984
Lease liabilities, net of current portion	1,870,316	-	1,870,316	-
Deferred rent	-	-	-	629
Total Long-Term Liabilities	1,989,548	-	1,989,548	184,613
Total Liabilities	2,715,249	1,932	2,717,181	775,305
NET ASSETS				
Without donor restrictions	910,084	44,289	954,373	1,262,291
With donor restrictions	1,575,326	-	1,575,326	2,088,240
Total Net Assets	2,485,410	44,289	2,529,699	3,350,531
TOTAL LIABILITIES AND NET ASSETS	\$ 5,200,659	\$ 46,221	\$ 5,246,880	\$ 4,125,836

MERRICK COMMUNITY SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	Gambling Fund	Total 2023	Total 2022
SUPPORT AND REVENUE					
Grants and contributions	\$ 909,732	\$ 1,127,000	\$ -	\$ 2,036,732	\$ 2,494,123
Gambling revenue	-	-	1,049	1,049	-
Government grants and contracts	576,610	-	-	576,610	445,112
Program service fees	113,847	-	-	113,847	225,912
Special events	155,427	-	-	155,427	146,929
Interest income	7,434	-	-	7,434	1,948
In-Kind contributions	134,682	-	-	134,682	-
Other revenue	504	-	-	504	-
Net assets released from restrictions	1,639,914	(1,639,914)	-	-	-
Total Support and Revenue	3,538,150	(512,914)	1,049	3,026,285	3,314,024
EXPENSES					
Program services	3,047,423	-	6,760	3,054,183	1,870,109
Administrative	410,617	-	-	410,617	363,004
Fundraising and development	382,317	-	-	382,317	195,679
Total Expenses	3,840,357	-	6,760	3,847,117	2,428,792
CHANGE IN NET ASSETS					
BEFORE NET ASSETS TRANSFERS	(302,207)	(512,914)	(5,711)	(820,832)	885,232
Transfers to the Lawful Gambling Fund	(50,000)	-	50,000	-	-
NET ASSETS, BEGINNING	1,262,291	2,088,240	-	3,350,531	2,465,299
NET ASSETS, ENDING	\$ 910,084	\$ 1,575,326	\$ 44,289	\$ 2,529,699	\$ 3,350,531

MERRICK COMMUNITY SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Support			
Grants and contributions	\$ 1,041,412	\$ 1,452,711	\$ 2,494,123
Government grants and contracts	445,112	-	445,112
Program service fees	225,912	-	225,912
Special events	146,929	-	146,929
Interest income	1,948	-	1,948
Net assets released from restrictions	719,729	(719,729)	-
	2,581,042	732,982	3,314,024
 EXPENSES			
Program services	1,870,109	-	1,870,109
Administrative	363,004	-	363,004
Fundraising and development	195,679	-	195,679
	2,428,792	-	2,428,792
 CHANGE IN NET ASSETS	 152,250	 732,982	 885,232
 NET ASSETS, BEGINNING	 1,058,002	 1,355,258	 2,413,260
Prior period adjustment	52,039	-	52,039
NET ASSETS, BEGINNING, as restated	1,110,041	1,355,258	2,465,299
 NET ASSETS, ENDING	\$ 1,262,291	\$ 2,088,240	\$ 3,350,531

MERRICK COMMUNITY SERVICES
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (820,832)	\$ 885,232
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	90,694	79,344
Amortization of finance right-of-use asset	9,599	-
Change in:		
Accounts receivable	(53,182)	139,149
Contributions receivable	(228,499)	(22,159)
Prepaid expenses	(7,415)	(6,874)
Accounts payable	291,129	(12,389)
Accrued expenses	(234,952)	395,242
Operating lease asset and liability	33,411	-
Deferred rent	(628)	(12,633)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(920,675)	1,444,912
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(68,090)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on finance lease	(8,927)	-
Payments on long-term debt	(61,834)	(51,492)
NET CASH USED IN FINANCING ACTIVITIES	(70,761)	(51,492)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,059,526)	1,393,420
CASH AND CASH EQUIVALENTS, BEGINNING	2,381,675	988,255
CASH AND CASH EQUIVALENTS, ENDING	\$ 1,322,149	\$2,381,675
SUPPLEMENTAL CASH FLOWS DISCLOSURES		
Interest paid	\$ 6,752	\$ 12,628

MERRICK COMMUNITY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2023

	Lawful Gambling Fund	Program Services						Total Program Services	Administrative	Fundraising & Development	Total
		Families	Youth	Senior Services	Food Shelf	Employment Services	Xchange				
Salaries	\$ 161	\$ 338,880	\$ 2,817	\$ 64,516	\$ 140,954	\$ 94,150	\$ 20,055	\$ 661,372	\$ 82,598	\$ 125,390	\$ 869,521
Payroll taxes	12	25,355	199	4,746	10,551	6,463	1,481	48,795	2,892	9,022	60,721
Employee benefits	-	18,041	275	7,489	14,731	10,249	760	51,545	17,719	8,095	77,359
				-	-						
Total Personnel Costs	173	382,276	3,291	76,751	166,236	110,862	22,296	761,712	103,209	142,507	1,007,601
Contract Services	1,325	25,192	1,742	12,654	18,921	78,150	1,350,978	1,487,637	58,937	54,749	1,602,648
Food, activities and supplies	-	-	234	-	142,085	1,300	125	143,744	429	167	144,340
Direct client assistance	-	146,816	-	113,381	500	11,131	-	271,828	-	-	271,828
Maintenance supplies	-	-	-	-	8,489	-	-	8,489	-	-	8,489
Occupancy	244	46,146	444	10,635	23,880	14,440	3,710	99,255	65,972	11,998	177,469
Professional fees	2,150	51,621	336	13,253	31,236	17,043	3,798	117,287	51,319	13,766	184,522
Business licenses and permits	-	158	-	28	507	33	16	742	1,340	41	2,123
Events expense	-	1,451	4,266	-	1,100	-	-	6,817	275	32,604	39,696
Conventions and meetings	-	349	-	179	62	607	-	1,197	7,366	919	9,482
Depreciation and amortization	-	5,278	-	2,794	16,712	2,317	-	27,101	61,969	1,624	90,694
Dues and subscriptions	-	722	9	1,237	216	201	74	2,459	6,173	195	8,827
Insurance	120	5,914	59	2,290	5,891	1,497	499	16,150	1,645	1,561	19,476
Interest	-	-	-	-	-	-	-	-	9,883	-	9,883
Office supplies	845	4,448	12	1,288	4,083	2,231	794	12,856	9,318	6,385	29,404
Board expense	-	-	-	-	-	-	-	-	4,540	498	5,038
In-Kind expense	-	1,202	-	-	33,018	-	-	34,220	-	100,462	134,682
Miscellaneous	1,800	2,691	-	-	-	-	-	2,691	6,576	217	11,284
Printing and publications	103	12,537	14	194	396	320	89	13,550	5,140	8,061	26,854
Repairs and maintenance	-	3,905	13	1,584	5,501	2,261	284	13,548	8,759	3,747	26,054
Telephone	-	9,159	48	2,165	5,235	2,684	660	19,951	7,284	2,736	29,971
Travel expenses	-	2,287	-	-	3,889	13	-	6,189	483	80	6,752
Total Expenses	\$ 6,760	\$ 702,152	\$ 10,468	\$ 238,433	\$ 467,957	\$ 245,090	\$ 1,383,323	\$3,047,423	\$ 410,617	\$ 382,317	\$ 3,847,117

MERRICK COMMUNITY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2022

	<u>Program Services</u>						Administrative	Fundraising & Development	Total
	Families	Youth	Senior Services	Food Shelf	Employment Services	Total Program Services			
Salaries	\$ 154,485	\$ 109,654	\$ 10,344	\$ 99,303	\$ 90,587	\$ 464,373	\$ 143,282	\$ 63,170	\$ 670,825
Payroll taxes	11,877	8,004	3,293	7,729	6,189	37,092	10,214	4,284	51,590
Employee benefits	13,995	3,783	3,109	5,265	5,567	31,719	11,260	3,774	46,753
			-	-					
Total Personnel Costs	180,357	121,441	16,746	112,297	102,343	533,184	164,756	71,228	769,168
Contract services	4,489	2,376	57,249	10,658	634,833	709,605	74,171	54,978	838,754
Insurance	6,095	2,460	2,175	2,242	3,496	16,468	6,361	3,467	26,296
Professional services	8,355	4,568	4,748	16,503	6,415	40,589	31,708	5,076	77,373
Food, activities and supplies	1,357	-	104,418	91,020	100	196,895	15,866	2,577	215,338
Office supplies	232	-	82	6,431	369	7,114	5,325	(825)	11,614
Telephone	4,034	1,387	885	1,874	1,611	9,791	3,945	1,384	15,120
Postage	-	-	-	26	-	26	1,254	390	1,670
Occupancy	22,242	12,209	12,688	44,106	17,144	108,389	8,043	9,343	125,775
Repairs and maintenance	1,839	1,024	2,139	13,133	2,654	20,789	9,147	773	30,709
Equipment costs	2,062	764	-	-	-	2,826	2,024	1,855	6,705
Advertising	-	-	-	-	-	-	869	258	1,127
Dues and subscriptions	-	-	3,500	126	-	3,626	13,620	200	17,446
Local transportation	378	764	250	1,270	539	3,201	1,842	128	5,171
Conventions and meetings	-	-	-	-	-	-	644	3,492	4,136
Special events	173	-	-	-	10,000	10,173	2,075	26,681	38,929
Direct client assistance	86,597	27,833	3,337	7,039	12,070	136,876	6,384	8,229	151,489
Depreciation	14,031	7,702	8,004	27,824	10,815	68,376	5,074	5,894	79,344
Interest	(23)	551	551	551	551	2,181	9,896	551	12,628
Total Expenses	<u>\$ 332,218</u>	<u>\$ 183,079</u>	<u>\$ 216,772</u>	<u>\$ 335,100</u>	<u>\$ 802,940</u>	<u>\$1,870,109</u>	<u>\$ 363,004</u>	<u>\$ 195,679</u>	<u>\$2,428,792</u>

See accompanying notes

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Purpose

Merrick Community Services (MCS or the Organization) is a non-profit organization whose purpose is to improve the lives of the residents of the Eastside of St. Paul, Minnesota, by empowering individuals, strengthening families, and promoting their independence through MCS programs as follows:

Family Counseling and Case Management - Working in collaboration with Ramsey County and other agencies, MCS provides case management for several programs, including the Family Support Project (FSP), Alternative Response, In-Home Parenting Services, and Child Welfare Targeted Case Management Services. Case management provides families with a trained person who looks at an entire family and helps determine the resources needed to support and stabilize it.

Youth Programs - MCS supports youth development through its services in a number of ways. Youth needs are assessed and addressed through Family Services case management, and specific support is often provided to youth and families to help with school attendance, homework management, or healthy lifestyle choices for youth. MCS typically provides youth employment and career exploration programming in partnership with Saint Paul Public Schools and 3M as a summer program; and, MCS continues to weave youth career exploration into other elements of employment programming year-round. Two of Merrick's annual events, Holiday Share (winter toy distribution) and Back-To-School backpack distribution, specifically focus on connecting with, and providing support to East Side youth and their families.

Senior Services - The Organization's senior services program is dedicated to providing services that enable area seniors to remain independent and to continue living in their own homes for as long as possible. Some of the services include Meals on Wheels, senior mobile distribution, and social groups.

Food Shelf - The Organization's Food Shelf program is dedicated to connecting families and individuals with community resources to help eliminate long-term causes of hunger. The Organization operates two emergency food shelves, has emergency funds available for specific purposes, and collaborates with organizations fighting to eliminate hunger in our community. Each December, two thousand families receive toys and food to help provide a happy holiday celebration. With the help of the Minnesota Shopping Center Association, the Caring Tree Program provides Eastside students with supplies for the school year.

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employment Services – The Organization’s East Side Job Bank, located at MCS, provides job skill assessment and job placement for job seekers. The Job Bank also provides skilled workers for businesses looking for employees. Job counselors are able to communicate in English, Hmong and Spanish, and can help solve transportation and child-care barriers to employment. The Organization also hires students from Harding and Johnson high schools to work full-time at 3M during the summer.

xChange - The East Side Employment xChange is a collaborative effort to engage employers and community organizations in creating more equitable and more numerous employment opportunities for residents of the East Side of St. Paul. The xChange provides financial and programmatic support as well as technical assistance to our 14 collaborative partners. We are collectively changing workforce practices and advocating for improved policies that will raise the prosperity of the East Side, celebrating its rich diversity, and building community wealth for the next seven generations. Merrick is a founding partner in the xChange and continues to serve as the fiscal sponsor on behalf of the collaborative partners.

The Lawful Gambling Fund - The Organization operates lawful gambling at one location in the City of Saint Paul.

Basis of Presentation

The financial statements of Merrick Community Services have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), which requires the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statements of Activities.

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Recently Adopted Accounting Pronouncements

In September 2020, the FASB issued ASU No. 2020-07 Not-for-Profit Entities (Topic 958), Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, which is intended to improve the transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. This ASU requires not-for-profit organizations to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. In addition, this amendment requires enhanced disclosures around each category of contributed nonfinancial assets for donor-imposed restrictions, valuation techniques, descriptions of programs or activities in which the assets were used, and if monetized, a policy about monetizing rather than utilizing the asset(s). The Organization has implemented Topic 958 and have adjusted the presentation in these financial statements accordingly.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. FASB ASC 842 supersedes the lease requirements in FASB ASC 840. Under FASB ASC 842, lessees are required to recognize assets and liabilities on the statement of financial position for most leases and provide enhanced disclosures. The Organization adopted FASB ASC 842, with a date of initial application of July 1, 2022, by applying the modified retrospective transition approach and using the additional (and optional) transition method provided by ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. The Organization did not restate prior comparative periods as presented under FASB ASC 840 and instead evaluated whether a cumulative effect adjustment to net assets as of July 1, 2022, was necessary for the impact of adoption of FASB ASC 842. The most significant effects of adopting FASB ASC 842 was the recognition of approximately \$1,995,000 of operating lease right-of-use (ROU) assets and total current and long-term lease liabilities and approximately \$30,000 of finance lease ROU assets and total current and long-term finance lease liabilities on the statement of financial position as of July 1, 2022. No cumulative effect adjustment to net assets as of July 1, 2022, was necessary. FASB ASC 842 did not have a significant effect on the results of operations or cash flows for the year ended June 30, 2023.

As part of the transition, the Organization implemented new internal controls and key system functionality to enable the preparation of financial information on adoption and elected to apply the following practical expedients.

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Package of practical expedients:

- Election not to reassess whether any expired or existing contracts are or contain leases.
- Election not to reassess the lease classification for any expired or existing leases.
- Election not to reassess initial direct costs on any existing leases.

Other practical expedients:

- Election whereby the lease and nonlease components will not be separated for leases of equipment.
- Election not to record ROU assets and corresponding lease liabilities for short-term leases with a lease term of 12 months or less, but greater than one month. Leases of one month or less are not included in short-term lease costs.

Leases

The Organization accounts for leases in accordance with FASB ASC 842. The Organization is a lessee in a noncancellable operating leases for office space. Leases for other equipment are evaluated using the criteria outlined in FASB ASC 842 to determine whether they will be classified as operating or finance leases. The Organization determines if an arrangement is a lease, or contains a lease, at inception of a contract and when terms of an existing contract are changed. The Organization determines if an arrangement conveys the right to use an identified asset and whether the Organization obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. The Organization recognizes lease liability and ROU asset at the commencement date of the lease.

Beginning July 1, 2022, operating lease ROU assets and related current and long-term portions of operating lease liabilities have been presented in the statement of financial position.

ROU Assets

A ROU asset is measured at the commencement date at the amount of the initially measured liability plus any lease payments made to the lessor before or after commencement date, minus any lease incentives received, plus any initial direct costs. Unless impaired, the ROU asset is subsequently measured throughout the lease term at the amount of the lease liability (that is the present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease cost for lease payments is recognized on a straight-line basis over the term of the lease. Finance lease ROU assets are amortized on a straight-line basis over the shorter of the lease term or the remaining useful life of the asset.

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease Liabilities

A lease liability is measured on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or rate and are measured using the index or rate at the commencement date. Lease payments, including variable payments made based on an index rate, are remeasured when any of the following occur: (1) the lease is modified (and the modification is not accounted for as a separate contract), (2) certain contingencies related to variable lease payments are resolved, or (3) there is a reassessment of any of the following: the lease term, purchase options, or amounts that are probable of being owed under a residual value guarantee. The discount rate is the rate implicit in the lease if it is readily determinable. The implicit rates of the Organization's leases are not readily determinable; accordingly, the Organization has made the election to use a risk-free rate in lieu of its incremental borrowing rate using a period comparable with that of the individual lease term based on the information available at the commencement date for each lease.

Accounting Policy Election for Short-term Leases:

The Organization has elected for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less, but greater than 1 month at lease commencement, and do not include an option to purchase the underlying asset the Organization is reasonably certain to exercise. The Organization recognizes lease cost associated with its short-term leases on a straight-line basis over the lease term.

Designated for Lawful Gambling

Under Minnesota state law, all funds received as a result of lawful gambling must be physically separated from general operating funds and disbursed only for charitable purposes. Accordingly, the balance of undisbursed funds is presented as designated for lawful gambling.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Accounts, Grants and Contributions Receivable

Bad debts are recorded on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management estimates that all accounts receivable are fully collectible. Therefore, no allowance for doubtful accounts has been recognized as of June 30, 2023 and 2022.

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

All expenditures for property and equipment in excess of \$10,000 are recorded at cost. Gifts or contributions of property and equipment are recorded at the asset's fair market value at the time received. It is the Organization's policy to provide depreciation based on the estimated useful lives of the assets using the straight-line method. The useful life of the equipment is 5 to 20 years.

When items are disposed of, the cost and accumulated depreciation are eliminated from the accounting records, and a gain or loss is reported in the change in net assets. Repairs and maintenance costs that do not increase the useful lives of the assets are charged to expense as incurred.

Revenue Recognition

The Organization recognizes revenue from government service contracts and program service fees when the services are performed. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

A portion of the Organization's revenue is derived from cost-reimbursable state and county contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenditures. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Organization received cost-reimbursable grants of \$507,632 and \$0 that have not been recognized at June 30, 2023 and 2022, respectively, because qualifying expenditures have not yet been incurred.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In-kind Donations

The Organization's policy is to recognize contributed professional services if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets and materials are recognized at fair value when received. The Organization does not sell donated in-kind gifts. In-kind donations of \$134,683 and \$0 were recorded for the years ended June 30, 2023 and 2022, respectively.

Functional Allocation of Expenses

Expenses are allocated to program and support services directly, whenever possible, and indirectly using predetermined percentages derived from payroll and occupancy statistics.

Advertising

Advertising costs are charged to expense as incurred. During the years ended June 30, 2023 and 2022, advertising costs were \$26,854 and \$1,127, respectively.

Tax-Exempt Status

The Organization has a tax-exempt status under Section 501(c)3 of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under the Internal Revenue Code and charitable contributions by donors are tax deductible. The Organization's lawful gambling operations are subject to Federal and State of Minnesota income taxes on its unrelated business income. No taxes were incurred by the Gambling Fund by the year ended June 30, 2023.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) for uncertain positions that more likely than not would not be sustained upon examination by the applicable tax authorities. Federal and state tax authorities generally have the right to examine the current and three previous years of income tax returns. The Organization is not currently under examination by any taxing jurisdiction.

Reclassifications

Certain reclassifications may have been made in the prior year's amounts to conform with current year statement presentation.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 29, 2023, the date the financial statements were available to be issued.

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 2. CONCENTRATIONS

From time to time, the Organization's balances in its bank accounts exceed Federal Deposit Insurance Corporation limits. The Organization periodically evaluates the risk of exceeding insurance levels and may transfer funds as it deems appropriate. The Organization has not experienced any losses with regards to balances in excess of insured limits or as the result of other concentrations of credit risk.

The Organization receives substantially all of its support and revenue from foundations and government agencies located primarily in Minnesota. Any significant decrease in this support could negatively impact the Organization's operations.

NOTE 3. UNEMPLOYMENT SERVICES TRUST

The Organization makes contributions to Unemployment Services Trust. The trust is used to pay unemployment claims made to the Organization. This trust is a pooled fund. The trust's pooled assets were comprised of domestic and international equities, domestic bonds, and cash and cash equivalents. The trust is recorded in prepaid expenses on the statement of financial position.

NOTE 4. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. U.S. GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Kaposia, Inc. groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

These levels are:

- | | |
|---------|---|
| Level 1 | Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date. |
| Level 2 | Other observable inputs, either directly or indirectly, including: <ul style="list-style-type: none">• Quoted prices for similar assets/liabilities in active markets;• Quoted prices for identical or similar assets in non-active markets;• Inputs other than quoted prices that are observable for the asset/liability; and,• Inputs that are derived principally from or corroborated by other observable market data. |

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 4. FAIR VALUE MEASUREMENT (continued)

Level 3 Unobservable inputs that cannot be corroborated by observable market data.

The Unemployment Services Trust is valued at the amount reported by the trust based on quoted prices of the underlying investment holdings. This asset is Level 2 on the fair value hierarchy. There were no changes in the valuation methodologies.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2023 and 2022:

	2023	2022
Building improvements	\$ 1,556,367	\$ 1,556,367
Equipment	26,439	26,439
Vehicles	68,091	6,889
 Total Cost	 1,650,897	 1,589,695
Less: Accumulated Depreciation	(490,857)	(407,051)
 Net Property and Equipment	 \$ 1,160,040	 \$ 1,182,644

Depreciation expense of \$90,694 and \$79,345 was provided for the years ended June 30, 2023 and 2022, respectively.

NOTE 6. LINE OF CREDIT

The Organization has a \$100,000 revolving line of credit agreement with Lake Elmo Bank. Interest is payable monthly at the prime rate as published in the Wall Street Journal, effective rate of 8.25% and 4.75% as of June 30, 2023 and 2022, respectively and is secured by the general business assets. As of June 30, 2023 and 2022, there were no outstanding balances on this line of credit. The line is scheduled to mature in December 2023.

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT

At June 30, 2023 and 2022, long-term debt consisted of the following:

	2023	2022
Note payable due in monthly installments of \$3,826, including interest at 3.99%, secured by the Organization's assets, maturing August 2025	\$ 99,035	\$ 140,026
 Note payable due in monthly installments of \$2,059, including interest at 3.99%, secured by the Organization's assets with a final payment due February 2027	 84,045	 104,888
Total long term debt	\$ 183,080	\$ 244,914
Less: current maturities	(63,848)	(60,930)
	\$ 119,232	\$ 183,984

At June 30, 2023, future maturities of long-term debt are as follows:

Year Ending June 30,	Amount
2024	\$ 63,848
2025	66,926
2026	36,194
2027	16,113
	\$ 183,080

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 8. RETIREMENT PLAN

The Organization has a 403(b) plan covering substantially all eligible employees. The plan provides for employer matching contributions of 2% up to 8% of annual compensation, depending on years of service. Total contributions to the plan for the years ended June 30, 2023 and 2022 amounted to \$3,237 and \$7,431, respectively.

The Organization participated in a multiemployer defined benefit pension plan which was sponsored by United Way. Effective December 31, 2004, the plan froze benefits accruals and, as a result, employees do not earn additional defined benefits for future services. In July 2018, Merrick Community Services and the other agencies participating in the plan voted to terminate the plan in 2019 by securing funding to fully fund the termination liability and purchase annuities to fulfill the obligations to participants. On September 18, 2019, Merrick Community Services and the other agencies funded the termination liability of the plan. Merrick Community Services incurred a note payable for \$136,951 to fund its portion of the liability and agreed to a guaranty of \$25,765 to insure full payment of the obligations in the plan agreement to participants.

NOTE 9. RESTRICTIONS ON NET ASSETS

Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at June 30, 2023 and 2022:

	2023	2022
Specific purpose		
Families	\$ -	\$ 90,400
Youth	385,975	485,975
Senior Services	-	18,840
Food Shelf	886	49,846
Employment Services	707,532	1,443,179
Time restricted	480,934	-
Net assets with donor restrictions	\$ 1,575,327	\$ 2,088,240

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 9. RESTRICTIONS ON NET ASSETS (continued)

Net Assets Released from Restrictions

The net assets released from restrictions for the years ended June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Specific purpose:		
Families	\$ 90,400	\$ 153,000
Youth	100,000	-
Senior Services	18,840	-
Food Shelf	48,960	78,470
Employment Services	1,381,714	326,009
Time restricted	<u>-</u>	<u>162,250</u>
Net assets released from restrictions	<u>\$ 1,639,914</u>	<u>\$ 719,729</u>

NOTE 10. LEASE COMMITMENTS

The Organization leases office space and equipment under various long-term non-cancelable operating and finance lease arrangements that expire through May 2027. Most leases include renewal options which can extend the lease term. The exercise of these renewal options is at the sole discretion of the Organization, and only lease options that the Organization believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities.

The components of lease costs and statement of function expenses category that includes the costs for the year ended June 30, 2023, are as follow:

Finance lease costs:	
Amortization of ROU assets (Depreciation and amortization)	\$ 9,599
Interest on lease liabilities (Other expenses)	1,033
Operating lease costs (Office expenses)	<u>174,436</u>
	<u>\$ 185,067</u>

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 10. LEASE COMMITMENTS (continued)

Supplemental cash flow 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)	\$ 1,033
Financing cash flows from finance leases (i. e. principal portion)	\$ 8,927
Operating cash flows from operating leases	\$ 143,618
ROU assets obtained in exchange for new finance lease liabilities	\$ 29,596
ROU assets obtained in exchange for new operating lease liabilities	\$ 1,994,657

Weighted average lease term and discount rate as of June 30, 2023 were as follows:

Weighted average remaining lease term for finance lease	2.2 Years
Weighted average remaining lease term for operating lease	14.9 Years
Weighted average discount rate for finance leases	4.18%
Weighted average discount rate for operating leases	4.18%

As of June 30, 2023, future minimum lease payments, including estimated operating expenses, under the above operating lease were as follows:

<u>Year Ending June 30,</u>	<u>Finance Leases</u>	<u>Operating Leases</u>
2024	\$ 9,960	\$ 147,297
2025	9,960	151,091
2026	1,660	154,993
2027	-	158,926
2028	-	162,995
Thereafter	-	<u>1,860,110</u>
Total lease payments	21,580	2,635,413
Less: interest	<u>(911)</u>	<u>(707,920)</u>
Present value of lease liabilities	<u>\$ 20,669</u>	<u>\$ 1,927,493</u>

During the year ended June 30, 2023, the Organization entered into a lease agreement for a lawful gambling site. The lease agreement requires monthly payments equal to 15% of the monthly gross profits (revenues less prizes paid) for electronic games and 20% of the monthly gross profits, not to exceed \$1,750 for all other games. The lease agreement may be terminated upon 60 days advance notice by either party. No rent was paid for the year ended June 30, 2023.

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 11. AVAILABILITY AND LIQUIDITY

The following represents the Organization’s financial assets at June 30, 2023 and 2022:

	2023	2022
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,322,149	\$ 2,381,674
Accounts and contributions receivable, net	770,647	488,966
Total financial assets	2,092,796	2,870,640
Less amounts not available to be used within one year:		
Net assets with donor restrictions	1,575,327	2,088,240
Less net assets with purpose restrictions to be met in less than a year	(1,575,327)	(2,088,240)
Financial assets available to meet general expenditures over the twelve months	\$ 2,092,796	\$ 2,870,640

The Organization’s goal is to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in money market funds and potentially mutual funds, corporate bonds and equities.

NOTE 12. IN-KIND CONTRIBUTIONS

In-kind contributions consisted of the following at June 30:

	2023	2022	Utilization in Programs/Activities
Food	\$ 33,018	\$ -	Food Shelf
Office furniture and supplies	77,674	-	Supporting Services
Program supplies for participant events	23,990	-	Back to School Celebration and Holiday Share
	\$ 134,682	\$ -	

Contributed food, program and office supplies are valued using estimated U.S. prices for identical products using pricing data under a “like-kind” methodology considering the goods’ condition and utility for use at the time of the contribution. Contributed food and program supplies are used in program services. No restricted contributions of in-kind contributions were received for the year-ended June 30, 2023 and 2022.

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 13. PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2023, the Organization has determined that the Unemployment Services Trust account should be recorded as an asset of the Organization. As a result, the beginning net assets for the year ended June 30, 2022, increased by \$52,039.