

MERRICK COMMUNITY SERVICES
AUDITED FINANCIAL STATEMENTS
June 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Merrick Community Services (a non-profit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Merrick Community Services as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Prior Period Adjustment

As discussed in Note 15, the June 30, 2016 statement of financial position has been restated to properly record a payment on the contract for deed receivable. This restatement caused a decrease in the contract for deed receivable and unrestricted net assets of \$40,000. Our opinion is not modified with respect to this matter.

Harrington Langer & Associates

December 6, 2017

MERRICK COMMUNITY SERVICES
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 641,496	\$ 1,278,274
Accounts receivable, net of allowances of \$9,100 and \$0, respectively	84,107	57,482
Contract for deed receivable, current portion	214,694	15,221
Pledges receivable, current portion	197,000	188,000
Investments	13,410	12,144
Prepaid expenses	<u>28,851</u>	<u>4,045</u>
Total Current Assets	<u>1,179,558</u>	<u>1,555,166</u>
 PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$66,416 and \$63,751, respectively	 <u>22,908</u>	 <u>5,058</u>
 OTHER ASSETS		
Construction in progress	529,130	-
Pledges receivable, long term	-	150,000
Contract for deed receivable, net of current portion	<u>-</u>	<u>244,338</u>
Total Other Assets	<u>529,130</u>	<u>394,338</u>
 TOTAL ASSETS	 <u><u>\$ 1,731,596</u></u>	 <u><u>\$ 1,954,562</u></u>

	2017	2016
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 97,230	\$ 22,191
Accrued expenses	33,275	34,363
Total Current Liabilities	130,505	56,554
LONG-TERM LIABILITIES		
Deferred rent	34,208	-
Total Liabilities	164,713	56,554
NET ASSETS		
Unrestricted	348,909	68,958
Temporarily restricted	1,217,974	1,829,050
Total Net Assets	1,566,883	1,898,008
 TOTAL LIABILITIES AND NET ASSETS	 \$ 1,731,596	 \$ 1,954,562

MERRICK COMMUNITY SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
SUPPORT AND REVENUE				
Support				
Contributions	\$ 504,200	\$ 294,864	\$ 799,064	\$ 735,150
United Way	-	162,000	162,000	288,001
Refunded grant	-	(100,000)	(100,000)	-
Loss on pledge receivable	-	(20,000)	(20,000)	(30,500)
Net assets released from restrictions	<u>943,940</u>	<u>(943,940)</u>	<u>-</u>	<u>-</u>
Total Support	<u>1,448,140</u>	<u>(607,076)</u>	<u>841,064</u>	<u>992,651</u>
Revenue				
Government grants and contracts	232,714	12,000	244,714	289,543
Program service fees	54,463	-	54,463	63,333
Special events	73,036	-	73,036	71,183
Investment income	10,422	-	10,422	9,610
Gain on sale of property and equipment	-	-	-	137,419
Other loss	(370)	-	(370)	(148)
Net assets released from restrictions	<u>16,000</u>	<u>(16,000)</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>386,265</u>	<u>(4,000)</u>	<u>382,265</u>	<u>570,940</u>
Total Support and Revenue	<u>1,834,405</u>	<u>(611,076)</u>	<u>1,223,329</u>	<u>1,563,591</u>
EXPENSES				
Program services	1,094,629	-	1,094,629	1,026,618
Capital campaign	75,119	-	75,119	24,814
Administrative	225,554	-	225,554	218,223
Fundraising and development	<u>159,152</u>	<u>-</u>	<u>159,152</u>	<u>147,979</u>
Total Expenses	<u>1,554,454</u>	<u>-</u>	<u>1,554,454</u>	<u>1,417,634</u>
CHANGE IN NET ASSETS	279,951	(611,076)	(331,125)	145,957
NET ASSETS, BEGINNING	<u>68,958</u>	<u>1,829,050</u>	<u>1,898,008</u>	<u>1,752,051</u>
NET ASSETS, ENDING	<u><u>\$ 348,909</u></u>	<u><u>\$ 1,217,974</u></u>	<u><u>\$ 1,566,883</u></u>	<u><u>\$ 1,898,008</u></u>

See accompanying notes

MERRICK COMMUNITY SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Support			
Contributions	\$ 540,313	\$ 194,837	\$ 735,150
United Way	120,001	168,000	288,001
Loss on pledges receivable	-	(30,500)	(30,500)
Net assets released from restrictions	<u>270,249</u>	<u>(270,249)</u>	<u>-</u>
Total Support	<u>930,563</u>	<u>62,088</u>	<u>992,651</u>
Revenue			
Government grants and contracts	273,543	16,000	289,543
Program service fees	63,333	-	63,333
Special events	71,183	-	71,183
Investment income	9,610	-	9,610
Gain on sale of property and equipment	-	137,419	137,419
Other loss	(148)	-	(148)
Net assets released from restrictions	<u>6,000</u>	<u>(6,000)</u>	<u>-</u>
Total Revenue	<u>423,521</u>	<u>147,419</u>	<u>570,940</u>
Total Support and Revenue	<u>1,354,084</u>	<u>209,507</u>	<u>1,563,591</u>
EXPENSES			
Program services	1,026,618	-	1,026,618
Capital campaign	24,814	-	24,814
Administrative	218,223	-	218,223
Fundraising and development	<u>147,979</u>	<u>-</u>	<u>147,979</u>
Total Expenses	<u>1,417,634</u>	<u>-</u>	<u>1,417,634</u>
CHANGE IN NET ASSETS	(63,550)	209,507	145,957
NET ASSETS, BEGINNING	<u>172,508</u>	<u>1,619,543</u>	<u>1,792,051</u>
Prior period adjustment	(40,000)	-	(40,000)
NET ASSETS, RESTATED	<u>132,508</u>	<u>1,619,543</u>	<u>1,752,051</u>
NET ASSETS, ENDING	<u><u>\$ 68,958</u></u>	<u><u>\$1,829,050</u></u>	<u><u>\$ 1,898,008</u></u>

MERRICK COMMUNITY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

	Program Services	Capital Campaign	Administrative	Fundraising & Development	Total 2017	Total 2016
Salaries	\$ 466,174	\$ -	\$ 145,069	\$ 82,395	\$ 693,638	\$ 625,351
Payroll taxes	44,918	-	12,459	6,835	64,212	70,272
Employee benefits	45,506	-	15,946	8,448	69,900	78,235
Total Personnel Costs	556,598	-	173,474	97,678	827,750	773,858
Contract services	121,362	-	2,127	15,992	139,481	155,263
Insurance	7,487	1,375	5,300	1,316	15,478	12,412
Professional services	-	39,000	12,875	-	51,875	29,876
Program activities and supplies	247,892	502	261	1,561	250,216	225,728
Office supplies	2,663	34	2,081	846	5,624	6,047
Telephone	6,816	-	2,327	1,421	10,564	12,860
Postage	388	-	394	2,236	3,018	3,316
Occupancy	40,034	34,208	10,236	4,483	88,961	60,924
Repairs and maintenance	14,281	-	3,264	1,261	18,806	3,663
Equipment costs	691	-	1,181	1,705	3,577	25,141
Advertising	-	-	-	9,078	9,078	6,220
Dues and subscriptions	378	-	2,307	1,231	3,916	3,195
Local transportation	5,121	-	3,306	848	9,275	9,131
Conventions and meetings	465	-	3,662	20	4,147	5,669
Special events	2,856	-	836	19,476	23,168	16,553
Special assistance	86,311	-	-	-	86,311	61,043
Depreciation	1,286	-	1,378	-	2,664	3,688
Interest	-	-	545	-	545	3,047
Total Expenses	\$1,094,629	\$ 75,119	\$ 225,554	\$ 159,152	\$1,554,454	\$ 1,417,634

MERRICK COMMUNITY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	Program Services	Capital Campaign	Administrative	Fundraising & Development	Total
Salaries	\$ 449,194	\$ -	\$ 129,577	\$ 46,580	\$ 625,351
Payroll taxes	52,169	-	12,860	5,243	70,272
Employee benefits	55,540	-	15,382	7,313	78,235
Total Personnel Costs	556,903	-	157,819	59,136	773,858
Contract services	103,905	-	3,714	47,644	155,263
Insurance	7,388	449	3,386	1,189	12,412
Professional services	-	16,009	13,867	-	29,876
Program activities and supplies	219,788	-	851	5,089	225,728
Office supplies	3,123	680	1,770	474	6,047
Telephone	7,497	54	3,835	1,474	12,860
Postage	1,642	-	307	1,367	3,316
Occupancy	39,516	2,162	12,424	6,822	60,924
Repairs and maintenance	571	2,741	225	126	3,663
Equipment costs	14,867	-	6,207	4,067	25,141
Advertising	-	-	1,598	4,622	6,220
Dues and subscriptions	-	-	2,145	1,050	3,195
Local transportation	6,959	-	1,971	201	9,131
Conventions and meetings	364	-	5,305	-	5,669
Special events	742	-	1,093	14,718	16,553
Special assistance	61,043	-	-	-	61,043
Depreciation	2,310	-	1,378	-	3,688
Interest	-	2,719	328	-	3,047
Total Expenses	\$1,026,618	\$ 24,814	\$ 218,223	\$ 147,979	\$1,417,634

MERRICK COMMUNITY SERVICES
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (331,125)	\$ 145,957
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,664	3,688
Allowance for doubtful accounts	(9,100)	-
Realized and unrealized loss on investments	(910)	1,018
Interest and dividends reinvested	(495)	(488)
Donated securities	-	(1,661)
Subsidiary net loss	-	-
Gain on sale of fixed assets	-	(137,419)
Change in:		
Accounts receivable	(17,525)	57,077
Pledges receivable	141,000	3,406
Prepaid expenses	(24,806)	(932)
Accounts payable	75,039	(30,049)
Accrued expenses	(1,088)	12,064
Deferred rent	<u>34,208</u>	<u>-</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(132,138)</u>	<u>52,661</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(20,515)	-
Purchase of construction in progress	(529,130)	-
Proceeds from sale of property and equipment	-	673,500
Proceeds from sale of investments	140	1,786
Payments received on contract for deed	<u>44,865</u>	<u>43,960</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(504,640)</u>	<u>719,246</u>

	<u>2017</u>	<u>2016</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(636,778)	771,907
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,278,274</u>	<u>506,367</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 641,496</u></u>	<u><u>\$1,278,274</u></u>
SUPPLEMENTAL CASH FLOWS DISCLOSURES		
Interest paid	\$ 545	\$ 3,047
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Sale of property and equipment		
Gross proceeds from sale of property and equipment	\$ -	\$1,398,500
Payments on long-term debt	<u>-</u>	<u>(725,000)</u>
Cash proceeds from sale of property and equipment	<u><u>\$ -</u></u>	<u><u>\$ 673,500</u></u>

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.

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 Meal on Wheels, senior mobile distribution, and social groups.

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.

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)

Youth Programs - MCS provides an after-school youth program during the school year. The goal of all youth programs is to have fun while developing important life skills. Each participant determines their goals for the program and works toward achieving them. Goals may include improving school attendance and achievement, improving relationships with family or teachers, and dealing with anger in a positive way. Programs include homework help, drumming, singing, an entrepreneurial group, arts and field trips. A summer recreation program is offered and includes lunch, which is provided by the St. Paul Public Schools. A kid's café program provides nutritional meals Monday through Friday evenings.

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.

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.

Allowance for Doubtful Accounts

Bad debts are recorded on the allowance method based on historical experience and management's evaluation of outstanding accounts, pledges, and grants receivable. At June 30, 2017 and 2016 the Organization had an allowance for doubtful accounts of \$9,100 and \$0, respectively.

Donated Services

Donated services are an integral part of the Organization. Volunteer services, for the years ended June 30, 2017 and 2016, amounted to approximately 16,000 hours for both years. Since the nature of the services do not satisfy the recognition requirements of generally accepted accounting principles, the accompanying financial statements do not reflect these volunteer services.

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.

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Government Grants and Contracts

Government grants and contract funds are recorded as revenue when earned as an exchange transaction. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Funds received but not yet earned are shown as temporarily restricted revenue on the statements of activities.

Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, MCS will record such disallowance at the time the assessment is made.

Support and Revenue

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Organization reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Advertising

Advertising costs are charged to expense as incurred. During the years ended June 30, 2017 and 2016, advertising costs were \$9,078 and \$6,220, respectively.

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 \$1,500 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 10 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.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year's presentation. These reclassifications had no effect on previously reported net assets.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 6, 2017, the date the financial statements were available to be issued.

NOTE 2. SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash balances with local financial institutions. At June 30, 2017 and 2016, accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2017 and 2016, uninsured cash balances were approximately \$354,000 and \$850,000 respectively.

NOTE 3. FAIR VALUE MEASUREMENTS AND INVESTMENTS

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets (Level 1). Level 3 inputs are unobservable and have the lowest priority. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 inputs are used when Level 1 inputs are not available. Level 3 inputs would only be used if Level 1 or Level 2 inputs were not available. There are no plan assets requiring the use of Level 3 inputs for the periods presented.

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 3. FAIR VALUE MEASUREMENT AND INVESTMENTS (continued)

Mutual funds: Valued at the closing net asset value (NAV) of shares held at the fiscal year end. If the mutual fund makes its net asset values publicly available daily to set the price for purchases and redemptions the following day, the mutual fund is categorized as within Level 1.

Investments held at June 30, 2017 and 2016 consisted of mutual funds of \$13,410 and \$12,144, respectively.

For the years ended June 30, 2017 and 2016, investment income consisted of the following:

	2017	2016
Dividends and interest	\$ 9,512	\$ 10,628
Unrealized gain (loss) on investments	910	(1,018)
	<u>\$ 10,422</u>	<u>\$ 9,610</u>

NOTE 4. CONTRACT FOR DEED RECEIVABLE

The Organization sold its property at 715 Edgerton Street, St. Paul, for a total of \$449,000. The Organization received cash of \$89,800 and agreed to receive the remaining \$359,200 on a contract for deed receivable from the buyer. The terms of the contract consist of monthly installments of \$2,000 including interest at 3% and a partial balloon payment of \$30,000 which was due in March 2016. This note matures in April 2018. As of June 30, 2017 and 2016, the outstanding balance on this note was \$214,694 and \$259,559, respectively.

The contract for deed contained a clause requiring the buyer to complete \$70,000 of capital improvements on or before February 2015. During the year ended June 30, 2016, the buyer completed \$30,000 of capital improvements and paid a total of \$40,000 to the Organization as per the above clause.

The future principal receivable on the contract for deed receivable of \$214,694 is due in the fiscal year ending June 30, 2018.

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 5. PLEDGES RECEIVABLE

Outstanding pledge contributions from various foundations and individuals at June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Pledges due in:		
Less than one year	\$ 197,000	\$ 188,000
One to five years	<u>-</u>	<u>150,000</u>
 Total pledges receivable	 <u>\$ 197,000</u>	 <u>\$ 338,000</u>

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 82,435	\$ 61,920
Vehicles	<u>6,889</u>	<u>6,889</u>
 Total Cost	 89,324	 68,809
Less: Accumulated Depreciation	<u>(66,416)</u>	<u>(63,751)</u>
 Net Property and Equipment	 <u>\$ 22,908</u>	 <u>\$ 5,058</u>

Depreciation expense of \$2,664 and \$3,688 was provided for the years ended June 30, 2017 and 2016, respectively.

NOTE 7. LINE OF CREDIT

At June 30, 2017, the Organization had a \$70,000 revolving line of credit agreement with Lake Elmo Bank expiring March 2018. Interest is payable monthly at the prime rate as published in the Wall Street Journal, with a floor of 4.5% (effective rate of 4.5% as of June 30, 2017 and 2016) and is secured by the general business assets. As of June 30, 2017 and 2016, there was nothing outstanding on this line of credit. Subsequent to year end, this line of credit agreement was increased to a \$100,000 line of credit that expires October 2019.

NOTE 8. RETIREMENT PLAN

The Organization has a 403(b) salary reduction plan covering substantially all eligible employees. The plan provides for employer matching contributions of 2% to up to 8% of annual compensation, depending on years of service. Total contributions to the plan for the years ended June 30, 2017 and 2016 amounted to approximately \$6,100 and \$5,200, respectively.

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 8. RETIREMENT PLAN (continued)

The Organization participates in a multi-employer defined benefit pension plan which is 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.

As required by GAAP for this plan, an employer shall recognize as net pension cost the required contribution for the period and shall recognize as a liability any contribution due and unpaid. The funding is determined by the actuary and is allocated based on employee compensation among Merrick Community Services and the participating agencies. The objective in funding the plan is to accumulate sufficient funds to provide for benefits and to achieve full funding to allow for termination of the plan. Because the plan's unfunded projected termination liability exceeds the fair market value of plan assets, continued annual contributions will be required in order to achieve full funding. If any participating agency defaults on their annual contributions, Merrick Community Services and the other remaining agencies assume the liability and contributions of the agency in default. Plan assets are based on a long-term investment strategy and held approximately 30% in fixed income securities and 70% in equity accounts. Merrick Community Services made contributions of approximately \$36,000 in the years ended June 30, 2017 and 2016, which is recognized as pension cost.

Effective July 1, 2012, Merrick Community Services adopted Accounting Standards Update 20141-09 (ASU No. 2011-09), *Disclosures about an Employer's Participation in a Multiemployer plan*, which requires additional disclosures about employers' participation in multiemployer pension plans including information about the plan's funded status if it is readily available.

The following table presents information concerning Merrick Community Services' participation in the multi-employer defined benefit pension plan:

Legal name: Twin Cities Nonprofit Partners Pension Plan		
EIN/Plan number: 41-1973442/333		
Plan year end	12/31/2016	12/31/2015
Pension Protection Act percentage funded	110%	110%
Contribution by Merrick Community Services \$	36,472	\$ 36,472
Contributions as percentage of total contributed	2%	2%
Rehabilitation Plan Status	n/a	n/a

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 9. RESTRICTIONS ON NET ASSETS

Temporarily Restricted

Temporarily restricted net assets consisted of the following at June 30, 2017 and 2016:

	2017	2016
Child and Youth Intervention	\$ 135,724	\$ 125,007
Emergency Services	112,000	122,331
Family Intervention	18,290	52,544
Senior Services	17,906	16,000
Job Bank	80,814	69,862
Other	10,000	10,000
Capital Campaign	843,240	1,433,306
Total Temporarily Restricted Net Assets	<u>\$ 1,217,974</u>	<u>\$ 1,829,050</u>

Net Assets Released from Restrictions

The net assets released from restrictions for the years ended June 30, 2017 and 2016 consisted of the following:

	2017	2016
Child and Youth Intervention	\$ 105,633	\$ 70,997
Emergency Services	118,000	65,456
Family Intervention	56,875	49,950
Senior Services	16,000	-
Job Bank	61,529	27,532
Other	10,000	7,000
Capital Campaign	591,903	55,314
Net Assets Released from Restrictions	<u>\$ 959,940</u>	<u>\$ 276,249</u>

NOTE 10. MAJOR SOURCES OF SUPPORT AND REVENUE

During the years ended June 30, 2017 and 2016, the major sources of support and revenue (as a percentage of total support and revenue) were as follows:

	2017	2016
United Way	15%	18%
MN State	14%	10%

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 11. LEASE COMMITMENTS

During the years ended June 30, 2017 and 2016, the Organization leased one location for its Emergency Service Centers under month-to-month agreements for an approximate total of \$165 per month. Rent expense charged to operations for the above leases amounted to \$2,712 and \$8,628 for the years ended June 30, 2017 and 2016, respectively, which also includes the HVAC payments for this property.

Starting in February 2017, the Organization leased one location for its office space with Gustavus Adolphus Church under a noncancelable lease ending May 2022. Rental rates per lease year range from \$7.00 to \$7.73 per square foot. The lease agreement allows for rent abatement from February 2017 to September 2017. Rent expense is recognized straight-line over the term of the lease and a related deferred rent liability of \$34,208 is recorded at June 30, 2017.

The Organization leased office space at 965 Payne Avenue, St. Paul with Old Swedish Bank, LLC, for \$900 per month plus operating expenses. This lease expired in September 2017. Rent expense charged to operations for the above lease was approximately \$48,000 and \$46,000, respectively, for the years ended June 30, 2017 and 2016.

As of June 30, 2017, future minimum lease payments, including estimated operating expenses, under the above operating lease were as follows:

Year Ending June 30,	Amount
2018	\$ 71,196
2019	91,294
2020	93,269
2021	93,600
2022	120,115
	<u>\$ 469,474</u>

In addition, the Organization also incurred rent expense of approximately \$1,900 at a public storage facility for the years ended June 30, 2017 and 2016.

NOTE 12. CAPITAL CAMPAIGN

The Organization is conducting a capital campaign for the relocation and expansion of its office and program facilities. During the years ended June 30, 2017 and 2016, the Organization had recognized revenues of \$40,911 and \$24,814, respectively for expenses incurred in association with the capital campaign.

During the year ended June 30, 2017, the Organization recognized revenues of \$529,130 for construction of leasehold improvements in association with the capital campaign.

MERRICK COMMUNITY SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 13. BOARD DESIGNATED UNRESTRICTED NET ASSETS

Designations of net assets are used to show amounts within unrestricted net assets that are intended to be used for board-specified purposes, but are not legally or donor restricted. At June 30, 2017 and 2016, designated net assets consisted of the following:

	<u>2017</u>	<u>2016</u>
Operating	\$ 23,983	\$ 22,717
Capital campaign	<u>50,000</u>	<u>50,000</u>
	<u>\$ 73,983</u>	<u>\$ 72,717</u>

NOTE 14. COMMITMENTS AND CONTINGENCIES

During the year ended June 30, 2017, the Organization signed a \$1.1 million-dollar purchase commitment with a general contractor for the construction of leasehold improvement in a new office space.

NOTE 15. PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2016, an adjustment was made to properly record a payment on the contract for deed receivable. The contract for deed receivable contains a clause requiring the buyer to complete \$70,000 of capital improvements on or before February 2015. During the year ended June 30, 2015, the buyer completed \$30,000 of capital improvements and paid a total of \$40,000 to the Organization as per the clause. For the year ended June 30, 2015 this payment was recorded in other income. An adjustment has been made to properly apply the payment to the principal of the contract for deed receivable. The result of this change decreased unrestricted net assets and the contract for deed receivable by \$40,000 for the year ended June 30, 2016.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of Merrick Community Services as of and for the years ended June 30, 2017 and 2016, and our report thereon dated December 6, 2017 which expressed an unmodified opinion on those financial statements appears on page 1 and 2. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of unrestricted activities on pages 23-24 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Harrington Langer & Associates

December 6, 2017

MERRICK COMMUNITY SERVICES
SCHEDULE OF UNRESTRICTED ACTIVITIES
For the Year Ended June 30, 2017

	Program Services						Total
	Families & Youth	Senior Services	Food Shelf	Employment Services	Program Services	Capital Campaign	
SUPPORT AND REVENUE							
Support	\$ 181,655	\$ 65,104	\$ 371,038	\$ 161,754	\$ 779,551	\$ 591,903	\$ 1,448,140
Revenue	116,017	136,488	1,000	49,671	303,176	-	386,265
Total Support and Revenue	297,672	201,592	372,038	211,425	1,082,727	591,903	1,834,405
EXPENSES							
Salaries	208,007	60,113	133,544	64,510	466,174	-	693,638
Payroll taxes	22,789	5,363	10,992	5,774	44,918	-	64,212
Employee benefits	17,246	5,068	12,478	10,714	45,506	-	69,900
Total Personnel Costs	248,042	70,544	157,014	80,998	556,598	-	827,750
Contract services	499	20,688	20,315	79,860	121,362	-	139,481
Insurance	2,800	1,151	2,138	1,398	7,487	1,375	15,478
Professional services	-	-	-	-	-	39,000	51,875
Program activities and supplies	4,759	109,506	127,659	5,968	247,892	502	250,216
Office supplies	1,033	205	675	750	2,663	34	5,624
Telephone	3,922	595	987	1,312	6,816	-	10,564
Postage	241	98	49	-	388	-	3,018
Occupancy	18,382	3,758	7,462	10,432	40,034	34,208	88,961
Repairs and maintenance	5,170	2,093	4,073	2,945	14,281	-	18,806
Equipment costs	8	676	2	5	691	-	3,577
Advertising	-	-	-	-	-	-	9,078
Dues and subscriptions	38	107	211	22	378	-	3,916
Local transportation	1,153	444	3,140	384	5,121	-	9,275
Conventions and meetings	80	36	98	251	465	-	4,147
Special events	2,856	-	-	-	2,856	-	23,168
Special assistance	86,311	-	-	-	86,311	-	86,311
Depreciation	-	-	1,286	-	1,286	-	2,664
Interest	-	-	-	-	-	-	545
Total Expenses	375,294	209,901	325,109	184,325	1,094,629	75,119	1,554,454
CHANGE IN UNRESTRICTED NET ASSETS	\$ (77,622)	\$ (8,309)	\$ 46,929	\$ 27,100	\$ (11,902)	\$ 516,784	\$ (67,116)
							\$ 279,951

See independent auditor's report on supplementary information

MERRICK COMMUNITY SERVICES
SCHEDULE OF UNRESTRICTED ACTIVITIES
For the Year Ended June 30, 2016

	Program Services						
	Families & Youth	Senior Services	Food Shelf	Employment Services	Program Services	Capital Campaign	Fundraising & Development
	Total						Total
SUPPORT AND REVENUE							
Support Revenue	\$ 289,756 93,009	\$ 84,926 140,346	\$ 340,864 990	\$ 113,203 110,967	\$ 828,749 345,312	\$ 24,814 -	\$ 30,839 68,635
Total Support and Revenue	382,765	225,272	341,854	224,170	1,174,061	24,814	1,354,084
EXPENSES							
Salaries	195,752	70,517	81,026	101,899	449,194	-	625,351
Payroll taxes	24,849	7,619	7,846	11,855	52,169	-	70,272
Employee benefits	16,676	8,461	13,427	16,976	55,540	-	78,235
Total Personnel Costs	237,277	86,597	102,299	130,730	556,903	-	773,858
Contract services	971	20,864	44,063	38,007	103,905	-	155,263
Insurance	2,191	1,446	1,941	1,810	7,388	449	12,412
Professional services	-	-	-	-	-	16,009	29,876
Program activities and supplies	4,847	104,578	103,974	6,389	219,788	-	225,728
Office supplies	670	296	1,491	666	3,123	680	6,047
Telephone	3,096	980	1,168	2,253	7,497	54	12,860
Postage	246	298	994	104	1,642	-	3,316
Occupancy	11,367	9,360	5,771	13,018	39,516	2,162	60,924
Repairs and maintenance	210	63	58	240	571	2,741	3,663
Equipment costs	4,286	1,095	6,176	3,310	14,867	-	25,141
Advertising	-	-	-	-	-	-	6,220
Dues and subscriptions	-	-	-	-	-	-	3,195
Local transportation	1,000	790	3,116	2,053	6,959	-	9,131
Conventions and meetings	75	100	24	165	364	-	5,669
Special events	312	4	409	17	742	-	16,553
Special assistance	60,255	-	788	-	61,043	-	61,043
Depreciation	-	1,092	1,218	-	2,310	-	3,688
Interest	-	-	-	-	-	2,719	3,047
Total Expenses	326,803	227,563	273,490	198,762	1,026,618	24,814	1,417,634
CHANGE IN UNRESTRICTED NET ASSETS	\$ 55,962	\$ (2,291)	\$ 68,364	\$ 25,408	\$ 147,443	\$ -	\$ (63,550)

See independent auditor's report
on supplementary information