MERIT SCHOOL OF MUSIC
(An Illinois Non-Profit Corporation)

FINANCIAL STATEMENTS

August 31, 2022 and 2021

GJC

CPAs | ADVISORS

MERIT SCHOOL OF MUSIC
(An Illinois Non-Profit Corporation)

CONTENTS

GJC

CPAs | ADVISORS

INDEPENDENT AUDITOR'S REPORT

January 27, 2023

To the Board of Trustees
Merit School of Music

Opinion

We have audited the financial statements of the Merit School of Music ("Merit", an Illinois non-profit Corporation), which comprise the statement of financial position as of August 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, as well as the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Merit as of August 31, 2022, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). 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 Merit 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.

Emphasis of Matter — Adoption of New Accounting Pronouncements

As discussed in Note A, effective September 1, 2021, Merit has adopted the provisions contained in Accounting Standards Update 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to that matter.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Matter — Prior-Year Financial Statements

The financial statements of Merit as of, and for the year ended, August 31, 2021 were audited by other auditors whose report dated January 18, 2022 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Merit's management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, 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 any conditions or events, considered in the aggregate, that raise substantial doubt about Merit's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibility 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 U.S. GAAS 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 U.S. GAAS:

- We exercise professional judgment and maintain professional skepticism throughout the audit.

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and we 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibility for the Audit of the Financial Statements (continued)

- We 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 Merit's internal control. Accordingly, no such opinion is expressed.

- We evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and we evaluate the overall presentation of the financial statements.

- We conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Merit'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 findings, and certain internal control-related matters that we identified during the audit.

GJC CPAs & Advisors

Chicago, Illinois

MERIT SCHOOL OF MUSIC
(An Illinois Non-Profit Corporation)

STATEMENTS OF FINANCIAL POSITION

August 31, 2022 and 2021

	2022	2021
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 5,126,727	$ 4,761,397
Pledges receivable – current portion (Note E)	1,389,900	611,308
Tuition receivable, net (Note A)	355,052	261,493
Total Current Assets	**6,871,679**	**5,634,198**
Other Assets:		
Investments (Note F)	17,084,562	19,821,528
Fixed assets, net (Note G)	8,182,564	8,306,023
Pledges receivable (net of current portion) (Note E)	171,877	448,701
Other assets	95,475	118,681
Total Other Assets	**25,534,478**	**28,694,933**
Total Assets	**$ 32,406,157**	**$ 34,329,131**

See notes to financial statements.

MERIT SCHOOL OF MUSIC
(An Illinois Non-Profit Corporation)

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

August 31, 2022 and 2021

	2022	2021
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 87,479	$ 52,564
Accrued expenses	236,572	217,297
Deferred tuition revenue	640,092	216,243
Capital lease obligation – current portion (Note I)	13,242	17,039
Total Current Liabilities	**977,385**	**503,143**
Long-Term Liabilities:		
Annuity contract obligation (Notes A and F)	11,607	45,626
Capital lease obligation (net of current portion) (Note I)	-0-	13,178
Paycheck Protection Program loan payable (Note J)	-0-	836,420
Total Long-Term Liabilities	**11,607**	**895,224**
Total Liabilities	**988,992**	**1,398,367**
Net Assets:		
Net assets without donor restrictions:		
Board-designated (Note D)	11,885,297	14,685,999
Undesignated	9,337,873	8,747,176
Total Net Assets without Donor Restrictions	21,223,170	23,433,175
Net assets with donor restrictions (Note B)	10,193,995	9,497,589
Total Net Assets	**31,417,165**	**32,930,764**
Total Liabilities and Net Assets	**$ 32,406,157**	**$ 34,329,131**

See notes to financial statements.

MERIT SCHOOL OF MUSIC
(An Illinois Non-Profit Corporation)

STATEMENTS OF ACTIVITIES

For the Years Ended August 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Revenue and Gains, Net of Losses:						
Public support:						
Contributions	$ 1,604,702	$ 2,672,675	$ 4,277,377	$ 1,739,675	$ 686,167	$ 2,425,842
Government grants	56,450		56,450	43,550		43,550
Fundraising events (net of expenses of $186,867 and $93,962 in 2022 and 2021, respectively)	893,257	45,000	938,257	979,378	60,000	1,039,378
Total Public Support	2,554,409	2,717,675	5,272,084	2,762,603	746,167	3,508,770
Program service revenue:						
Student fees (net of $665,057 and $554,941 in financial aid in 2022 and 2021, respectively)	1,456,196		1,456,196	1,376,360		1,376,360
School contracts	443,837		443,837	342,599		342,599
Total Program Service Revenue	1,900,033	-0-	1,900,033	1,718,959	-0-	1,718,959
Other revenue and gains, net of losses:						
Rental and other income (Note I)	84,182		84,182	18,636		18,636
Gain on forgiveness of Paycheck Protection Program loans (Note J)	836,420		836,420	814,593		814,593
Net investment gain (loss)	(2,254,630)	1,031	(2,253,599)	3,486,867	1,448	3,488,315
Total Other Revenue and Gains, Net of Losses	(1,334,028)	1,031	(1,332,997)	4,320,096	1,448	4,321,544
Net assets released from restrictions (Note B)	2,022,300	(2,022,300)	-0-	1,922,724	(1,922,724)	-0-
Total Revenue and Gains, Net of Losses	**$ 5,142,714**	**$ 696,406**	**$ 5,839,120**	**$ 10,724,382**	**$ (1,175,109)**	**$ 9,549,273**

See notes to financial statements.

MERIT SCHOOL OF MUSIC
(An Illinois Non-Profit Corporation)

STATEMENTS OF ACTIVITIES (CONTINUED)

For the Years Ended August 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Expenses:						
Program services	$ 5,832,106	$ -0-	$ 5,832,106	$ 5,185,491	$ -0-	$ 5,185,491
Supporting services:						
Administration	993,711		993,711	844,629		844,629
Development	526,902		526,902	466,920		466,920
Total Expenses	**7,352,719**	**-0-**	**7,352,719**	**6,497,040**	**-0-**	**6,497,040**
Change in Net Assets	**(2,210,005)**	**696,406**	**(1,513,599)**	**4,227,342**	**(1,175,109)**	**3,052,233**
Net Assets, Beginning of Year	23,433,175	9,497,589	32,930,764	19,205,833	10,672,698	29,878,531
Net Assets, End of Year	**$ 21,223,170**	**$ 10,193,995**	**$ 31,417,165**	**$ 23,433,175**	**$ 9,497,589**	**$ 32,930,764**

See notes to financial statements.

MERIT SCHOOL OF MUSIC
(An Illinois Non-Profit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2022
(With Comparative Totals for the Year Ended August 31, 2021)

	2022								
	Program Services								
	Alice S. Pfaelzer Tuition-Free Conservatory	Merit Music in Communities	Instrumental and Vocal Music	Private Lessons	Early Childhood	Summer	Program and Student Support	Chicago Musical Pathways Initiative	Total Program Services
Compensation and staff-related expenses	$ 544,653	$ 733,889	$ 420,896	$ 1,120,712	$ 179,431	$ 100,494	$ 497,157	$ 406,875	$ 4,004,107
Program expenses	78,082	81,236	7,485		2,236	1,748	87,295	533,983	792,065
Office expenses	20,742	13,495	20,412	20,378	12,838	6,755	29,935	6,206	130,761
Marketing expenses	5,885		12,763	11,939	12,708	7,146		750	51,191
Maintenance and operations	53,471	13,578	26,938	30,779	9,935	8,712	14,430		157,843
Outside services	14,868	22,918	15,644	18,082	12,669	11,529	8,375	25,718	129,803
Financial expenses	7,485	36,800	35,907	125,429	4,791	10,571	9,282		230,265
Depreciation (Note A)	67,114	41,561	36,100	40,654	14,157	11,518	122,903		334,007
Miscellaneous expenses							2,570	(506)	2,064
Total Expenses	**$ 792,300**	**$ 943,477**	**$ 576,145**	**$ 1,367,973**	**$ 248,765**	**$ 158,473**	**$ 771,947**	**$ 973,026**	**$ 5,832,106**

	2022			Total Expenses	
	Supporting Services				
	Administration	Development	Total Supporting Services	2022	2021
Compensation and staff-related expenses	$ 837,219	$ 448,312	$ 1,285,531	$ 5,289,638	$ 4,711,549
Program expenses	2,283	38	2,321	794,386	692,536
Office expenses	21,943	40,619	62,562	193,323	137,494
Marketing expenses	9,783		9,783	60,974	48,967
Maintenance and operations	14,032	3,508	17,540	175,383	91,676
Outside services	73,988	9,377	83,365	213,168	366,104
Financial expenses	15,165	17,323	32,488	262,753	116,264
Depreciation (Note A)	19,013	7,725	26,738	360,745	332,711
Miscellaneous expenses	285		285	2,349	(261)
Total Expenses	**$ 993,711**	**$ 526,902**	**$ 1,520,613**	**$ 7,352,719**	**$ 6,497,040**

See notes to financial statements.

MERIT SCHOOL OF MUSIC
(An Illinois Non-Profit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2021

	Program Services								
	Alice S. Pfaelzer Tuition-Free Conservatory	**Merit Music in Communities**	**Instrumental and Vocal Music**	**Private Lessons**	**Early Childhood**	**Summer**	**Program and Student Support**	**Chicago Musical Pathways Initiative**	**Total Program Services**
Compensation and staff-related expenses	$ 412,432	$ 534,801	$ 341,076	$ 1,088,304	$ 92,371	$ 46,584	$ 683,237	$ 391,743	$ 3,590,548
Program expenses	10,330	33,401	1,357		2,187	249	91,983	552,836	692,343
Office expenses	9,955	9,048	11,424	11,424	6,907	3,012	24,519	3,400	79,689
Marketing expenses			14,175	9,442	13,721			3,825	41,163
Maintenance and operations	27,701	7,034	13,955	15,945	5,147	4,513	7,475		81,770
Outside services	(3,324)	3,917	33,284	207,590	8,205	222	22,205	33,878	305,977
Financial expenses	13,126	5,437	18,797	20,304	9,816	5,226	15,727	2,288	90,721
Depreciation (Note A)	65,635	35,157	36,913	41,179	15,031	11,674	97,652		303,241
Miscellaneous expenses							33	6	39
Total Expenses	**$ 535,855**	**$ 628,795**	**$ 470,981**	**$ 1,394,188**	**$ 153,385**	**$ 71,480**	**$ 942,831**	**$ 987,976**	**$ 5,185,491**

	Supporting Services			
	Administration	**Development**	**Total Supporting Services**	**Total Expenses**
Compensation and staff-related expenses	$ 718,198	$ 402,803	$ 1,121,001	$ 4,711,549
Program expenses	193		193	692,536
Office expenses	23,659	34,146	57,805	137,494
Marketing expenses	7,155	649	7,804	48,967
Maintenance and operations	8,089	1,817	9,906	91,676
Outside services	54,728	5,399	60,127	366,104
Financial expenses	13,327	12,216	25,543	116,264
Depreciation (Note A)	19,580	9,890	29,470	332,711
Miscellaneous expenses	(300)		(300)	(261)
Total Expenses	**$ 844,629**	**$ 466,920**	**$ 1,311,549**	**$ 6,497,040**

See notes to financial statements.

MERIT SCHOOL OF MUSIC
(An Illinois Non-Profit Corporation)

STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities:		
Change in net assets	$ (1,513,599)	$ 3,052,233
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Provisions for allowance for bad debts	-0-	(29,800)
Depreciation	360,745	332,711
Net realized and unrealized (gain) loss on investments	2,829,265	(3,106,061)
Gain on forgiveness of Paycheck Protection Program loans	(836,420)	(814,593)
Contributions of donated stock	(188,018)	(177,514)
Changes in:		
Pledges receivable	(501,768)	(44,183)
Tuition receivable	(93,559)	(51,739)
Other assets	23,206	62,663
Accounts payable	34,915	32,705
Accrued expenses	19,275	(9,614)
Deferred tuition revenue	423,849	8,421
Annuity contract obligation	(34,019)	1,323
Net Cash Flows from Operating Activities	**523,872**	**(743,448)**
Cash Flows from Investing Activities:		
Acquisition of fixed assets	(237,286)	(242,867)
Acquisition of investments	(640,866)	(1,466,989)
Proceeds received on disposition of investments	736,585	741,910
Net Cash Flows from Investing Activities	**(141,567)**	**(967,946)**
Cash Flows from Financing Activities:		
Proceeds received from Paycheck Protection Program loan	-0-	836,420
Payments on capital lease obligation	(16,975)	(14,905)
Net Cash Flows from Investing Activities	**(16,975)**	**821,515**
Change in Cash and Cash Equivalents	**365,330**	**(889,879)**
Cash and Cash Equivalents, Beginning of Year	4,761,397	5,651,276
Cash and Cash Equivalents, End of Year	**$ 5,126,727**	**$ 4,761,397**

See notes to financial statements.

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Purpose

The Merit School of Music ("Merit") is a nationally accredited non-profit organization in Chicago that removes barriers to high-quality music education. Its main objective is to offer sustained introductory, preparatory, and conservatory level music instruction – including classical and jazz, and featuring band, voice, and orchestra, as well as guitars and piano – to students from birth to 18 years of age. Merit's administrative and program facility is the Joy Faith Knapp Music Center at 38 South Peoria in Chicago, Illinois.

Merit's programs include the following:

- The Alice S. Pfaelzer Tuition-Free Conservatory (the "Conservatory"), which requires and represents the highest level of achievement, provides students, selected by audition, with a curriculum in music theory, chamber music, instrumental technique, and large ensembles. Students attend Saturday classes, including a weekly assembly in which student faculty and guest artist performances are featured.

- The Merit Music in Communities ("MMiC") program brings Merit's faculty to the Chicago Public Schools, private schools, and other community sites each year, where they provide instruction in the Early Childhood program, as well as instruction in band, strings, chorus, and general music.

- The Instrumental and Vocal Music ("IVM") program provides musical preparation for the Conservatory to primary school-age students. The curriculum is comprised of music theory, music history, and musicianship, as well as student participation in small technique and large ensemble classes.

- Merit's Private Lessons program makes private instruction available to all students, from beginners to the most advanced musicians. Students gain additional experience through participation in private lesson recitals.

- The Early Childhood program includes classes for babies to preschoolers, as well as instruction under the MMiC program. This program supports a child's first steps in a lifetime journey of musical appreciation that inspires them to participate in the IVM program and, eventually, the Conservatory.

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nature of Activities and Purpose (continued)

- The Summer program includes camps designed to provide young musicians with the opportunity to continue building musical skills in a focused, nurturing environment outside of their school program or private lesson routine. Camps, ensembles, and one-day workshops are offered, with a focus on instrumental improvement or ensemble play for almost every instrument and ensemble type there is.

- Program and student support represents the programmatic staff and resources utilized to support all of Merit's students through their journey along the Merit pathway from Early Childhood to the Conservatory.

- The Chicago Musical Pathways Initiative identifies and develops gifted and motivated orchestral students from underrepresented backgrounds for acceptance into top-tier conservatory, college, or university classical music programs in preparation for careers as professional musicians.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Adoption of New Accounting Pronouncements

In September 2020, the Financial Accounting Standards Board ('FASB") issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 requires contributed nonfinancial assets to be presented separately from contributions of cash and other financial assets in the statement of activities. ASU 2020-07 also requires expanded disclosures regarding the types, uses, policies, valuation techniques, and donor restrictions related to contributed nonfinancial assets. Merit adopted the provisions of ASU 2020-07 as of September 1, 2021. These provisions have been retroactively applied to the disclosures in the accompanying financial statements as of, and for the year ended, August 31, 2021. The adoption of this pronouncement did not impact Merit's net assets.

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

Merit maintains its financial accounts internally in accordance with the principles and practices of fund accounting, the procedure by which resources for various purposes are classified for accounting purposes in accordance with Merit's activities or objectives. For financial reporting purposes, Merit's funds and its activities are classified in net assets without donor restrictions or net assets with donor restrictions, based on the existence or absence of donor-imposed restrictions, as follows:

Net Assets Without Donor Restrictions

This class consists of net assets that are not subject to donor-imposed restrictions, including the carrying value of all physical properties (fixed assets). Items that increase or decrease this net asset category include amounts received from government agencies, student fees, school contracts, and all expenses associated with the core activities of Merit. In addition to these transactions, changes in this category of net assets include certain types of philanthropic support, namely contributions and foundation grants without donor restrictions, investment income and losses, and contributions and foundation grants with donor restrictions whose donor-imposed restrictions were met during the same year as received. Board-designated amounts are also part of net assets without donor restrictions (see Note D)

Net Assets With Donor Restrictions

This class consists of net assets subject to donor-imposed restrictions that may, or will, be met, either by actions of Merit or the passage of time. Items that affect this net asset category are contributions and grants with donor restrictions, including pledges for future years. These amounts are reclassified to net assets without donor restrictions when such restrictions are met or have expired. Some assets with donor restrictions may include a stipulation that assets provided be maintained permanently (perpetual in nature) by Merit. Merit is required to maintain the historical value of the initial investment, with earnings from the investment available for operations. Earnings from net assets held in perpetuity are recorded in net assets with donor restrictions, and are then released to net assets without donor restrictions as the related expenditures are incurred.

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

Merit considers all highly liquid investments purchased with an original maturity of three months or less, including money market funds, to be cash equivalents.

Fixed Assets

Fixed assets are stated at their original cost, if purchased, or at their estimated value at the date of gift, if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets, which are as follows:

Buildings and improvements	7-40 years
Furniture and fixtures	5-10 years
Office equipment	3-7 years
Musical instruments and equipment	5-10 years

In general, Merit's policy is to capitalize acquisitions of $1,000 or more with a useful life in excess of one year. Major repairs and improvements are also capitalized. General maintenance and repairs which do not improve or extend the lives of the assets are expensed.

Tax-Exempt Status

Merit is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code ("IRC") and applicable state law, except for net income derived from unrelated business activities. In addition, Merit qualifies for the charitable contribution deduction under IRC section 170(b)(1)(A) and has been classified as an organization other than a private foundation under IRC section 509(a).

Merit's income tax filings are subject to audit by various taxing authorities. In evaluating Merit's activities, management believes its position of tax-exempt status is based on current facts and circumstances, and there have been no uncertain positions taken related to recording income taxes. In the opinion of management, there are no activities unrelated to the purpose of the organization and, therefore, no tax is to be recognized.

It is the policy of Merit to include in administration expenses penalties and interest assessed by income taxing authorities. There are no penalties or interest from taxing authorities included in administration expenses for the years ended August 31, 2022 or 2021.

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Advertising

Merit's advertising costs are expensed as incurred. Advertising expenses totaled $46,364 and $32,921 for the years ended August 31, 2022 and 2021, respectively.

Fair Value Measurements

Merit uses fair value measurements in the preparation of its financial statements, which utilize various inputs, including those that can be readily observable, corroborated, or are generally unobservable. Merit utilizes market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, Merit applies assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

The measurement of fair value includes a hierarchy based on the quality of inputs used to measure fair value and provides specific disclosure requirements based on the hierarchy. Financial assets and liabilities are categorized into this three-level fair value hierarchy based on the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The various levels of the fair value hierarchy are described as follows:

- Level 1 — Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that Merit has the ability to access

- Level 2 — Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

- Level 3 — Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement

The use of observable market data, when available, is required in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

Recognition of Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as support when received or when conditions related to a contractual promise to give are substantially met, measured at estimated realizable value. All contributions are considered to be available for general use unless specifically restricted by the donor. Contributions with donor-imposed stipulations that are met in the same year as received are reported as support without donor restrictions. All other contributions that are received with donor stipulations that limit the use of the donated assets are reported as support with donor restrictions. When a restriction expires, 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.

Rental Income

Merit leases out space in the building it owns. Accordingly, rental income is recognized in accordance with the tenants’ lease terms. Rental payments received in advance are deferred until earned.

Net Investment Gains and Losses

Merit holds various investments in common stocks, registered investment companies, corporate notes, real estate investment trusts, and certificates of deposit. Investment income is comprised of interest, dividends, and realized and unrealized gains and losses, net of investment fees, on the statements of activities.

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue is measured based upon the consideration specified in a contract with a customer at the time when the related performance obligation is satisfied. A performance obligation is a promise in a contract to transfer a distinct good or service, or a series of distinct goods or services, to the customer. Merit recognizes revenue when a performance obligation is satisfied by transferring control over a product or service to a customer.

Merit receives tuition and student fees for the teaching and lessons provided to students. Merit recognizes this revenue at a point in time, net of allowances for amounts unlikely to be collected, when services are provided to students, which occurs on a daily basis or a per-lesson basis. Tuition and student fees received in advance for program activities which will be conducted in the subsequent fiscal year (principally tuition deposits) are recorded as deferred tuition revenue in the statements of financial position.

Functional Allocation of Expenses

Merit allocates its expenses on a functional basis among its program and supporting services. Costs directly attributable to programs or supporting services are recorded in the appropriate function. Certain costs not directly attributable to a function are allocated to functions, including compensation, which is allocated based on time studies of the particular individuals, and office expenses, which are allocated based on the square footage used by each function.

Concentration of Credit Risk

Financial instruments which potentially subject Merit to concentrations of credit risk consist principally of cash, cash equivalents, pledges receivable, tuition receivable, and investments.

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed the federally insured limit of $250,000 per depositor at each financial institution. Cash and cash equivalents on deposit in excess of the federally insured limit as of August 31, 2022 approximated $4,707,000; however, Merit has not experienced any losses with respect to its bank balances in excess of the federally insured limit, and management believes Merit is not exposed to any unusual credit risk. As of August 31, 2022 and 2021, approximately 72 percent and 80 percent, respectively, of total pledges receivable were receivable from two donors and four donors, respectively. Tuition receivable is due from various schools and students. As disclosed in Note F, investments are diversified primarily in various common stocks, registered investment companies, corporate notes, real estate investment trusts, and certificates of deposit.

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Pledges receivable represent promises to give which have been made by donors but are unpaid as of August 31 of each year and consist primarily of unconditional pledges from individuals, corporations, and foundations. Pledges receivable are recorded net of an allowance for uncollectible pledges and are also recorded net of a discount to present value applied to the long-term portion of any multi-year pledge. The discount rate used is an estimate made by management and represents a risk-free rate of return that ranges from 3.32 percent to 3.50 percent as of August 31, 2022, and from 0.07 percent to 0.77 percent as of August 31, 2021, depending on the life of the pledge. The discount is amortized over the term of the pledge, and amortization is recorded as contribution revenue. Management determines the allowance based on historical experience and an analysis of specific accounts. Uncollectible accounts are written off in the year they are deemed to be worthless.

Tuition Receivable

Tuition receivable represents uncollateralized customer obligations due under normal trade terms and consists of amounts due from schools and students for music education classes. Merit recognizes an allowance for losses on tuition receivable in an amount equal to the estimated probable losses, net of recoveries. The allowance is based on an analysis of historical experience and expected future collections, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The allowance for doubtful accounts as of August 31, 2022 and 2021 was $55,229 and $34,515, respectively, and was based on estimates made by management and Merit's historical collection experience.

Investments

Merit's investments are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

Merit's investments in common stocks and registered investment companies traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation. Merit's investments in corporate notes, real estate investment trusts, and certificates of deposit are traded on a national securities exchange or market and are valued at the mean between the current "bid" and "asked" quotation on that day.

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

Purchases and sales of investments are reflected on a trade-date basis. Gains and losses on sales of securities are based on average costs. Dividend income is recorded on the ex-dividend date. Net appreciation and depreciation include gains and losses on investments bought and sold, as well as held, during the year. Realized gains and losses represent the difference between the proceeds received and the cost of investments sold. Unrealized gains and losses represent the change in the fair value of investments during the year. Investment income, as well as realized and unrealized gains and losses, are reported as increases or decreases in net assets and are reflected as changes in net assets without donor restrictions or net assets with donor restrictions, as appropriate.

Investments received as contributions of $188,018 and $177,514 for the years ended August 31, 2022 and 2021, respectively, are recorded at fair value, which is based upon quoted market prices and which is the basis for the amount of contribution revenue recognized by Merit.

Annuity Contract Obligation

Merit has entered into a charitable remainder annuity trust agreement in 2006. Upon the issuance of the annuity, a liability was recorded at the present value of the estimated future payments to be made to the annuitants, and revenue was recognized to the extent the amount of the annuity gift received exceeded the computed liability. The liability portion of the annuity was computed using discount rates established by the Internal Revenue Service ("IRS"), which approximated market rates. The difference between the amount of annuity and the computed liability, representing the gift portion, was recorded as revenue with donor restrictions.

The present value discount used at the time the annuity was issued was based on IRS regulations, and the rate paid the annuitants was based on the ages of the annuitants. Each year, payments to the annuitants are recorded as a reduction of the liability. In addition, the liability is adjusted at the end of each fiscal year for the recomputed present value of estimated future payments, using a discount rate determined by management. Upon the death of the annuitant, which occurred subsequent to August 31, 2022, the residual remains the property of Merit.

Reclassifications

Certain reclassifications have been made to the accompanying financial statements as of, and for the year ended, August 31, 2022 to conform to classifications used as of, and for the year ended, August 31, 2021.

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Merit has evaluated subsequent events through January 27, 2023, the date that the accompanying financial statements were available to be issued.

NOTE B — NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available as of August 31, 2022 and 2021 for the following purposes or periods:

	2022	2021
Restricted for specific purposes:		
Andrew W. Mellon Foundation grant	$ 2,583,369	$ 1,724,600
Programming	743,530	817,702
Scholarships (including accumulated earnings in Scholarship Fund of $23,560)	160,560	119,560
Special events	45,000	60,000
Charitable remainder annuity trust	32,448	11,036
Building projects	304	304
	3,565,211	2,733,202
Investment in perpetuity (see Note C):		
Joy Faith Knapp Endowment Fund	4,000,000	4,000,000
General Purposes Fund	1,746,659	1,746,659
Scholarship Fund	178,000	178,000
	5,924,659	5,924,659
Restricted for use in future periods	704,125	839,728
	$ 10,193,995	**$ 9,497,589**

NOTE B — NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

The Joy Faith Knapp Charitable Trust previously contributed $4 million to Merit to establish an endowment fund. To recognize and honor the contribution, Merit named the facility at 38 South Peoria in Chicago the Joy Faith Knapp Music Center.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, as follows:

	2022	2021
Purpose restrictions accomplished for the following purposes:		
Andrew W. Mellon Foundation grant	$ 1,068,128	$ 1,040,939
Programming	432,172	324,672
Scholarships	32,000	28,000
Special events	60,000	40,000
	1,592,300	1,433,611
Time restrictions expired by passage of specified time	430,000	489,113
	$ 2,022,300	**$ 1,922,724**

NOTE C — ENDOWMENT FUNDS

Merit's endowment funds are comprised of contributions from donors for the creation of Merit's permanent endowment, consisting of the Joy Faith Knapp Endowment Fund, the General Purposes Fund, and the Scholarship Fund. Income from the Joy Faith Knapp Endowment Fund and the General Purposes Fund is available for general operations, while the income from the Scholarship Fund is restricted for scholarships. In addition, certain net assets without donor restrictions which are subject to the oversight of Merit's Board of Trustees (the "Board") are also included in Merit's endowment funds. All endowment assets are invested in Merit's investment portfolio. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE C — ENDOWMENT FUNDS (CONTINUED)

The endowment funds are classified as follows as of August 31, 2022 and 2021:

	2022	2021
With donor restrictions:		
Investment in perpetuity	$ 5,924,659	$ 5,924,659
Scholarships	23,560	23,560
	5,948,219	5,948,219
Without donor restrictions:		
Board-designated	11,885,297	14,685,999
	$ 17,833,516	**$ 20,634,218**

Reconciliations of the fair value of the assets in the endowment funds for the years ended August 31, 2022 and 2021 are as follows:

	With Donor Restrictions	Without Donor Restrictions	Total
2022			
Changes in Endowment Fund Assets:			
Contributions	$ -0-	$ 220,000	$ 220,000
Investment losses	(691,408)	(1,569,269)	(2,260,677)
Transfer of investment losses to operations, as stipulated by donors	691,408	(691,408)	-0-
Less:			
Endowment distributions		(690,000)	(690,000)
Board-designated expenditures		(70,025)	(70,025)
Change in Endowment Fund Assets	**-0-**	**(2,800,702)**	**(2,800,702)**
Endowment Fund Assets, Beginning of Year	5,948,219	14,685,999	20,634,218
Endowment Fund Assets, End of Year	**$ 5,948,219**	**$ 11,885,297**	**$ 17,833,516**

NOTE C — ENDOWMENT FUNDS (CONTINUED)

	With Donor Restrictions	Without Donor Restrictions	Total
2021			
Changes in Endowment Fund Assets:			
Contributions	$ -0-	$ 25,018	$ 25,018
Investment earnings	1,664,237	1,800,913	3,465,150
Net assets released from restrictions	(11,161)	11,161	-0-
Transfer of investment earnings to operations, as stipulated by donors	(1,653,076)	1,653,076	-0-
Less:			
Endowment distributions		(630,000)	(630,000)
Board-designated expenditures		(29,500)	(29,500)
Change in Endowment Fund Assets	**-0-**	**2,830,668**	**2,830,668**
Endowment Fund Assets, Beginning of Year	5,948,219	11,855,331	17,803,550
Endowment Fund Assets, End of Year	**$ 5,948,219**	**$ 14,685,999**	**$ 20,634,218**

For the years ended August 31, 2022 and 2021, the permanent endowment's share of the total investment gain (loss) earned by Merit's investment portfolio was $(691,408) and $1,664,237, respectively. These investment gains and losses are included in net investment gains and losses in the statements of activities.

Merit follows the Illinois Uniform Prudent Management of Institutional Funds Act (the "Illinois UPMIFA"). The Board has interpreted the Illinois UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Merit classifies in net assets with donor restrictions (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 was added to the fund. The remaining portion of the donor-restricted endowment funds that is not required to be held in perpetuity is classified in net assets with donor restrictions until those amounts are appropriated for expenditure by Merit in a manner consistent with the standard of prudence prescribed by the Illinois UPMIFA.

NOTE C — ENDOWMENT FUNDS (CONTINUED)

In accordance with the Illinois UPMIFA, Merit considers the following factors in making a determination to appropriate or accumulate earnings on its donor-restricted endowment funds:

- The duration and preservation of the funds
- The purpose of Merit and the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Merit
- The investment policies of Merit

The Investment Committee of the Board, which oversees the investment portfolio of Merit with the assistance of Merit's investment consultants, operates under an investment policy that attempts to provide a predictable stream of income and investment returns. Under these policies, the endowment assets are invested. To satisfy its long-term rate of return objectives, Merit relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Merit targets a diversified asset allocation that may place a greater emphasis on equity-based and fixed income-based investments to achieve its long-term return objectives within prudent risk constraints. The 4.5 percent annual distribution (under the spending policy) on the investment portfolio of Merit is attributable to the endowment assets, as these assets are pooled with the assets without donor restrictions within the investment portfolio. During the years ended August 31, 2022 and 2021, all investment earnings (realized and unrealized) from the permanent endowment were appropriately transferred into net assets without donor restrictions and other net assets with donor restrictions, based upon donor stipulations.

From time to time, the fair value of assets associated with the endowment funds may fall below the level that the donors or the Illinois UPMIFA require Merit to retain as funds of perpetual duration. This deficiency would result from unfavorable market fluctuations, the timing of new contributions received, and continued appropriations from the permanent endowment. Deficiencies of this nature would be reported in net assets with or without donor restrictions, depending on the existence of any donor restrictions applicable to the investment earnings of the permanent gifts. There were no deficiencies within the funds for the years ended August 31, 2022 or 2021.

NOTE C — ENDOWMENT FUNDS (CONTINUED)

Merit's policy is to preserve the historical dollar value of contributions to be held in perpetuity and to use any of the investment returns as is prudent, taking into consideration donor restrictions for the usage of investment earnings.

NOTE D — BOARD-DESIGNATED FUNDS

The following is a description of the composition of Merit's Board-designated funds included in net assets without donor restrictions:

Gifts with No Restrictions

The Board has designated certain net assets as being available for investment purposes. These assets are derived from contributions without restrictions from donors. From these assets, the Board authorized an annual 4.5 percent distribution to support current operations. The annual distributions for the years ended August 31, 2022 and 2021 are $690,000 and $630,000, respectively.

Named Scholarship Gifts

Named scholarship gifts result from contributions received in honor or in memory of an individual, from which the Board has designated the income earned to be used to fund scholarships in the honoree's name. The named scholarship gift balances include accumulated investment income earned on the gifts.

A summary of Board-designated net assets is as follows as of August 31, 2022 and 2021:

	2022	2021
Gifts with no restrictions	$ 10,778,392	$ 13,382,991
Named scholarship gifts	1,106,905	1,303,008
	$ 11,885,297	**$ 14,685,999**

NOTE E — PLEDGES RECEIVABLE

Pledges receivable consist of the following as of August 31, 2022 and 2021:

	2022	2021
Amounts due in:		
Less than one year	$ 1,389,900	$ 761,310
One to five years	203,000	464,000
	1,592,900	1,225,310
Less:		
Allowance for doubtful pledges	-0-	(163,757)
Unamortized discount	(31,123)	(1,544)
	$ 1,561,777	**$ 1,060,009**

Conditional promises to receive are recognized when the conditions on which they depend are substantially met. As of August 31, 2022, Merit had a conditional promise to receive of $250,000, subject to Merit increasing both its individual and its foundation support to $1 million or more per year in each category by December 31, 2023.

NOTE F — INVESTMENTS AND FAIR VALUE

Merit's fair value hierarchy for those assets and liabilities that are measured at fair value on a recurring basis as of August 31, 2022 and 2021 are summarized as follows:

	Fair Value Measurements			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2022				
Assets:				
Investments at fair value:				
Common stocks:				
Manufacturing	$ 3,340,627	$ -0-	$ -0-	$ 3,340,627
Services	1,950,725			1,950,725
Retail	828,191			828,191
Other	2,035,683			2,035,683
	8,155,226	-0-	-0-	8,155,226
Registered investment companies:				
Equity funds	3,496,392			3,496,392
Bond funds	4,479,952			4,479,952
	7,976,344	-0-	-0-	7,976,344
Other investments:				
Corporate notes		12,454		12,454
Real estate investment trusts		190,538		190,538
Certificates of deposit		750,000		750,000
	-0-	952,992	-0-	952,992
	$ 16,131,570	**$ 952,992**	**$ -0-**	**$ 17,084,562**
Liabilities:				
Annuity contract obligation	$ -0-	$ 11,607	$ -0-	$ 11,607

NOTE F — INVESTMENTS AND FAIR VALUE (CONTINUED)

	Fair Value Measurements			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
2021				
Assets:				
Investments at fair value:				
Common stocks:				
Manufacturing	$ 3,671,230	$ -0-	$ -0-	$ 3,671,230
Services	2,629,709			2,629,709
Retail	1,035,264			1,035,264
Other	2,164,043			2,164,043
	9,500,246	-0-	-0-	9,500,246
Registered investment companies:				
Equity funds	5,543,642			5,543,642
Bond funds	3,779,796			3,779,796
	9,323,438	-0-	-0-	9,323,438
Other investments:				
Corporate notes		14,108		14,108
Real estate investment trusts		233,736		233,736
Certificates of deposit		750,000		750,000
	-0-	997,844	-0-	997,844
	$ 18,823,684	**$ 997,844**	**$ -0-**	**$ 19,821,528**
Liabilities:				
Annuity contract obligation	$ -0-	$ 45,626	$ -0-	$ 45,626

NOTE G — FIXED ASSETS

Fixed assets as of August 31, 2022 and 2021 consist of the following:

	2022	2021
Land	$ 4,450,000	$ 4,450,000
Buildings and improvements	5,844,917	5,778,891
Furniture and fixtures	493,142	493,142
Office equipment	688,571	669,197
Musical instruments and equipment	1,982,023	1,853,679
Construction in progress	26,421	2,879
	13,485,074	13,247,788
Less: Accumulated depreciation	(5,302,510)	(4,941,765)
	$ 8,182,564	**$ 8,306,023**

NOTE H — LINE OF CREDIT

Merit has a revolving $750,000 line of credit with a maturity date of March 28, 2023. The interest rate as of August 31, 2022 and 2021 was 5.5 percent and 2.5 percent, respectively. No balance was outstanding as of August 31, 2022 or 2021, and there were no borrowings during the years ended August 31, 2022 or 2021.

NOTE I — LEASES

Merit leases office equipment under a capital lease which expires in April 2023. Future minimum lease payments are as follows as of August 31, 2022:

For the year ending August 31, 2023	$ 13,492
Less: Amount representing interest	(250)
Present Value of Net Minimum Lease Payments	**$ 13,242**

NOTE I — LEASES (CONTINUED)

Merit rented out part of its building to other parties. Building rental income is $62,708 and $18,636 for the years ended August 31, 2022 and 2021, respectively. These leases have expired as of August 31, 2022, except for one lease that expires on August 31, 2023. Future minimum income under this lease is $39,000 for the year ending August 31, 2023.

NOTE J — PAYCHECK PROTECTION PROGRAM LOANS

On March 27, 2020, Merit received a loan of $814,593 from a bank under the U.S. Small Business Administration's Paycheck Protection Program ("PPP"), pursuant to Sections 1102 and 1106 of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). Under Section 1106 of the CARES Act, some or all of the loan may be forgiven for payroll costs, interest, rent, and utilities incurred or paid during the 24-week period beginning on the date the loan was made, subject to certain conditions. Merit submitted its application for forgiveness of the entire loan balance to the bank, and was granted full forgiveness in November 2020.

On February 3, 2021, Merit received a second PPP loan of $836,420 from a bank. Under Section 1106 of the CARES Act, some or all of this loan may be forgiven for payroll costs, interest, rent, and utilities incurred or paid during a specified period beginning on the date the loan was made, subject to certain conditions. Merit submitted its forgiveness application to the bank, and was granted full forgiveness in March 2022.

As such, the total loan amounts have been recorded as a gain on forgiveness of debt on the accompanying financial statements for the years ended August 31, 2022 and 2021.

NOTE K — RETIREMENT PLAN

Merit provides retirement benefits for eligible employees through a 401(k) plan. This plan is designed as a qualified cash deferral arrangement pursuant to the IRC and provides for both participant-directed and employer contributions. Participant-directed contributions are made by Merit at the direction of each participant and are deducted from the participant's direct compensation. The aggregate annual amount of each individual participant-directed contribution is subject to federal dollar limits. Merit makes a safe harbor contribution of three percent, based upon each participant's base compensation, as specified in the 401(k) plan agreement. To be eligible to participate in the 401(k) plan, an employee must be at least 21 years of age and have at least one year of service. Participants are immediately vested in their participant-directed contributions and their safe harbor contributions received from Merit, including all related earnings thereon. For the years ended August 31, 2022 and 2021, employer contributions to the 401(k) plan totaled $89,012 and $90,710, respectively.

NOTE L — IN-KIND CONTRIBUTIONS

Merit occasionally receives contributions of music instruments and tickets for performances, which are then held for auction. Such in-kind contributions, when received, are valued using estimated average prices of identical or similar products, considering the utility of the goods at the time of the contribution. No material in-kind contributions were received during the years ended August 31, 2022 or 2021.

NOTE M — LIQUIDITY AND AVAILABILITY OF RESOURCES

Merit has the following financial assets available for general expenditures within one year as of August 31, 2022 and 2021:

	2022	2021
Financial Assets:		
Cash and cash equivalents	$ 5,126,727	$ 4,761,397
Pledges receivable – current portion	1,389,900	611,308
Tuition receivable	355,052	261,493
Investments	17,084,562	19,821,528
Total Financial Assets	**23,956,241**	**25,455,726**
Less:		
Assets with donor restrictions	(10,193,995)	(9,497,589)
Board-designated assets	(11,885,297)	(14,685,999)
Financial Assets Available to Meet General Expenditures within One Year	**$ 1,876,949**	**$ 1,272,138**

Merit has certain donor-restricted assets that are to be used for specific purposes, as well as assets which are designated by the Board for long-term purposes. Therefore, these assets are not considered to be available for general expenditures within the next year. Merit maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of a liquidity need outside of budgeted operations, the Board-designated assets would be available for general expenditures upon approval by the Board. Merit also has a line of credit that is available for general operations, with a limit of $750,000 (see Note H).

NOTE N — CONTINGENCIES

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date that the accompanying financial statements were available to be issued. As such, it is uncertain as to the full magnitude that the pandemic will have on Merit's financial condition, liquidity, and future results of operations. Merit's operations are dependent on private and public donations from individuals, foundations, and corporations, as well as student fees, school contracts, and grants from governmental agencies. The COVID-19 outbreak may have a continued impact on economic and market conditions.

As of the date of issuance of the financial statements, Merit's operations have not been significantly impacted, but Merit's management continues to monitor the situation.

NOTE O — NEW ACCOUNTING PRONOUNCEMENTS

The FASB issued ASU 2016-02, *Leases (Topic 842)*, in February 2016. ASU 2016-02 requires the recognition by lessees of assets and liabilities that arise from all lease transactions, except for leases with a lease term of 12 months or less. The lessee accounting model under ASU 2016-02 retains two types of leases: finance leases, which are to be accounted for in substantially the same manner as the existing accounting for capital leases, and operating leases, which are to be accounted for (both in the statement of activities and the statement of cash flows) in a manner consistent with existing accounting for operating leases. The lessor accounting model under ASU 2016-02 is largely unchanged from the existing accounting for leases by lessors, but some technical changes have been made to conform to the updated revenue recognition guidance. ASU 2016-02 also requires expanded qualitative and quantitative disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 applies to Merit's financial statements for the year ending August 31, 2023, with earlier implementation permitted. Merit's management has not determined the impact on its financial statements as a result of implementing ASU 2016-02.