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

FINANCIAL STATEMENTS

August 31, 2024 and 2023

GJC

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

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INDEPENDENT AUDITOR'S REPORT

January 29, 2025

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 statements of financial position as of August 31, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the years 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, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis for Opinion

We conducted our audits 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 audits. 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, 2023, Merit has adopted the provisions contained in Accounting Standards Update 2016-13, *Measurement of Credit Losses on Financial Instruments*. Our opinion is not modified with respect to that matter.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. *Reasonable assurance* is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with 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.

- 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

- 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, 2024 and 2023

	2024	2023
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 5,266,071	$ 5,072,555
Pledges receivable – current portion (Note E)	4,384,416	1,986,417
Tuition receivable, net (Note A)	812,814	850,111
Total Current Assets	**10,463,301**	**7,909,083**
Other Assets:		
Investments (Note F)	23,552,326	18,758,204
Fixed assets, net (Note G)	8,192,409	7,949,771
Pledges receivable (net of current portion) (Note E)	565,142	1,241,931
Goodwill (Note H)	116,000	-0-
Other assets	79,542	140,500
Total Other Assets	**32,505,419**	**28,090,406**
Total Assets	**$ 42,968,720**	**$ 35,999,489**

See notes to financial statements.

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

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

August 31, 2024 and 2023

	2024	2023
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 35,157	$ 33,432
Accrued expenses	260,612	267,497
Deferred tuition revenue	1,041,867	954,641
Business acquisition payable – current portion (Note H)	80,000	-0-
Total Current Liabilities	**1,417,636**	**1,255,570**
Long-Term Liabilities:		
Business acquisition payable (net of current portion) (Note H)	20,000	-0-
Total Liabilities	**1,437,636**	**1,255,570**
Net Assets:		
Net assets without donor restrictions:		
Board-designated (Note D)	20,552,486	15,333,855
Undesignated	6,630,544	7,227,751
Total Net Assets without Donor Restrictions	27,183,030	22,561,606
Net assets with donor restrictions (Note B)	14,348,054	12,182,313
Total Net Assets	**41,531,084**	**34,743,919**
Total Liabilities and Net Assets	**$ 42,968,720**	**$ 35,999,489**

See notes to financial statements.

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

STATEMENTS OF ACTIVITIES

For the Years Ended August 31, 2024 and 2023

	2024			**2023**		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Revenue and Gains:						
Public support:						
Contributions	$ 4,375,376	$ 3,576,982	$ 7,952,358	$ 2,548,339	$ 3,721,825	$ 6,270,164
Government grants	71,000		71,000	72,073		72,073
In-kind contributions (Note I)	106,279		106,279			-0-
Fundraising events (net of expenses of $227,192 and $203,202 in 2024 and 2023, respectively)	1,062,051	115,000	1,177,051	1,022,196	65,000	1,087,196
Total Public Support	5,614,706	3,691,982	9,306,688	3,642,608	3,786,825	7,429,433
Program service revenue:						
Student fees (net of $626,883 and $683,402 in financial aid in 2024 and 2023, respectively)	1,700,531		1,700,531	1,463,704		1,463,704
School contracts	494,809		494,809	408,489		408,489
Total Program Service Revenue	2,195,340	-0-	2,195,340	1,872,193	-0-	1,872,193
Other revenue and gains:						
Rental and other income (Note J)	201,056		201,056	158,707		158,707
Net investment gain	3,557,628		3,557,628	1,445,954	66,228	1,512,182
Total Other Revenue and Gains	3,758,684	-0-	3,758,684	1,604,661	66,228	1,670,889
Net assets released from restrictions (Note B)	1,526,241	(1,526,241)	-0-	1,864,735	(1,864,735)	-0-
Total Revenue and Gains	**$ 13,094,971**	**$ 2,165,741**	**$ 15,260,712**	**$ 8,984,197**	**$ 1,988,318**	**$ 10,972,515**

See notes to financial statements.

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

STATEMENTS OF ACTIVITIES (CONTINUED)

For the Years Ended August 31, 2024 and 2023

	2024			2023		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Expenses:						
Program services	$ 6,679,446	$ -0-	$ 6,679,446	$ 6,103,536	$ -0-	$ 6,103,536
Supporting services:						
Administration	1,140,284		1,140,284	977,863		977,863
Development	653,817		653,817	564,362		564,362
Total Expenses	**8,473,547**	**-0-**	**8,473,547**	**7,645,761**	**-0-**	**7,645,761**
Change in Net Assets	**4,621,424**	**2,165,741**	**6,787,165**	**1,338,436**	**1,988,318**	**3,326,754**
Net Assets, Beginning of Year	22,561,606	12,182,313	34,743,919	21,223,170	10,193,995	31,417,165
Net Assets, End of Year	**$ 27,183,030**	**$ 14,348,054**	**$ 41,531,084**	**$ 22,561,606**	**$ 12,182,313**	**$ 34,743,919**

See notes to financial statements.

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

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2024
(With Comparative Totals for the Year Ended August 31, 2023)

	2024								
	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	$ 684,050	$ 943,954	$ 530,138	$ 1,686,014	$ 164,747	$ 103,580	$ 525,390	$ 355,623	$ 4,993,496
Program expenses	97,504	100,690	56,374	37,641	11,379	12,218	32,866	203,140	551,812
Office expenses	30,383	17,289	20,453	20,550	11,678	5,869	55,525	7,274	169,021
Marketing expenses	8,436	11,851	13,498	10,123	11,810	6,749		1,149	63,616
Maintenance and operations	88,804	22,302	44,245	50,554	16,318	14,309	29,773		266,305
Outside services	31,831	62,005	18,859	57,863	7,330	5,671	16,560	16,279	216,398
Financial expenses	9,219	8,850	17,820	42,073	9,060	4,954	10,472		102,448
Depreciation and amortization	75,829	45,644	40,014	45,146	15,572	12,789	79,507		314,501
Miscellaneous expenses							621	1,228	1,849
Total Expenses	**$ 1,026,056**	**$ 1,212,585**	**$ 741,401**	**$ 1,949,964**	**$ 247,894**	**$ 166,139**	**$ 750,714**	**$ 584,693**	**$ 6,679,446**

	2024			Total Expenses	
	Supporting Services				
	Administration	Development	Total Supporting Services	2024	2023
Compensation and staff-related expenses	$ 905,724	$ 506,063	$ 1,411,787	$ 6,405,283	$ 5,853,756
Program expenses				551,812	482,063
Office expenses	54,743	53,663	108,406	277,427	256,940
Marketing expenses	22,690	703	23,393	87,009	78,055
Maintenance and operations	22,068	5,761	27,829	294,134	273,212
Outside services	92,854	57,540	150,394	366,792	188,532
Financial expenses	20,696	20,199	40,895	143,343	126,258
Depreciation and amortization	20,252	8,134	28,386	342,887	386,072
Miscellaneous expenses	1,257	1,754	3,011	4,860	873
Total Expenses	**$ 1,140,284**	**$ 653,817**	**$ 1,794,101**	**$ 8,473,547**	**$ 7,645,761**

See notes to financial statements.

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

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2023

	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	$ 595,918	$ 934,805	$ 503,349	$ 1,368,791	$ 191,441	$ 114,723	$ 472,114	$ 376,269	$ 4,557,410
Program expenses	80,564	72,129	21,763	15,248	4,728	1,428	43,080	243,123	482,063
Office expenses	20,302	16,412	23,589	23,613	11,785	8,576	50,995	9,976	165,248
Marketing expenses	4,632		19,739	15,692	11,718	4,688	10,000	148	66,617
Maintenance and operations	83,191	21,125	41,910	47,886	15,457	13,554	22,450		245,573
Outside services	12,949	27,409	12,938	18,822	8,414	5,869	20,831	28,401	135,633
Financial expenses	8,705	8,356	17,445	38,073	5,571	4,789	10,794		93,733
Depreciation and amortization	69,979	47,748	38,094	42,790	15,095	12,125	131,428		357,259
Total Expenses	**$ 876,240**	**$ 1,127,984**	**$ 678,827**	**$ 1,570,915**	**$ 264,209**	**$ 165,752**	**$ 761,692**	**$ 657,917**	**$ 6,103,536**

	Supporting Services			
	Administration	Development	Total Supporting Services	Total Expenses
Compensation and staff-related expenses	$ 816,363	$ 479,983	$ 1,296,346	$ 5,853,756
Program expenses				482,063
Office expenses	47,227	44,465	91,692	256,940
Marketing expenses	11,438		11,438	78,055
Maintenance and operations	22,182	5,457	27,639	273,212
Outside services	44,366	8,533	52,899	188,532
Financial expenses	15,313	17,212	32,525	126,258
Depreciation and amortization	20,101	8,712	28,813	386,072
Miscellaneous expenses	873		873	873
Total Expenses	**$ 977,863**	**$ 564,362**	**$ 1,542,225**	**$ 7,645,761**

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2024 and 2023

	2024	2023
Cash Flows from Operating Activities:		
Change in net assets	$ 6,787,165	$ 3,326,754
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	342,887	386,072
Net realized and unrealized gain on investments	(2,861,725)	(975,279)
Contributions of donated stock	(299,298)	(172,976)
Changes in:		
Pledges receivable	(1,721,210)	(1,666,571)
Tuition receivable	37,297	(497,071)
Other assets	60,958	(43,013)
Accounts payable	1,725	(54,047)
Accrued expenses	(6,885)	30,925
Deferred tuition revenue	87,226	314,549
Annuity contract obligation	-0-	(11,607)
Net Cash Flows from Operating Activities	**2,428,140**	**637,736**
Cash Flows from Investing Activities:		
Acquisition of fixed assets	(576,525)	(153,279)
Payments on acquisition of business	(25,000)	-0-
Acquisition of investments	(2,669,493)	(3,534,241)
Proceeds received on disposition of investments	1,036,394	3,008,854
Net Cash Flows from Investing Activities	**(2,234,624)**	**(678,666)**
Cash Flows from Financing Activities:		
Payments on finance lease liabilities	-0-	(13,242)
Net Cash Flows from Investing Activities	**-0-**	**(13,242)**
Change in Cash and Cash Equivalents	**193,516**	**(54,172)**
Cash and Cash Equivalents, Beginning of Year	5,072,555	5,126,727
Cash and Cash Equivalents, End of Year	**$ 5,266,071**	**$ 5,072,555**
Schedule of Noncash Transactions:		
Financing of business acquisition	$ 100,000	$ -0-

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 June 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-13, *Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 replaces the previous incurred loss impairment methodology for financial instruments, including accounts and notes receivable, with a methodology that reflects expected credit losses. Under ASU 2016-13, consideration of a broader range of reasonable and supportable information, including forecasts, are required to develop credit loss estimates (previously the allowance for doubtful accounts). The new methodology measures impairment of financial instruments, including accounts and notes receivable, and may result in earlier recognition of credit losses than under previous accounting. Promises to receive (contributions or pledges receivable) are excluded from the scope of this standard. The adoption of ASU 2016-13 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.

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.

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

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, 2024 or 2023.

Advertising

Merit's advertising costs are expensed as incurred. Advertising expenses totaled $67,020 and $64,917 for the years ended August 31, 2024 and 2023, respectively.

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.

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

- 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

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

Fair Value Measurements (continued)

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.

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.

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

Revenue Recognition (continued)

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, 2024 approximated $4,409,000; 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, 2024 and 2023, approximately 39 percent and 88 percent, respectively, of total pledges receivable were receivable from two donors. 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, and real estate investment trusts.

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.

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

Pledges Receivable (continued)

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 3.91 percent to 4.89 percent as of August 31, 2024, and from 4.85 percent to 5.48 percent as of August 31, 2023, 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 credit 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 credit losses as of August 31, 2024 and 2023 was $55,229, 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.

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.

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

Investments (continued)

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 $299,298 and $172,976 for the years ended August 31, 2024 and 2023, 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.

Leases

Merit recognizes right-of-use assets and lease liabilities for virtually all leases. Leases are categorized as either finance leases or operating leases.

At contract inception, Merit determines whether a contract is or contains a lease, based on whether Merit has the right to control the asset during the contract period, and whether the lease should be classified as a finance lease or an operating lease. Merit’s leasing arrangements do not contain any non-lease components. Merit does not enter into any leases with a defined borrowing rate, so Merit uses the incremental borrowing rate to measure its right-of-use assets and lease liabilities. The incremental borrowing rate is the rate that Merit would have to pay to borrow, on a collateralized basis over a similar term, amounts equal to the lease payments in a comparable economic environment.

Merit has elected not to recognize right-of-use assets or lease liabilities for leases that have an initial term of 12 months or less; Merit recognizes lease expense for these leases on a straight-line basis over the lease term.

Goodwill

Merit recorded goodwill related to the acquisition of the Suzuki Music School of Lincoln Park (“Suzuki”) (see Note H). Merit has elected to amortize its existing goodwill of $116,000 over five years. If a triggering event were to occur, Merit would perform an impairment test at the reporting unit level.

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

Subsequent Events

Merit has evaluated subsequent events through January 29, 2025, 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, 2024 and 2023 for the following purposes or periods:

	2024	2023
Restricted for specific purposes:		
Chicago Musical Pathways Initiative	$ 2,688,610	$ 2,107,159
Programming	559,819	593,858
Scholarships (including accumulated earnings in Scholarship Fund of $23,560)	190,560	103,800
Special events	115,000	65,000
Charitable remainder annuity trust	21,881	32,448
Building projects	304	304
	3,576,174	2,902,569
Investment in perpetuity (see Note C):		
Joy Faith Knapp Endowment Fund	4,000,000	4,000,000
Negaunee Foundation Endowment Fund	3,000,000	3,000,000
General Purposes Fund	2,746,659	1,746,659
Scholarship Fund	228,000	178,000
	9,974,659	8,924,659
Restricted for use in future periods	797,221	355,085
	$ 14,348,054	**$ 12,182,313**

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:

	2024	2023
Purpose restrictions accomplished for the following purposes:		
Chicago Musical Pathways Initiative	$ 662,927	$ 705,585
Programming	427,039	478,172
Special events	65,000	45,000
Scholarships	56,240	95,000
	1,211,206	1,323,757
Time restrictions expired by passage of specified time	315,035	540,978
	$ 1,526,241	**$ 1,864,735**

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 Negaunee Foundation 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 Negaunee Foundation Endowment Fund is restricted for financial aid, and 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, 2024 and 2023:

	2024	2023
With donor restrictions:		
Investment in perpetuity	$ 9,974,659	$ 8,924,659
Scholarships	23,560	23,560
	9,998,219	8,948,219
Without donor restrictions:		
Board-designated	20,552,486	15,333,855
	$ 30,550,705	**$ 24,282,074**

Reconciliations of the fair value of the assets in the endowment funds for the years ended August 31, 2024 and 2023 are as follows:

	With Donor Restrictions	Without Donor Restrictions	Total
2024			
Changes in Endowment Fund Assets:			
Contributions	$ 1,050,000	$ 2,897,955	$ 3,947,955
Investment earnings	1,576,095	1,726,731	3,302,826
Transfer of investment earnings to operations, as stipulated by donors	(1,576,095)	1,423,038	(153,057)
Less:			
Endowment distributions		(763,800)	(763,800)
Board-designated expenditures		(65,293)	(65,293)
Change in Endowment Fund Assets	**1,050,000**	**5,218,631**	**6,268,631**
Endowment Fund Assets, Beginning of Year	8,948,219	15,333,855	24,282,074
Endowment Fund Assets, End of Year	**$ 9,998,219**	**$ 20,552,486**	**$ 30,550,705**

NOTE C — ENDOWMENT FUNDS (CONTINUED)

	With Donor Restrictions	Without Donor Restrictions	Total
2023			
Changes in Endowment Fund Assets:			
Contributions	$ 3,000,000	$ 2,850,440	$ 5,850,440
Investment earnings	116,670	1,262,478	1,379,148
Transfer of investment earnings to operations, as stipulated by donors	(116,670)	116,670	-0-
Less:			
Endowment distributions		(745,200)	(745,200)
Board-designated expenditures		(35,830)	(35,830)
Change in Endowment Fund Assets	**3,000,000**	**3,448,558**	**6,448,558**
Endowment Fund Assets, Beginning of Year	5,948,219	11,885,297	17,833,516
Endowment Fund Assets, End of Year	**$ 8,948,219**	**$ 15,333,855**	**$ 24,282,074**

For the years ended August 31, 2024 and 2023, the permanent endowment's share of the total investment gain earned by Merit's investment portfolio was $1,576,095 and $116,670, respectively. These investment gains are included in net investment gains 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 Finance 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. Merit has a Controlled Growth Distribution Policy for its spending policy attributable to the investment portfolio. This methodology is intended to preserve principal while allowing for consistency in payouts, balancing both long-term and short-term objectives of both compounding returns and managing budgets. During the years ended August 31, 2024 and 2023, 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, 2024 or 2023.

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 annually authorizes between three and seven percent of the market value of these designated funds as of January 1 of that year as a distribution to support current operations. The annual distributions for the years ended August 31, 2024 and 2023 are $763,800 and $745,200, 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, 2024 and 2023:

	2024	2023
Gifts with no restrictions	$ 19,149,633	$ 14,154,244
Named scholarship gifts	1,402,853	1,179,611
	$ 20,552,486	**$ 15,333,855**

NOTE E — PLEDGES RECEIVABLE

Pledges receivable consist of the following as of August 31, 2024 and 2023:

	2024	2023
Amounts due in:		
Less than one year	$ 4,384,416	$ 1,986,417
One to five years	695,000	1,407,333
	5,079,416	3,393,750
Less: Unamortized discount	(129,858)	(165,402)
	$ 4,949,558	**$ 3,228,348**

Conditional promises to receive are recognized when the conditions on which they depend are substantially met. As of August 31, 2024, Merit had no conditional promises to receive.

NOTE F — INVESTMENTS AND FAIR VALUE

Merit's fair value hierarchy for those assets that are measured at fair value on a recurring basis as of August 31, 2024 and 2023 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
2024				
Assets:				
Investments at fair value:				
Registered investment companies:				
Equity funds	$ 5,374,682	$ -0-	$ -0-	$ 5,374,682
Bond funds	4,646,174			4,646,174
Money market funds	1,995,786			1,995,786
	$ 12,016,642	$ -0-	$ -0-	$ 12,016,642

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
2024 (continued)				
Assets (continued):				
Investments at fair value (continued):				
Common stocks:				
Communications	$ 1,258,991	$ -0-	$ -0-	$ 1,258,991
Consumer discretionary	1,282,658			1,282,658
Consumer staples	978,642			978,642
Financials	1,373,191			1,373,191
Health care	1,945,327			1,945,327
Industrials and business services	841,977			841,977
Information technology	3,001,483			3,001,483
Other	597,581			597,581
	11,279,850	-0-	-0-	11,279,850
Other investments:				
Corporate notes		11,097		11,097
Real estate investment trusts		244,737		244,737
	-0-	255,834	-0-	255,834
	$ 23,296,492	**$ 255,834**	**$ -0-**	**$ 23,552,326**
2023				
Assets:				
Investments at fair value:				
Registered investment companies:				
Equity funds	$ 3,717,372	$ -0-	$ -0-	$ 3,717,372
Bond funds	4,652,933			4,652,933
Money market funds	1,146,650			1,146,650
	$ 9,516,955	$ -0-	$ -0-	$ 9,516,955

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
2023 (continued)				
Assets (continued):				
Investments at fair value (continued):				
Common stocks:				
Communications	$ 1,023,577	$ -0-	$ -0-	$ 1,023,577
Consumer discretionary	1,088,066			1,088,066
Consumer staples	793,018			793,018
Financials	1,227,189			1,227,189
Health care	1,524,454			1,524,454
Industrials and business services	710,463			710,463
Information technology	2,101,930			2,101,930
Other	625,098			625,098
	9,093,795	-0-	-0-	9,093,795
Other investments:				
Corporate notes		11,464		11,464
Real estate investment trusts		135,990		135,990
	-0-	147,454	-0-	147,454
	$ 18,610,750	**$ 147,454**	**$ -0-**	**$ 18,758,204**

NOTE G — FIXED ASSETS

Fixed assets as of August 31, 2024 and 2023 consist of the following:

	2024	2023
Land	$ 4,450,000	$ 4,450,000
Buildings and improvements	6,401,783	5,925,841
Furniture and fixtures	493,142	493,142
Office equipment	652,482	638,578
Musical instruments and equipment	2,134,066	2,047,387
Construction in progress	12,000	3,000
	14,143,473	13,557,948
Less: Accumulated depreciation	(5,951,064)	(5,608,177)
	$ 8,192,409	**$ 7,949,771**

NOTE H — BUSINESS ACQUISITION

On August 30, 2024, Merit acquired 100 percent of the equity interest in Suzuki for a total purchase price of $125,000. Merit valued the assets acquired at their estimated fair value as of the acquisition date; no liabilities were assumed in this acquisition. The cash consideration transferred is payable in installments through August 30, 2027. The acquisition of Suzuki was accounted for under the acquisition method.

The following represents the estimated fair value of the assets acquired as of August 30, 2024, the acquisition date:

Consideration Transferred:	
Cash	$ 125,000
Assets Acquired:	
Musical instruments and equipment	$ 9,000
Goodwill	116,000
Net Assets Acquired	**$ 125,000**

NOTE H — BUSINESS ACQUISITION (CONTINUED)

The allocation of the purchase price to the assets acquired, including the residual amount recognized as goodwill, is based upon the terms of the asset purchase agreement.

Maturities of the business acquisition payable are as follows as of August 31, 2024:

For the Years Ending August 31:	
2025	$ 80,000
2026	10,000
2027	10,000
	$ 100,000

NOTE I — 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.

In-kind contributions, including the usage of those contributions, are summarized as follows for the years ended August 31, 2024 and 2023:

	2024	2023	Usage
Music instruments and tickets	$ 106,279	$ -0-	Program and supporting services

In-kind contributions were valued using estimated average prices of identical or similar products or services using pricing data of similar products or services under a "like-kind" methodology, considering the utility of the services and goods at the time of the contribution. No in-kind contributions were received with donor restrictions. Merit uses donated services and goods for its own program or supporting service activities.

NOTE J — LEASES

Merit rented out part of its building to other parties. Building rental income is $130,347 and $103,961 for the years ended August 31, 2024 and 2023, respectively. Future minimum income under these leases is $124,920 for the year ending August 31, 2025.

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, 2024 and 2023, employer contributions to the 401(k) plan totaled $107,241 and $107,212, respectively.

NOTE L — LIQUIDITY AND AVAILABILITY OF RESOURCES

Merit has the following financial assets available for general expenditures within one year as of August 31, 2024 and 2023:

	2024	2023
Financial Assets:		
Cash and cash equivalents	$ 5,266,071	$ 5,072,555
Pledges receivable – current portion	4,384,416	1,986,417
Tuition receivable	812,814	850,111
Investments	23,552,326	18,758,204
Total Financial Assets	**34,015,627**	**26,667,287**
Less:		
Assets with donor restrictions for specific purposes included in financial assets	(12,100,406)	(10,935,728)
Board-designated assets	(20,552,486)	(15,333,855)
Financial Assets Available to Meet General Expenditures within One Year	**$ 1,362,735**	**$ 397,704**

NOTE L — LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

Merit has certain donor-restricted assets included in financial 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.