



MIDWEST SPECIAL SERVICES, INC.

*FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REVIEW REPORT
DECEMBER 31, 2022 AND 2021*

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Midwest Special Services, Inc.
Saint Paul, Minnesota 55106

We have audited the accompanying financial statements of Midwest Special Services, Inc., d/b/a MSS, (a Minnesota not-for-profit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MSS as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MSS 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.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MSS's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MSS's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MSS's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Handwritten signature in cursive script that reads "Boyum & Barescheer PLLP".

Boyum & Barescheer PLLP
Minneapolis, Minnesota
April 25, 2023

MIDWEST SPECIAL SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION

| DECEMBER 31, | 2022 | 2021 |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 635,418 | \$ 1,137,289 |
| Board designated cash and cash equivalents for operating reserves | 1,627,150 | 10,285 |
| Investments held for operations | 41,251 | 41,087 |
| Accounts receivable, net | 769,506 | 580,913 |
| Contributions and grants receivable | 443,951 | 576,528 |
| Prepaid expenses and other | 222,261 | 196,125 |
| Total current assets | 3,739,537 | 2,542,227 |
| OTHER ASSETS | | |
| Investments designated for deferred compensation | 97,544 | 123,975 |
| Assets held for endowment | 1,615,784 | 1,836,294 |
| Land, buildings and equipment, net | 1,294,964 | 1,401,126 |
| ROU assets—operating | 747,350 | - |
| Total other assets | 3,755,642 | 3,361,395 |
| Total assets | \$ 7,495,179 | \$ 5,903,622 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Current portion of notes payable | \$ 36,058 | \$ 19,495 |
| Current portion of deferred compensation obligation | 4,520 | 12,687 |
| Accounts payable | 98,653 | 87,434 |
| Accrued liabilities | 442,272 | 498,964 |
| Operating lease liability—current | 335,808 | - |
| Total current liabilities | 917,311 | 618,580 |
| LONG TERM LIABILITIES | | |
| Notes payable, net of current portion | 733,895 | 168,605 |
| Deferred compensation obligation, net of current portion | - | 4,532 |
| Operating lease liability—noncurrent | 411,542 | - |
| Total long-term liabilities | 1,145,437 | 173,137 |
| Total liabilities | 2,062,748 | 791,717 |
| NET ASSETS | | |
| Net assets without donor restrictions | 3,284,065 | 2,958,154 |
| Net assets with donor restrictions | 2,148,366 | 2,153,751 |
| Total net assets | 5,432,431 | 5,111,905 |
| Total liabilities and net assets | \$ 7,495,179 | \$ 5,903,622 |

The Notes to the Financial Statements are an integral part of these statements.

MIDWEST SPECIAL SERVICES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31,

| | 2022 | | | | | 2021 | |
|---|-------------------------------------|------------------|------------------------|----------------------------|-------------------|---------------------|--|
| | Without Donor Restrictions | | | With Donor Restrictions | Totals | Totals | |
| | Hub Day & Employment Services | Day Services | Other Non-Operating | | | | |
| REVENUE | | | | | | | |
| Program Service Fees | \$ 796,057 | \$ 6,147,914 | \$ - | \$ - | \$ 6,943,971 | \$ 5,039,488 | |
| Supported Employment Site Revenue | 210,553 | 70,087 | - | - | 280,640 | 230,604 | |
| Vocation Rehab Service Fees | 195,828 | - | - | - | 195,828 | 157,636 | |
| Extended employment and wage equity | 292,141 | - | - | - | 292,141 | 157,950 | |
| Staff billings for leased staff | - | - | - | - | - | 77,613 | |
| Grants and contributions | 201,253 | 230,392 | - | 473,875 | 905,520 | 662,279 | |
| Government grants—PPP loan forgiveness | - | - | - | - | - | 1,247,000 | |
| Governmental emergency funding | 193,221 | 1,595,050 | - | - | 1,788,271 | 1,670,559 | |
| Interest and investment income (loss) | 5,510 | 17,493 | - | (273,900) | (250,897) | 171,545 | |
| Special event, net | - | - | 100,906 | - | 100,906 | 86,248 | |
| Deferred compensation investment income (loss) | - | - | (29,984) | - | (29,984) | 21,380 | |
| Miscellaneous income | 89,850 | 78,051 | - | - | 167,901 | 190,389 | |
| Released from restriction | 54,201 | 151,159 | - | (205,360) | - | - | |
| Total revenue | 2,038,614 | 8,290,146 | 70,922 | (5,385) | 10,394,297 | 9,712,691 | |
| EXPENSES | | | | | | | |
| Program services | 1,592,036 | 6,969,735 | - | - | 8,561,771 | 7,250,666 | |
| Supporting services: | | | | | | | |
| Management and general | 257,853 | 1,085,698 | - | - | 1,343,551 | 1,249,353 | |
| Fundraising | 32,329 | 136,121 | - | - | 168,450 | 179,570 | |
| Total expenses | 1,882,217 | 8,191,554 | - | - | 10,073,771 | 8,679,589 | |
| Increase (decrease) in net assets | \$ 156,397 | \$ 98,592 | \$ 70,922 | \$ (5,385) | \$ 320,526 | \$ 1,033,102 | |

The Notes to the Financial Statements are an integral part of these statements.

MIDWEST SPECIAL SERVICES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2021

| | Without Donor Restrictions | | | With Donor Restrictions | Totals |
|--|-------------------------------------|--------------------|------------------------|----------------------------|---------------------|
| | Hub Day & Employment Services | Day Services | Other Non-Operating | | |
| | REVENUE | | | | |
| Program Service Fees | \$ 824,567 | \$ 4,214,921 | \$ - | \$ - | \$ 5,039,488 |
| Supported Employment Site Revenue | 187,278 | 43,326 | - | - | 230,604 |
| Vocation Rehab Service Fees | 157,636 | - | - | - | 157,636 |
| Extended employment and wage equity | 157,950 | - | - | - | 157,950 |
| Staff billings for leased staff | 2,175 | 75,438 | - | - | 77,613 |
| Grants and contributions | 173,525 | 108,453 | - | 380,301 | 662,279 |
| Government grants—PPP loan forgiveness | 192,581 | 1,054,419 | - | - | 1,247,000 |
| Governmental emergency funding | 343,832 | 1,326,727 | - | - | 1,670,559 |
| Interest and investment income | 1,528 | 4,377 | - | 165,640 | 171,545 |
| Special event, net | - | - | 86,248 | - | 86,248 |
| Deferred compensation investment income | - | - | 21,380 | - | 21,380 |
| Miscellaneous income | 103,426 | 86,963 | - | - | 190,389 |
| Released from restriction | 14,843 | 53,214 | - | (68,057) | - |
| Total revenue | 2,159,341 | 6,967,838 | 107,628 | 477,884 | 9,712,691 |
| EXPENSES | | | | | |
| Program services | 1,353,851 | 5,896,815 | - | - | 7,250,666 |
| Supporting services: | | | | | |
| Management and general | 246,497 | 1,002,856 | - | - | 1,249,353 |
| Fundraising | 35,429 | 144,141 | - | - | 179,570 |
| Total expenses | 1,635,777 | 7,043,812 | - | - | 8,679,589 |
| Increase (Decrease) in Net Assets | \$ 523,564 | \$ (75,974) | \$ 107,628 | \$ 477,884 | \$ 1,033,102 |

The Notes to the Financial Statements are an integral part of these statements.

MIDWEST SPECIAL SERVICES, INC.

STATEMENTS OF CHANGES IN NET ASSETS

| FOR THE YEARS ENDED DECEMBER 31, | 2022 | 2021 |
|---|---------------------|---------------------|
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| Net assets, beginning of year | \$ 2,958,154 | \$ 2,402,936 |
| Changes in net assets without donor restrictions | | |
| Employment/day services | 156,397 | 523,564 |
| Day services | 98,592 | (75,974) |
| Other non-operating | 70,922 | 107,628 |
| <i>Net assets without donor restrictions, end of year</i> | \$ 3,284,065 | \$ 2,958,154 |
| NET ASSETS WITH DONOR RESTRICTIONS | | |
| Net assets, beginning of year | \$ 2,153,751 | \$ 1,675,867 |
| Change in net assets with donor restrictions | (5,385) | 477,884 |
| <i>Net assets with donor restrictions, end of year</i> | \$ 2,148,366 | \$ 2,153,751 |
| Change in net assets without donor restrictions | 325,911 | 555,218 |
| Change in net assets with donor restrictions | (5,385) | 477,884 |
| <i>Total change in net assets</i> | \$ 320,526 | \$ 1,033,102 |

The Notes to the Financial Statements are an integral part of these statements.

MIDWEST SPECIAL SERVICES, INC.

STATEMENTS OF CASH FLOWS

| FOR THE YEARS ENDED DECEMBER 31, | 2022 | 2021 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from program services | \$ 7,507,737 | \$ 5,743,243 |
| Cash received from grants and contributions, net of amounts restricted for long-term purposes | 2,672,688 | 3,127,220 |
| Receipts from special events | 129,651 | 98,719 |
| Other cash receipts | 190,904 | 191,188 |
| Payments for staff wages, taxes, and benefits | (6,545,592) | (5,380,505) |
| Payments for client wages, taxes, and benefits | (212,964) | (179,902) |
| Payments to vendors | (3,094,244) | (2,593,823) |
| Payments on deferred compensation plan | (12,699) | (11,484) |
| Cash paid for interest | (2,627) | (5,006) |
| <i>Net cash provided by operating activities</i> | 632,854 | 989,650 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of property and equipment | 112,850 | 3,491 |
| Purchases of property and equipment | (204,740) | (96,128) |
| Purchases of investments | (181,556) | (56,250) |
| Proceeds from sale of investments | 13,938 | 11,148 |
| <i>Net cash (used in) investing activities</i> | (259,508) | (137,739) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions restricted for endowment | 153,680 | 35,682 |
| Interest and dividends restricted for endowment | 13,938 | 11,148 |
| Proceeds from notes payable | 603,000 | - |
| Principal payments on notes payable | (21,147) | (18,516) |
| <i>Net cash provided by financing activities</i> | 749,471 | 28,314 |
| <i>Net change in cash, cash equivalents, and restricted cash</i> | 1,122,817 | 880,225 |
| Cash, cash equivalents, and restricted cash, beginning of year | 1,152,821 | 272,596 |
| <i>Cash, cash equivalents, and restricted cash, end of year</i> | \$ 2,275,638 | \$ 1,152,821 |

The Notes to the Financial Statements are an integral part of these statements.

MIDWEST SPECIAL SERVICES, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

| FOR THE YEARS ENDED DECEMBER 31, | | | | | | | |
|---|-------------------------------------|---------------------|---------------------------------------|---------------------------|-------------------|----------------------|---------------------|
| | 2022 | | | | | 2021 | |
| | Hub Day & Employment Services | Day Services | Total Program Services Expenses | Management and General | Fundraising | Totals | Totals |
| PERSONNEL EXPENSES | | | | | | | |
| Salaries and wages | \$ 884,371 | \$ 3,269,716 | \$ 4,154,087 | \$ 846,641 | \$ 127,165 | \$ 5,127,893 | \$ 4,423,216 |
| Employee benefits | 169,464 | 549,040 | 718,504 | 153,758 | 11,658 | 883,920 | 714,080 |
| Payroll taxes and insurance | 70,149 | 264,828 | 334,977 | 64,204 | 10,172 | 409,353 | 381,890 |
| Non-staff services | - | 67,734 | 67,734 | - | - | 67,734 | 67,212 |
| | 1,123,984 | 4,151,318 | 5,275,302 | 1,064,603 | 148,995 | 6,488,900 | 5,586,398 |
| OPERATING EXPENSES | | | | | | | |
| Occupancy | 20,723 | 625,444 | 646,167 | 11,704 | 600 | 658,471 | 903,023 |
| Transportation | 58,166 | 712,794 | 770,960 | - | - | 770,960 | 613,413 |
| Depreciation and amortization | 56,632 | 579,064 | 635,696 | 15,214 | - | 650,910 | 396,172 |
| Repair and maintenance | 41,160 | 274,577 | 315,737 | 13,981 | 600 | 330,318 | 253,485 |
| Office/technology | 47,445 | 165,688 | 213,133 | 60,180 | 8,299 | 281,612 | 220,418 |
| Client wages, taxes and benefits | 159,323 | 53,641 | 212,964 | - | - | 212,964 | 179,902 |
| Program activity and supplies | 20,414 | 225,294 | 245,708 | - | - | 245,708 | 143,043 |
| Professional fees | 15,013 | 13,199 | 28,212 | 111,582 | 48 | 139,842 | 124,026 |
| Miscellaneous | 11,360 | 32,999 | 44,359 | 38,597 | 1,064 | 84,020 | 72,308 |
| Bad debt | 2,325 | 13,925 | 16,250 | - | - | 16,250 | 40,950 |
| Dues, licensing and subscription | 1,193 | 5,892 | 7,085 | 14,312 | 5,281 | 26,678 | 35,300 |
| Building and other insurance | 10,114 | 20,514 | 30,628 | 3,169 | 2,210 | 36,007 | 32,964 |
| Nursing services | 3,648 | 57,266 | 60,914 | - | - | 60,914 | 29,526 |
| Meeting and travel | 14,659 | 7,365 | 22,024 | 6,167 | 244 | 28,435 | 23,111 |
| Training | 3,109 | 11,143 | 14,252 | 2,359 | 323 | 16,934 | 15,613 |
| Staff recruitment/advertising | 2,768 | 19,612 | 22,380 | 1,682 | 785 | 24,847 | 9,937 |
| | 468,052 | 2,818,417 | 3,286,469 | 278,947 | 19,454 | 3,584,870 | 3,093,191 |
| Total expenses | \$ 1,592,036 | \$ 6,969,735 | \$ 8,561,771 | \$ 1,343,550 | \$ 168,449 | \$ 10,073,770 | \$ 8,679,589 |
| Percentages | 16% | 69% | 85% | 13% | 2% | 100% | 100% |

The Notes to the Financial Statements are an integral part of these statements.

MIDWEST SPECIAL SERVICES, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

| YEAR ENDED DECEMBER 31, 2021 | | | | | | |
|-------------------------------------|-------------------------------------|---------------------|---------------------------------------|---------------------------|-------------------|---------------------|
| | Hub Day & Employment Services | Day Services | Total Program Services Expenses | Management and General | Fundraising | Totals |
| PERSONNEL EXPENSES | | | | | | |
| Salaries and wages | \$ 727,047 | \$ 2,770,261 | \$ 3,497,308 | \$ 794,185 | \$ 131,723 | \$ 4,423,216 |
| Employee benefits | 122,338 | 443,693 | 566,031 | 132,089 | 15,960 | 714,080 |
| Payroll taxes and insurance | 62,052 | 242,400 | 304,452 | 66,115 | 11,323 | 381,890 |
| Non-staff services | 5,664 | 61,548 | 67,212 | - | - | 67,212 |
| | 917,101 | 3,517,902 | 4,435,003 | 992,389 | 159,006 | 5,586,398 |
| OPERATING EXPENSES | | | | | | |
| Occupancy | 22,902 | 874,605 | 897,507 | 4,916 | 600 | 903,023 |
| Transportation | 63,037 | 550,376 | 613,413 | - | - | 613,413 |
| Depreciation and amortization | 79,820 | 291,702 | 371,522 | 24,650 | - | 396,172 |
| Repair and maintenance | 18,595 | 222,311 | 240,906 | 11,979 | 600 | 253,485 |
| Office/technology | 37,054 | 119,334 | 156,388 | 54,919 | 9,111 | 220,418 |
| Client wages, taxes and benefits | 146,113 | 33,789 | 179,902 | - | - | 179,902 |
| Program activity and supplies | 9,543 | 133,500 | 143,043 | - | - | 143,043 |
| Professional fees | 8,199 | 4,516 | 12,715 | 109,512 | 1,799 | 124,026 |
| Miscellaneous | 16,470 | 33,537 | 50,007 | 21,341 | 960 | 72,308 |
| Bad debt | 9,000 | 31,950 | 40,950 | - | - | 40,950 |
| Dues, licensing and subscriptions | 2,010 | 8,349 | 10,359 | 20,559 | 4,382 | 35,300 |
| Building and other insurance | 9,180 | 18,999 | 28,179 | 2,698 | 2,087 | 32,964 |
| Nursing services | 2,318 | 27,208 | 29,526 | - | - | 29,526 |
| Meeting and travel | 9,017 | 9,590 | 18,607 | 4,260 | 244 | 23,111 |
| Training | 2,127 | 11,499 | 13,626 | 1,601 | 386 | 15,613 |
| Staff recruitment/advertising | 1,365 | 7,648 | 9,013 | 529 | 395 | 9,937 |
| | 436,750 | 2,378,913 | 2,815,663 | 256,964 | 20,564 | 3,093,191 |
| Total expenses | \$ 1,353,851 | \$ 5,896,815 | \$ 7,250,666 | \$ 1,249,353 | \$ 179,570 | \$ 8,679,589 |
| Percentages | 16% | 68% | 84% | 14% | 2% | 100% |

The Notes to the Financial Statements are an integral part of these statements.

MIDWEST SPECIAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION

Midwest Special Services, Inc. (MSS) is a nonprofit corporation that provides services and supports to over 500 adults with Intellectual and Developmental Disabilities (I/DD) or related conditions by offering Day and Employment Services. MSS is dedicated to supporting people in living the lives that they choose. Individuals in our programs may receive solely Day or Employment Services, or a combination of both. MSS provides services at six locations in the Twin Cities metro: Apple Valley, Brooklyn Park, Eagan, Oakdale, Shoreview, and St. Paul, as well as many places in the larger community. Day Services help people develop and maintain life skills so they can fully participate in community life. Employment Services range from exploring basic work concepts to providing any needed supports once a person has achieved competitive integrated employment.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

MSS's financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, and gains and losses are classified based on the existence or absence of any donor-imposed restrictions. Accordingly, net assets of MSS and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions: This class of net assets is not subject to donor-imposed restrictions and may be expended in performing the objectives of MSS at the discretion of management and the Board of Directors.

Net Assets With Donor Restrictions: This class of net assets is subject to stipulations imposed by donors and grantors. Some donor-imposed restrictions are temporary in nature; those restrictions will be met by the passage of time or by actions of MSS specified by the donor. Other donor-imposed restrictions are perpetual in nature, whereby the donor has stipulated that resources be maintained in perpetuity. Donor-restricted contributions are reported as increases in net assets with donor restrictions, unless the specific restriction is met in the same period that the revenue is reported. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. 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.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, cash held for investment purposes is included with investments and assets held for endowment (see Note 4). MSS considers money-market accounts, commercial paper, and certificates of deposit with an original maturity of three months or less, or to which MSS has access with minimal cost, to be cash equivalents. MSS maintains deposits in financial institutions that may, at times, exceed federal depository insurance limits. Amounts that exceed FDIC insurance are subject to credit risk. MSS has evaluated their deposits and believes they are not exposed to any significant concentration of credit risk on cash. MSS has not experienced any losses to such accounts.

Accounts Receivable

Accounts receivable due from governmental sources and trade customers are stated at the amount management expects to collect. The allowance is estimated and recorded based on management's assessment of the current status of individual accounts. Accounts receivable determined to be uncollectible are written off through a charge to the allowance.

MIDWEST SPECIAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. (CONTINUED)

Fair Value Measurements and Investments

The fair value of investments is estimated based upon quoted market prices. The realized and unrealized gains and losses are reflected as investment income (loss) in the Statements of Activities as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and nature of the donor restrictions of the underlying investments.

Investments held for operations consisted of certificates of deposit. All certificates were scheduled to mature within a twelve-month period and are reported at cost, which approximates fair value.

The Financial Accounting Standards Board (FASB) established a framework for measuring fair value and disclosing fair value measurements to financial statement users. Fair value is the price that would be received to sell an asset or paid to transfer a liability (referred to as the “exit price”) in an orderly transaction between market participants in the principal market, or if none exists, the most advantageous market, for specific assets or liabilities at the measurement dates. The fair value should be based on assumptions that market participants would use, including consideration of nonperformance risk.

In determining fair value, MSS uses various valuation approaches. The FASB established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of MSS. Unobservable inputs are inputs that reflect MSS’ assumptions that market participants would use in pricing the assets or liabilities developed based on the best information available in the circumstances.

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets to which MSS has access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in inactive markets; inputs other than quoted market prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The availability of observable inputs can vary and is affected by a wide variety of factors, including, for example, the type of asset or liability, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant rather than an organization-specific measure. Therefore, even when market assumptions are not readily available, MSS’ own assumptions are set to reflect those that MSS believes market participants would use in pricing the asset or liability at the measurement date.

MIDWEST SPECIAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. (CONTINUED)

Fair Value Measurements and Investments (continued)

Investments are measured annually at fair value. MSS' disclosures include references to the above inputs. The inputs and methodology used for valuing MSS' financial assets are not indicators of the risks associated with those instruments.

Disclosures for investments (Notes 6 and 7) include references to the above inputs.

Land, Buildings and Equipment

Land, buildings and equipment are reported at cost if purchased, or at estimated fair value if acquired by donation. An asset acquired at cost or value of less than \$2,000 is expensed when acquired. Depreciation is computed using the straight-line method over estimated useful lives of three to forty years. Amortization of leasehold improvements is computed over the term of the lease. When assets are retired or otherwise disposed of, the recorded value and related accumulated depreciation are removed, and the resulting gain or loss is reflected in the Statements of Activities as miscellaneous income or loss.

Revenue from Contracts with Customers

MSS accounts for revenue from contracts with customers under the guidance provided by Accounting Standards Codification (ASC) 606.

Governmental service fees, which includes program service fees, supported employment site revenue, vocation rehab service fees, and extended employment and wage equity, are recognized as revenue over the period in which the related services are performed.

Supported employment site revenue is recognized as revenue over the period in which the related services are performed.

Staff Billings for Leased Staff revenue is recognized as revenue over the period in which the related services are performed.

Revenue Recognition for Contributions Received and Contributions Made

MSS accounts for contributions received and contributions made under the guidance provided by ASC 958-605.

Contributions, including unconditional promises to give, are recognized as revenue when received without donor restrictions or with donor restrictions, based on the existence and nature of any donor restrictions. Unconditional promises to give and grants committed to MSS that are expected to be collected within one year are recorded at net realizable value.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. MSS records its various forgivable governmental emergency funding as revenue when the conditions on which they depend are substantially met in accordance with ASU 2018-08 Not-for-Profit Entities (Topic 958) which is included as governmental emergency funding on the Statements of Activities.

Donor-restricted contributions are reported as net assets with donor restrictions. When a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions.

MIDWEST SPECIAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. (CONTINUED)

Contribution revenue and investment income that are donor-restricted as to purpose or timing of use are recognized as unrestricted revenue if the specified restriction is met in the same period as the revenue is reported.

MSS holds events during the year in order to raise funds. Revenue from sponsorships and ticket sales in the amount of \$160,912 and \$86,248 for the years ended December 31, 2022 and 2021, respectively, related to a fundraising event is recognized when the event takes place. Contributions received and promises to give as a result of the event follow the revenue recognition for contribution revenue noted above.

In-kind contributions are recorded at their estimated fair values. Contributed services are recorded only if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation.

Federal Emergency Grants include provider relief payments from the Health Resources & Services Administration, an agency of the United States Department of Health and Human Services. These funds were a reimbursement to eligible health care providers, such as MSS, for reimbursement of health care-related expenses or lost revenues attributable to COVID-19. MSS believes they have complied with all necessary requirements to recognize these grants as revenue during the year ended December 31, 2022. For the year ended December 31, 2021, Federal Emergency Grants consist of revenues from the Employee Retention Credit (ERC).

Functional Expenses

Costs of program service have been presented in the Statements of Functional Expenses on a direct allocation basis. Supporting services are classified on a direct allocation basis based upon an analysis of personnel time and space utilized for the related activities.

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

MIDWEST SPECIAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. (CONTINUED)

Leases

MSS has adopted FASB ASC 842, *Leases*, with a date of initial application of January 1, 2022. For leases with a lease term greater than one year, MSS recognizes a lease asset for its right to use the underlying leased asset and a lease liability for the corresponding lease obligation. MSS determines whether an arrangement is or contains a lease at contract inception. Operating leases with a duration greater than one year are included in operating lease right-of-use assets, current portion operating lease liabilities, and operating lease liabilities, net of current portion in MSS's statement of financial position at December 31, 2022. Operating lease right-of-use assets and operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, MSS uses a risk-free rate of a period comparable with that of the lease term. The risk-free rate is a practical expedient allowed within FASB ASC 842 when the implicit interest rate of lease is not readily available. MSS considers the lease term to be the noncancelable period that it has the right to use the underlying asset, including all periods covered by an option to (1) extend the lease if MSS is reasonably certain to exercise the option, (2) terminate the lease if MSS is reasonably certain not to exercise that option, and (3) extend, or not to terminate, the lease in which exercise of the option is controlled by the lessor. The operating lease right-of-use assets also include any lease payments made and exclude lease incentives received or receivable. Lease expense is recognized on a straight-line basis over the expected lease term. Variable lease expenses are recorded when incurred.

Income Taxes

MSS is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. MSS is a publicly-supported organization and contributions to it qualify as a charitable tax deduction for the contributors as permitted by law.

MSS has not been recently audited; accordingly, the information returns for the past three years are open to examination. Management has evaluated its tax positions and has concluded that they do not result in anything that would require either recording or disclosure in the financial statements based on the criteria set forth in ASC 740.

Employee Retention Credit

During 2021, MSS applied for a credit under the Employee Retention Credit (ERC) in the amount of \$1,660,599. The ERC is a refundable credit against certain payroll taxes allowed to an eligible employer for qualifying wages, that was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and further amended by the Consolidated Appropriations Act (CAA) and the American Rescue Plan (ARP). MSS believes it met the ERC's eligibility requirements and considered these payments as revenue for the year ended December 31, 2021 in accordance with the guidance for conditional contributions as MSS believes they have overcome any measurable performance or other barrier required for the credit.

Subsequent Events

Management has assessed the effects of subsequent events through April 25, 2023, the date the financial statements were available to be released.

MIDWEST SPECIAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. AVAILABILITY AND LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Statement of Financial Position date, are comprised of the following:

| DECEMBER 31, | 2022 | 2021 |
|-------------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 2,262,568 | \$ 1,147,574 |
| Investments held for operations | 41,251 | 41,087 |
| Accounts receivable, net | 769,506 | 580,913 |
| Contributions and grants receivable | 166,463 | 356,189 |
| <i>Total</i> | \$ 3,239,788 | \$ 2,125,763 |

MSS's goal is generally to maintain financial assets to meet 60 days of operating expenses (approximately \$1,500,000). As part of its liquidity plan, excess cash is invested in short-term investments including marketable certificates of deposit and savings accounts. In addition to the financial assets available to meet operating expenses as identified in the above table, MSS also has an active line of credit whereby it can borrow up to \$700,000 for use in operations (Note 10). MSS held investments valued at \$97,544 at December 31, 2022 to fund its obligation under the deferred compensation agreement (Note 12). These investments could be used for general operating expenditures if necessary. In addition, MSS holds assets for endowment and the cumulative earnings that the board has not appropriated for expenditure are available for use in operations (Note 14).

NOTE 4. CASH RECONCILIATION

The following provides a reconciliation of cash and restricted cash reported on the Statements of Financial Position that equal the total amounts on the Statements of Cash Flows as of December 31:

| DECEMBER 31, | 2022 | 2021 |
|-------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 2,262,568 | \$ 1,147,574 |
| Cash restricted for endowment | 13,069 | 5,247 |
| <i>Total</i> | \$ 2,275,637 | \$ 1,152,821 |

NOTE 5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31:

| DECEMBER 31, | 2022 | 2021 |
|---------------------------------|-------------------|-------------------|
| Governmental units | \$ 755,073 | \$ 536,454 |
| Mobile work crew customers | 17,652 | 49,200 |
| Allowance for doubtful accounts | (3,219) | (4,741) |
| <i>Total</i> | \$ 769,506 | \$ 580,913 |

MIDWEST SPECIAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6. INVESTMENTS DESIGNATED FOR DEFERRED COMPENSATION

MSS held investments valued at \$97,544 and \$123,975 at December 31, 2022 and 2021, respectively, to fund its obligation under the deferred compensation agreement. Net investment return consisted of the following for the years ended December 31:

| DECEMBER 31, | 2022 | 2021 |
|---|--------------------|------------------|
| Net realized and unrealized gain (loss) | \$ (32,923) | \$ 21,010 |
| Dividends and interest | 2,939 | 370 |
| <i>Net investment return</i> | \$ (29,984) | \$ 21,380 |

NOTE 7. ASSETS HELD FOR ENDOWMENT

Assets held for endowment consisted of the following at December 31:

| DECEMBER 31, | 2022 | 2021 |
|---------------------|---------------------|---------------------|
| Cash | \$ 13,069 | \$ 5,247 |
| Money market funds | 59,451 | 38,797 |
| Mutual funds | 1,543,264 | 1,792,250 |
| <i>Total</i> | \$ 1,615,784 | \$ 1,836,294 |

Net investment return consisted of the following for the years ended December 31:

| DECEMBER 31, | 2022 | 2021 |
|-------------------------------------|---------------------|-------------------|
| Net realized and unrealized gain | \$ (287,837) | \$ 154,492 |
| Dividends and interest | 28,386 | 25,248 |
| Investment management fees | (14,449) | (14,100) |
| <i>Net investment return</i> | \$ (273,900) | \$ 165,640 |

NOTE 8. LAND BUILDINGS AND EQUIPMENT

Land, buildings and equipment consisted of the following at December 31:

| DECEMBER 31, | Useful Lives | 2022 | 2021 |
|---|---------------------|---------------------|---------------------|
| Land | | \$ 421,224 | \$ 421,224 |
| Buildings and improvements | 20–40 Years | 4,251,220 | 4,164,990 |
| Leasehold improvements | 3–40 Years | 755,214 | 752,719 |
| Transportation equipment | 5 Years | 1,935,841 | 2,243,816 |
| Furniture and office equipment | 5 Years | 1,260,922 | 1,177,683 |
| Warehouse equipment | 3–5 Years | 57,237 | 77,878 |
| Construction in progress | | 5,573 | 3,500 |
| <i>Total land, buildings and equipment</i> | | 8,687,231 | 8,841,810 |
| Less: accumulated depreciation | | (7,392,267) | (7,440,684) |
| <i>Land, buildings and equipment, net</i> | | \$ 1,294,964 | \$ 1,401,126 |

Depreciation expense was \$310,902 and \$364,105 for the years ended December 31, 2022 and 2021, respectively.

MIDWEST SPECIAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. FAIR VALUE MEASUREMENTS

The following provides fair value measurement information for financial assets and liabilities measured at fair value on a recurring basis:

| DECEMBER 31, 2022 | Level 1 | Level 2 | Level 3 | Total |
|--------------------------|----------------|----------------|----------------|--------------|
| Mutual funds (Endowment) | \$ 1,543,264 | \$ - | \$ - | \$ 1,543,264 |
| Mutual funds (Trust) | 97,544 | - | - | 97,544 |
| Total | \$ 1,640,808 | \$ - | \$ - | \$ 1,640,808 |
| DECEMBER 31, 2021 | Level 1 | Level 2 | Level 3 | Total |
| Mutual funds (Endowment) | \$ 1,792,250 | \$ - | \$ - | \$ 1,792,250 |
| Mutual funds (Trust) | 123,975 | - | - | 123,975 |
| Total | \$ 1,916,225 | \$ - | \$ - | \$ 1,916,225 |

NOTE 10. LINE OF CREDIT PAYABLE

MSS has a line of credit agreement whereby it may borrow up to \$700,000. The agreement expires in April 2023, and requires monthly interest payments on the outstanding balance at prime plus 0.50% with a floor of 8.00%, the effective rate at December 31, 2022. The line of credit is secured by MSS assets. There were no outstanding balances on this line of credit at December 31, 2022 and 2021. In April 2023, MSS has renewed the line of credit for one additional year.

NOTE 11. NOTES PAYABLE

Notes payable consisted of the following at December 31:

| DECEMBER 31, | 2022 | 2021 |
|---|-------------------|-------------------|
| Economic Injury Disaster Loan (EIDL): Note payable in the original amount of \$149,900, increased to \$752,900 in January 2022, due in monthly installments of \$3,286 beginning July 19, 2022 including interest at 2.75% and maturing in July 2050. The note is secured by substantially all assets of MSS. | \$ 733,895 | \$ 149,900 |
| Note payable to bank: note payable in the original amount of \$75,731 issued to finance the cost of transportation equipment. Payments are due in monthly installments of \$1,746 including interest at 5.0%. Final payment is due November 15, 2023. The note is collateralized by the vehicle. | 36,058 | 38,200 |
| Total notes payable | 769,953 | 188,100 |
| Less: current portion | (36,058) | (19,495) |
| Net long-term notes payable | \$ 733,895 | \$ 168,605 |

MSS executed the standard loan documents required for securing an EIDL from the United States Small Business Administration (SBA) in light of the impact of the COVID-19 pandemic on MSS's business. The proceeds are to be used for working capital purposes.

MIDWEST SPECIAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 11. (CONTINUED)

Aggregate maturities of long-term debt at December 31, 2022 , are as follows:

| DECEMBER 31, | Amount |
|---------------------|-------------------|
| 2023 | \$ 36,058 |
| 2024 | 19,535 |
| 2025 | 20,079 |
| 2026 | 20,638 |
| 2027 | 21,213 |
| Thereafter | 652,430 |
| Total | \$ 769,953 |

NOTE 12. DEFERRED COMPENSATION

MSS has a deferred compensation agreement with a former President of MSS. Under the terms of the agreement, the original obligation of approximately \$126,000 is to be paid out over approximately 23 years, with 10% annual interest earned on the unpaid balance. The principal amount of the deferred compensation obligation was \$4,520 and \$17,219 at December 31, 2022 and 2021, respectively. Interest expense on the outstanding obligation amounted to \$1,150 and \$2,352 for the years ended December 31, 2022 and 2021, respectively. MSS held investments valued at \$97,544 and \$123,975 at December 31, 2022 and 2021, respectively, to fund its obligation under the deferred compensation agreement. The remaining portion of the deferred compensation obligation which will be paid in 2023 is \$4,520.

NOTE 13. NET ASSETS WITH DONOR RESTRICTIONS

The following schedule reflects net assets with donor restrictions at December 31:

| DECEMBER 31, | 2022 | 2021 |
|---|---------------------|---------------------|
| Time restrictions: | | |
| Appreciation of investments—O'Neil endowment fund | \$ 517,661 | \$ 846,326 |
| Program restrictions: | | |
| Art related grants | 59,445 | 47,117 |
| Employment services development | 75,000 | 55,000 |
| Transportation grants | 393,007 | 208,800 |
| Other | 5,130 | 6,239 |
| Amounts required to be maintained in perpetuity: | | |
| O'Neil endowment fund | 1,098,123 | 990,269 |
| Total | \$ 2,148,366 | \$ 2,153,751 |

NOTE 14. ENDOWMENT FUND

MSS has an endowment referred to as the O'Neil Endowment Fund that was established to provide funding for special projects, services or programs that benefit individuals who receive services from MSS. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence and nature of donor-imposed restrictions. The endowment fund has no income restrictions.

MIDWEST SPECIAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 14. ENDOWMENT FUND (CONTINUED)

Interpretation of Relevant Law—Endowment funds are regulated by the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as enacted by the State of Minnesota effective August 1, 2008. The Board of Trustees of MSS has interpreted UPMIFA as requiring the preservation of the original gift of donor-restricted endowment funds absent explicit donor stipulations to the contrary. At December 31, 2022 and 2021, there were no such donor stipulations. The original gift is valued at fair value on the date of the gift. As a result of this interpretation, MSS retains in perpetuity (a) the original value of initial and subsequent gift amounts including promises to give at fair value donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by MSS in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, MSS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Changes in the O’Neil Endowment Fund for the years ended December 31, 2022 and 2021 are as follows:

| DECEMBER 31, | Without Donor Restrictions | With Donor Restrictions | Total |
|-------------------------------------|-------------------------------|----------------------------|--------------|
| <i>December 31, 2020</i> | \$ - | \$ 1,610,692 | \$ 1,610,692 |
| Interest and dividends; net of fees | - | 11,148 | 11,148 |
| Appreciation of investments | - | 154,191 | 154,191 |
| Contributions | - | 60,263 | 60,263 |
| <i>December 31, 2021</i> | \$ - | \$ 1,836,294 | \$ 1,836,294 |
| Interest and dividends; net of fees | - | 13,937 | 13,937 |
| Depreciation of investments | - | (287,837) | (287,837) |
| Contributions | - | 107,854 | 107,854 |
| Distributions | - | (54,464) | (54,464) |
| <i>December 31, 2022</i> | \$ - | \$ 1,615,784 | \$ 1,615,784 |

Return Objectives and Risk Parameters—The Board of Directors has adopted an Endowment Investment policy designed to maintain the purchasing power of the endowment assets and to provide for a predictable amount of annual distributions that will keep pace with increasing funding needs. Endowment assets include those assets of donor-restricted funds that MSS must hold in perpetuity as well as the cumulative earnings on those funds that the board has not appropriated for expenditure. Endowment assets also include assets designated as endowment by the Board of Directors. MSS expects the O’Neil Endowment Fund to attain, over a rolling three-year period, an average total return, after fees, greater than inflation, as defined by the consumer price index. MSS also expects the O’Neil Endowment Fund to achieve a long-term total return equivalent to a benchmark of blended indices. MSS has established a risk tolerance of moderate volatility and is willing to absorb some interim fluctuations in market value and rates of return in order to achieve longer-term objectives.

MIDWEST SPECIAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 14. ENDOWMENT FUND (CONTINUED)

Strategies Employed for Achieving Objectives—In accordance with the Endowment Investment Policy, MSS's Finance Committee, in conjunction with outside advisors, has developed a diversified endowment investment portfolio. MSS's investment strategy seeks both capital appreciation (realized and unrealized) and current yield (interest and dividends). MSS seeks an allocation of short-term and long-term investments diversified between equities and fixed income, but places greater emphasis on equity-based investments within prudent risk constraints.

Spending Policy and the Relationship of Investment Objectives to the Spending Policy—The Board has chosen to release funds from the endowment for spending as long as the principal restricted in accordance with the donor's wishes is preserved and the total endowment remains in excess of \$1,000,000.

NOTE 15. RETIREMENT PLAN

MSS sponsors a defined-contribution 401(k) retirement plan. Eligible employees may elect to contribute to the plan under a salary reduction arrangement. MSS is required to make a matching contribution of 50% of employee contributions to the plan, up to a maximum employer contribution of 3% of qualified compensation. The matching contribution was approximately \$83,000 and \$84,000 for the years ended December 31, 2022 and 2021, respectively.

NOTE 16. LEASE COMMITMENTS

Operating leases

MSS leases space for the Apple Valley, Eagan, Brooklyn Park, and Oakdale licensed Day Services programs under multi-year leases as well as space in a building for a collaborative art gallery in Minneapolis. Under the lease terms, MSS pays a proportionate share of operating costs as additional rent. In addition, MSS leases equipment for operations under various lease terms.

All leases

MSS's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Rent paid including operating costs was approximately \$789,000 and \$757,000 for the years ended December 31, 2022 and 2021, respectively. Office equipment lease payments were approximately \$25,000 for the years ended December 31, 2022 and 2021.

MIDWEST SPECIAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 16. LEASE COMMITMENTS (CONTINUED)

Future minimum lease payments for operating leases with initial terms in excess of one year are approximately as follows at:

DECEMBER 31, 2022

Lease expense

| | |
|-------------------------|------------|
| Operating lease expense | \$ 374,724 |
|-------------------------|------------|

Other Information

| | |
|--|--------------|
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash flows from operating leases | \$ 356,586 |
| ROU assets obtained in exchange for new operating lease liabilities | \$ 1,095,147 |
| Weighted-average remaining lease term in years for operating leases | 2.34 |
| Weighted-average discount rate for operating leases | 2.00% |

Maturity Analysis

| | Operating |
|--------------------------------------|------------------|
| 2023 | \$ 335,808 |
| 2024 | 305,709 |
| 2025 | 122,354 |
| 2026 | 1,986 |
| <i>Total undiscounted cash flows</i> | <u>765,857</u> |
| Less: present value discount | (18,507) |

| | |
|--|----------------|
| <i>Total future lease liabilities</i> | 747,350 |
|--|----------------|

NOTE 17. SPECIAL EVENT

Revenue from the special event as presented on the Statements of Activities is as follows:

| DECEMBER 31, | 2022 | 2021 |
|--|-------------------|------------------|
| Gross revenue | \$ 160,912 | \$ 123,496 |
| Less: cost of direct benefit to donors | 31,261 | 24,777 |
| Other direct costs | 28,745 | 12,471 |
| <i>Special event revenue, net</i> | \$ 100,906 | \$ 86,248 |

NOTE 18. CONCENTRATIONS OF RISK

Revenue from governmental units for services, primarily the State of Minnesota and the Counties of Ramsey, Hennepin, Dakota and Washington included under Employment Services and Day Services on the Statements of Activities represented 72% and 58% of total revenue for the years ended December 31, 2022 and 2021, respectively. Revenue from Federal, state, and local government programs on the Statement of Activities represented approximately 17% and 30% of total revenue for each of the years ended December 31, 2022 and 2021, respectively.

MIDWEST SPECIAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 19. PAYCHECK PROTECTION PROGRAM

In February 2021, MSS applied for and received a \$1,247,000 loan under a second draw PPP loan (PPP2). The loan was uncollateralized and was fully guaranteed by the Federal government. MSS applied for and received forgiveness of the loan in 2021. MSS initially recorded the loan as a refundable advance and subsequently recognized the loan as grant revenue upon forgiveness.

PPP2 was provided to qualifying businesses. The loan and accrued interest was forgivable if the borrower used the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities and maintained their payroll levels. The amount of the loan forgiveness might have been reduced if the borrower terminated employees or reduced salaries during the measured period. The SBA may undertake a review of a loan of any size during the six-year period following forgiveness or repayment of the loan. The timing and outcome of any SBA review is not known.

NOTE 20. RECLASSIFICATIONS

Certain reclassifications have been made to the 2021 presentation to provide comparability to the 2022 presentation.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
Midwest Special Services, Inc.
Saint Paul, Minnesota 55106

We have audited the financial statements of Midwest Special Services, Inc. as of and for the year ended December 31, 2022, and our report thereon dated April 25, 2023, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Statement of Activities—Employment Services and the Statement of Activities—Day Services are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads 'Boyum & Barenscheer PLLP'. The signature is written in a cursive, flowing style.

Boyum & Barenscheer PLLP
Minneapolis, Minnesota
April 25, 2023

MIDWEST SPECIAL SERVICES, INC.

STATEMENT OF ACTIVITIES – EMPLOYMENT SERVICES
(See Independent Auditor’s Report on Supplementary Information)

| FOR THE YEAR ENDED DECEMBER 31, 2022 | | | |
|---|-------------------------------------|------------------------------|-------------------|
| | Hub Day & Employment Services | Vocational Rehabilitation | Totals |
| REVENUE | | | |
| Program Service Fees | \$ 796,057 | \$ - | \$ 796,057 |
| Supported Employment Site Revenue | 164,463 | 46,090 | 210,553 |
| Vocation Rehab Service Fees | - | 195,828 | 195,828 |
| Extended employment and wage equity | - | 292,141 | 292,141 |
| Grants and contributions | 39,140 | 162,113 | 201,253 |
| Emergency funding/PPP | 122,730 | 70,491 | 193,221 |
| Interest and investment income | 2,813 | 2,697 | 5,510 |
| Miscellaneous income | 73,216 | 16,634 | 89,850 |
| Released from restriction | 30,762 | 23,439 | 54,201 |
| Total revenue | 1,229,181 | 809,433 | 2,038,614 |
| PERSONNEL EXPENSES | | | |
| Salaries and wages | 542,466 | 341,905 | 884,371 |
| Employee benefits | 91,105 | 78,359 | 169,464 |
| Payroll taxes and insurance | 43,836 | 26,313 | 70,149 |
| Non-staff support services | - | - | - |
| Total personnel expenses | 677,407 | 446,577 | 1,123,984 |
| OPERATING EXPENSES | | | |
| Client wages, taxes and benefits | 122,673 | 36,650 | 159,323 |
| Depreciation and amortization | 50,316 | 6,316 | 56,632 |
| Transportation | 58,082 | 84 | 58,166 |
| Office/technology | 27,015 | 20,430 | 47,445 |
| Occupancy | 20,723 | - | 20,723 |
| Repair and maintenance | 41,160 | - | 41,160 |
| Miscellaneous | 9,541 | 1,819 | 11,360 |
| Program activity and supplies | 19,983 | 431 | 20,414 |
| Building and other insurance | 8,609 | 1,505 | 10,114 |
| Meeting and travel | 969 | 13,690 | 14,659 |
| Bad debt | 1,875 | 450 | 2,325 |
| Professional fees | 2,148 | 12,865 | 15,013 |
| Nursing services | 3,648 | - | 3,648 |
| Training | 1,899 | 1,210 | 3,109 |
| Dues, licensing, and subscriptions | 1,034 | 159 | 1,193 |
| Staff recruitment/advertising | 1,914 | 854 | 2,768 |
| Total expenses | 371,589 | 96,463 | 468,052 |
| Total program services expenses | 1,048,996 | 543,040 | 1,592,036 |
| Management and general expenses | 152,238 | 105,615 | 257,853 |
| Fundraising expenses | 19,087 | 13,242 | 32,329 |
| Total expenses | 1,220,321 | 661,897 | 1,882,217 |
| Net from operations | \$ 8,860 | \$ 147,536 | \$ 156,397 |

MIDWEST SPECIAL SERVICES, INC.

STATEMENT OF ACTIVITIES – DAY SERVICES
(See Independent Auditor’s Report on Supplementary Information)

| FOR THE YEAR ENDED DECEMBER 31, 2022 | | | | | | | | |
|---|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|------------------|--|
| | St. Paul | Shoreview | Apple Valley | Brooklyn Park | Eagan | Oakdale | Totals | |
| REVENUE | | | | | | | | |
| Program Service Fees | \$ 1,133,596 | \$ 856,302 | \$ 1,130,495 | \$ 978,599 | \$ 974,961 | \$ 1,073,961 | \$ 6,147,914 | |
| Supported Employment Site Revenue | 13,058 | - | - | - | - | 57,029 | 70,087 | |
| Grants and contributions | 41,069 | 40,894 | 41,376 | 32,300 | 38,110 | 36,643 | 230,392 | |
| Emergency funding/PPP | 235,428 | 182,074 | 343,244 | 290,493 | 330,109 | 213,702 | 1,595,050 | |
| Interest and investment income | 2,824 | 2,981 | 2,846 | 2,957 | 2,934 | 2,951 | 17,493 | |
| Miscellaneous income | 8,468 | 7,445 | 10,066 | 14,120 | 14,553 | 23,398 | 78,050 | |
| Released from restriction | 31,109 | 30,152 | 17,804 | 18,318 | 25,520 | 28,257 | 151,161 | |
| Total revenue | 1,465,552 | 1,119,848 | 1,545,831 | 1,336,787 | 1,386,187 | 1,435,941 | 8,290,146 | |
| PERSONNEL EXPENSES | | | | | | | | |
| Salaries and wages | 620,302 | 454,805 | 651,000 | 406,348 | 563,965 | 573,296 | 3,269,716 | |
| Employee benefits | 100,487 | 72,095 | 121,244 | 63,686 | 89,145 | 102,383 | 549,040 | |
| Payroll taxes and insurance | 49,728 | 35,488 | 52,181 | 34,394 | 47,638 | 45,399 | 264,828 | |
| Non-staff support services | - | 12,872 | 6,377 | 26,318 | 13,933 | 8,234 | 67,734 | |
| Total personnel expenses | 770,517 | 575,260 | 830,802 | 530,746 | 714,681 | 729,312 | 4,151,318 | |
| OPERATING EXPENSES | | | | | | | | |
| Occupancy | 31,732 | 24,835 | 101,791 | 136,778 | 268,715 | 61,593 | 625,444 | |
| Transportation | 80,629 | 204,776 | 69,378 | 63,600 | 67,368 | 227,043 | 712,794 | |
| Depreciation and amortization | 85,058 | 65,421 | 190,858 | 59,676 | 42,298 | 135,753 | 579,064 | |
| Repair and maintenance | 50,229 | 42,790 | 44,729 | 35,274 | 59,708 | 41,847 | 274,577 | |
| Program activity and supplies | 38,289 | 35,019 | 34,015 | 34,111 | 45,712 | 38,148 | 225,294 | |
| Office/technology | 33,666 | 23,663 | 22,332 | 23,397 | 31,312 | 31,318 | 165,688 | |
| Client wages, taxes and benefits | 8,729 | - | - | 596 | - | 44,316 | 53,641 | |
| Miscellaneous | 5,653 | 2,882 | 9,247 | 6,892 | 4,176 | 4,149 | 32,999 | |
| Bad debt | 1,975 | 655 | 780 | 5,680 | 1,830 | 3,005 | 13,925 | |
| Nursing services | 12,312 | 9,842 | 10,032 | 9,120 | 12,312 | 3,648 | 57,266 | |
| Building and other insurance | 5,523 | 4,273 | 2,532 | 3,265 | 3,065 | 1,856 | 20,514 | |
| Training | 2,052 | 1,606 | 2,105 | 1,166 | 2,810 | 1,404 | 11,143 | |
| Meeting and travel | 930 | 1,388 | 1,340 | 1,619 | 1,458 | 630 | 7,365 | |
| Dues, licensing, and subscriptions | 1,113 | 968 | 1,100 | 871 | 951 | 889 | 5,892 | |
| Staff recruitment/advertising | 2,430 | 2,341 | 2,720 | 3,823 | 5,536 | 2,762 | 19,612 | |
| Professional fees | 2,458 | 1,864 | 2,497 | 1,769 | 2,460 | 2,151 | 13,199 | |
| Total expenses | 362,778 | 422,323 | 495,456 | 387,637 | 549,711 | 600,512 | 2,818,417 | |
| Total program services expenses | 1,133,295 | 997,583 | 1,326,258 | 918,383 | 1,264,392 | 1,329,824 | 6,969,735 | |
| Management and general expenses | 186,218 | 152,423 | 214,001 | 171,784 | 191,111 | 170,161 | 1,085,698 | |
| Fundraising expenses | 23,347 | 19,110 | 26,831 | 21,538 | 23,961 | 21,334 | 136,121 | |
| Total expenses | 1,342,860 | 1,169,116 | 1,567,090 | 1,111,705 | 1,479,464 | 1,521,319 | 8,191,553 | |
| Net from operations | \$ 122,692 | \$ (49,268) | \$ (21,258) | \$ 225,082 | \$ (93,277) | \$ (85,377) | \$ 98,593 | |