

Midwest Special Services, Inc.

Financial Statements, Supplementary Information and
Independent Auditor's Report

December 31, 2016 and 2015

Midwest Special Services, Inc.

Notes to Financial Statements

December 31, 2016

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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. (the "Organization"), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of unrestricted activities, changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midwest Special Services, Inc. as of December 31, 2016 and 2015, 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.

Wilkinson, Beckman & Johnson, Ltd.

Saint Paul, Minnesota
May 2, 2017

Midwest Special Services, Inc.

Statements of Financial Position

December 31,	2016	2015
ASSETS		
Current Assets		
Cash	\$ 348,730	\$ 394,854
Investments Held for Operations	26,040	26,040
Accounts Receivable, Net	892,251	903,584
Contributions and Grants Receivable	185,452	109,724
Prepaid Expenses and Other	191,142	282,172
Total Current Assets	1,643,615	1,716,374
Other Assets		
Investments Designated for Deferred Compensation	130,895	119,131
Assets Held for Endowment	1,173,756	1,111,471
Land, Buildings and Equipment, Net	2,526,423	2,523,641
Intangible Assets, Net	266,672	326,465
Total Other Assets	4,097,746	4,080,708
Total Assets	\$ 5,741,361	\$ 5,797,082
LIABILITIES AND NET ASSETS		
Current Liabilities		
Lines of Credit Payable	\$ 253,700	\$ 233,300
Current Portion of Notes Payable	111,502	103,421
Current Portion of Deferred Compensation Obligation	7,711	6,980
Accounts Payable	391,170	292,856
Accrued Liabilities	282,692	503,169
Total Current Liabilities	1,046,775	1,139,726
Long-Term Liabilities		
Notes Payable, Net of Current Portion	217,972	278,264
Deferred Compensation Obligation, Net of Current Portion	57,015	64,735
Total Long-Term Liabilities	274,987	342,999
Total Liabilities	1,321,762	1,482,725
Net Assets		
Unrestricted	3,109,966	3,085,362
Temporarily Restricted	513,279	452,323
Permanently Restricted	796,354	776,672
Total Net Assets	4,419,599	4,314,357
Total Liabilities and Net Assets	\$ 5,741,361	\$ 5,797,082

Midwest Special Services, Inc.

Statements of Unrestricted Activities

For the Years Ended December 31, 2016 and 2015

	2016		2015	
	Employment Services	Day Training and Habilitation	Employment Services	Day Training and Habilitation
	Totals		Totals	
Unrestricted—Operations				
Revenue:				
Training Fees—County	\$ 806,642	\$ 9,761,349	\$ 843,179	\$ 9,738,894
Production Contract Sales	700,082	94,693	1,243,605	95,304
Case Service Income	253,023	-	167,175	-
Extended Employment and Wage Equity	72,697	-	66,547	-
Grants and Contributions	58,722	168,200	49,410	31,733
Contributions—United Way	106,030	-	102,687	-
Interest and Investment Income	14	29	69	63
Miscellaneous Income	25,856	51,520	13,053	57,610
Released from Restriction	16,927	153,108	-	102,321
Total Revenue	<u>2,039,993</u>	<u>10,228,899</u>	<u>2,485,725</u>	<u>10,025,925</u>
Expenses:				
Program Services	2,263,223	8,678,771	2,982,084	8,305,450
Supporting Services:				
Management and General	189,813	1,043,311	247,608	897,519
Fundraising	19,921	122,242	40,608	147,134
Total Expenses	<u>2,472,957</u>	<u>9,844,324</u>	<u>3,270,300</u>	<u>9,350,103</u>
Net Change From Operations	<u>\$ (432,964)</u>	<u>\$ 384,575</u>	<u>\$ (784,575)</u>	<u>\$ 675,822</u>
Unrestricted—Other				
Impairment of Investment in Start-Up Company		-		(50,000)
Special Event, Net		61,229		37,038
Deferred Compensation Trust Investment Income		11,764		760
Net Other		<u>72,993</u>		<u>(12,202)</u>
Change in Unrestricted Net Assets		<u>\$ 24,604</u>		<u>\$ (120,955)</u>

The accompanying notes are an integral part of the financial statements.

Midwest Special Services, Inc.
Statements of Changes in Net Assets

<i>For the Years Ended December 31,</i>	2016	2015
Unrestricted Net Assets		
Net Assets, Beginning of Year	\$ 3,085,362	\$ 3,206,317
Change in Unrestricted Net Assets	24,604	(120,955)
Net Assets, End of Year	\$ 3,109,966	\$ 3,085,362
Temporarily Restricted Net Assets		
Net Assets, Beginning of Year	\$ 452,323	\$ 412,064
Change in Temporarily Restricted Net Assets:		
Grants	155,000	161,020
Endowment Investment Gain (Loss)	75,991	(18,440)
Released from Restriction	(170,035)	(102,321)
Net Assets, End of Year	\$ 513,279	\$ 452,323
Permanently Restricted Net Assets		
Net Assets, Beginning of Year	\$ 776,672	\$ 770,306
Change in Permanently Restricted Net Assets:		
Contributions and Grants	19,682	6,366
Net Assets, End of Year	\$ 796,354	\$ 776,672
Changes in Unrestricted Net Assets	\$ 24,604	\$ (120,955)
Changes in Temporarily Restricted Net Assets	60,956	40,259
Changes in Permanently Restricted Net Assets	19,682	6,366
Total Change In Net Assets	\$ 105,242	\$ (74,330)

The accompanying notes are an integral part of the financial statements.

Midwest Special Services, Inc.

Statements of Cash Flows

<i>For the Years Ended December 31,</i>	2016	2015
Cash Flows from Operating Activities		
Change in Net Assets	\$ 105,242	\$ (74,330)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	511,387	484,721
Impairment of Investment in Start-Up Company	-	50,000
(Gain) Loss from Disposal of Equipment	(14,509)	1,539
Interest and Dividends Restricted for Endowment	(9,545)	(47,412)
Realized/Unrealized (Gain) Loss on Investments	(74,834)	69,263
Bad Debt Expense	15,289	19,710
Contributions Restricted for Endowment	(19,682)	(6,366)
Changes in Operating Assets and Liabilities (page 7)	(117,806)	(9,354)
Total Adjustments	<u>290,300</u>	<u>562,101</u>
Net Cash Provided by Operating Activities	395,542	487,771
Cash Flows from Investing Activities		
Proceeds from Sale of Property and Equipment	14,509	-
Purchases of Property and Equipment and Intangibles	(404,363)	(346,967)
Purchases of Investments	(32,921)	(83,989)
Proceeds from Sale of Investments	33,706	25,949
Net Cash (Used In) Investing Activities	<u>(389,069)</u>	<u>(405,007)</u>
Cash Flows from Financing Activities		
Net Proceeds (Repayments) on Bank Lines of Credit	20,400	(6,700)
Contributions Restricted for Endowment	19,682	6,366
Interest and Dividends Restricted for Endowment	9,545	47,412
Principal Payments on Notes Payable	(102,224)	(79,988)
Net Cash (Used In) Financing Activities	<u>(52,597)</u>	<u>(32,910)</u>
Net Increase (Decrease) in Cash	<u>(46,124)</u>	<u>49,854</u>
Cash, Beginning of Year	394,854	345,000
Cash, End of Year	\$ 348,730	\$ 394,854

The accompanying notes are an integral part of the financial statements.

Midwest Special Services, Inc.

Statements of Cash Flows

<i>For the Years Ended December 31,</i>	2016	2015
Supplemental Disclosure of Cash Flow Information		
Changes in Operating Assets and Liabilities		
Accounts Receivable	\$ (3,956)	\$ 59,814
Contributions and Grants Receivable	(75,728)	(31,205)
Prepaid Expenses and Other	91,030	(58,450)
Accounts Payable	98,314	(26,788)
Accrued Liabilities	(220,477)	53,584
Deferred Compensation Obligation	(6,989)	(6,309)
Net Changes in Operating Assets and Liabilities	\$ (117,806)	\$ (9,354)
Supplemental Disclosure of Cash Flow Information		
Cash Paid During the Year for Interest	\$ 39,711	\$ 38,006
Non-Cash Investing and Financing Activities—Acquisitions of Equipment through Notes Payable	\$ 50,013	\$ 133,131

The accompanying notes are an integral part of the financial statements.

Midwest Special Services, Inc.
Statements of Functional Expenses

	2015							Percentage Change from 2015	
	2016		2015			Totals	Supporting Services		
	Program Services		Program Services						
	Employment Services	Day Training and Habilitation	Supporting Services	Totals	Employment Services	Day Training and Habilitation	Totals		
Personnel Expenses:									
Salaries and Wages	\$ 982,966	\$ 4,004,617	\$ 874,572	\$ 5,862,155	\$ 1,200,656	\$ 3,782,499	\$ 5,803,862	1.0%	
Employee Benefits	149,079	456,902	123,400	729,381	179,326	490,424	803,185	-9.2%	
Payroll Taxes and Insurance	113,424	425,381	69,535	608,340	114,296	354,230	530,480	14.7%	
	1,245,469	4,886,900	1,067,507	7,199,876	1,494,278	4,627,153	7,137,527	0.9%	
Operating Expenses:									
Client Wages, Taxes and Benefits	389,054	122,836	-	511,890	442,092	113,564	555,656	-7.9%	
Non-Staff Services	43,051	40,447	-	83,498	64,621	85,596	150,217	-44.4%	
Nursing Services	3,456	57,258	-	60,714	3,456	46,584	50,040	21.3%	
Transportation	110,452	1,505,907	-	1,616,359	106,467	1,440,005	1,546,472	4.5%	
Rent	-	762,794	-	762,794	3,000	753,050	756,050	0.9%	
Depreciation and Amortization	123,671	364,935	22,781	511,387	124,312	332,612	484,721	5.5%	
Repair and Maintenance	25,418	264,970	8,392	298,780	26,653	252,643	286,629	4.2%	
Program Activity and Supplies	15,757	202,159	-	217,916	12,145	179,617	191,762	13.6%	
Office	34,086	130,964	60,933	225,983	39,612	117,124	221,729	1.9%	
Utilities	27,268	109,152	4,817	141,237	29,016	109,884	144,026	-1.9%	
Production Materials and Supplies	156,211	-	-	156,211	506,703	-	506,703	-69.2%	
Professional Fees	9,001	27,152	119,678	155,831	37,649	24,147	182,723	-14.7%	
Building and Other Insurance	11,393	18,803	6,607	36,803	12,195	16,656	34,637	6.3%	
Meeting and Travel	25,949	30,158	10,725	66,832	16,667	20,825	49,377	35.4%	
Telecommunication	10,384	37,567	8,748	56,699	11,419	36,405	55,211	2.7%	
Dues and Subscriptions	2,128	5,095	12,463	19,686	4,620	15,300	30,125	-34.7%	
Advertising	5,630	31,257	7,892	44,779	4,603	27,237	38,970	14.9%	
Training	3,618	17,387	1,765	22,770	7,806	15,757	26,598	-14.4%	
Interest	2,185	5,933	29,347	37,465	1,615	4,588	38,218	-2.0%	
Postage and Freight	9,123	5,938	2,622	17,683	20,534	5,925	29,535	-40.1%	
Bad Debt	2,898	12,391	-	15,289	4,825	14,885	19,710	-22.4%	
Miscellaneous	7,021	38,768	11,010	56,799	7,796	65,893	83,767	-32.2%	
	1,017,754	3,791,871	307,780	5,117,405	1,487,806	3,678,297	5,482,876	-6.7%	
Total Expenses	\$ 2,263,223	\$ 8,678,771	\$ 1,375,287	12,317,281	\$ 2,982,084	\$ 8,305,450	\$ 1,332,869	\$ 12,620,403	-2.4%
Percentages	18%	71%	11%		24%	65%		11%	

The accompanying notes are an integral part of the financial statements.

December 31, 2016

1. Organization

Midwest Special Services, Inc. (the “Organization”) is a not-for-profit corporation that provides services to individuals with disabilities through two primary programs. The Employment Services Program provides training, employment and job placement services to disabled adults. The Day Training and Habilitation Program provides training and habilitation services to adults with severe and multiple mental and physical disabilities. The Organization also provides commuter transportation to many of these adults. The Employment Services Program serves approximately 252 individuals daily and provides placement services and mobile work crews. The Organization’s production shop, which provided outsourced packaging and assembly services from the Organization’s production shop in Saint Paul, ceased operations in August of 2016. The Day Training and Habilitation Program serves approximately 435 individuals daily and operates in six locations throughout the Twin Cities area of Minnesota: Saint Paul, Shoreview, Apple Valley, Brooklyn Park, Eagan and Oakdale.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Organization’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 and nature of any donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted—This class of net assets includes those resources over which the Board of Directors has discretionary control.

Temporarily Restricted—This class of net assets includes those resources subject to donor imposed restrictions that are satisfied by actions of the Organization or passage of time.

Permanently Restricted—This class of net assets includes those resources subject to a donor-imposed restriction that the donated principal be maintained in perpetuity by the Organization.

Cash

For purposes of the Statements of Cash Flows, cash held for investment purposes is included with investments and assets held for endowment.

December 31, 2016

2. Summary of Significant Accounting Policies (Continued)

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 the Organization's assessment of the current status of individual accounts. Accounts receivable determined to be uncollectible are written off through a charge to the allowance.

Contributions and Grants Receivable

Unconditional promises to give and grants committed to the Organization that are expected to be collected within one year are recorded at net realizable value. Conditional promises to give are not recognized as revenue until the conditions are substantially met. No allowance for doubtful accounts is provided as management considers all amounts to be collectible.

Investments

The fair value of investments is estimated based upon quoted market prices. Realized and unrealized gains and losses are reflected in the Statements of Unrestricted Activities and the Statements of Changes in Net Assets as unrestricted or temporarily restricted investment income depending on the donor restrictions of the underlying investments.

Fair Value Measurements

Certain financial instruments are required to be measured annually at fair value. Accounting standards provide the following three-tier fair value hierarchy determined by the inputs used in measuring fair value:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets
- Level 2: Observable inputs such as quoted prices in active markets for similar assets or other significant observable inputs
- Level 3: Significant unobservable inputs

The Organization's disclosures for investments (Notes 3, 5, and 6) include references to the above inputs.

December 31, 2016

2. Summary of Significant Accounting Policies (Continued)

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 Unrestricted Activities as miscellaneous income or loss.

Revenue Recognition

Governmental service fees are recognized as revenue in the period in which the related services are performed. Production contract sales were recognized as revenue upon shipment.

Contributions, including unconditional promises to give, are recognized as unrestricted, temporarily restricted, or permanently restricted revenue, depending on the existence and nature of any donor restrictions. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Unrestricted Activities as net assets released from restrictions. The Organization has elected to present temporarily restricted contributions as unrestricted contributions when the restrictions are fulfilled in the same year the contributions are received.

In-Kind Contributions

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. The estimated value of in-kind contributions was \$13,014 and \$6,550 for the years ended December 31, 2016 and 2015, respectively, and consisted of facilities and other direct costs related to the special event.

Special Event

Revenue from the special event is presented on the Statements of Unrestricted Activities net of direct costs of \$53,757 and \$54,019 in 2016 and 2015, respectively.

Advertising

Advertising costs are expensed as incurred and were \$44,779 and \$38,970 for the years ended December 31, 2016 and 2015, respectively.

December 31, 2016

2. Summary of Significant Accounting Policies (Continued)

Functional Expenses

Costs of program and supporting service activities have been presented in the Statements of Functional Expenses. Expenses are classified on a direct allocation basis, except for certain expenses allocated among the program services and supporting services categories 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.

Income Taxes

The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Charitable contributions to the Organization by donors are tax deductible.

Subsequent Events

Management has assessed the effects of subsequent events through May 2, 2017, the date the financial statements were available to be released.

3. Investments Held for Operations

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.

4. Accounts Receivable

Accounts receivable consisted of the following at December 31:

	2016	2015
Governmental Units	\$ 835,549	\$ 801,542
Trade Customers	64,594	107,983
Allowance for Doubtful Accounts	(7,892)	(5,941)
Total	<u>\$ 892,251</u>	<u>\$ 903,584</u>

Midwest Special Services, Inc.

Notes to Financial Statements

December 31, 2016

5. Investments Designated for Deferred Compensation

Investments designated for the funding of the deferred compensation obligation (see Note 11) were all measured based on Level 1 inputs and consisted of the following at December 31:

	2016	2015
Cash and Cash Equivalents	\$ 8,127	\$ 8,125
US Large Growth Equity Mutual Funds	122,768	111,006
Total	<u>\$ 130,895</u>	<u>\$ 119,131</u>

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

	2016	2015
Net Realized and Unrealized Gain (Loss)	\$ 8,388	\$ (3,411)
Dividends and Interest	3,376	4,171
Net Investment Return	<u>\$ 11,764</u>	<u>\$ 760</u>

6. Assets Held for Endowment

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

	2016	2015
Cash and Cash Equivalents	\$ 48,944	\$ 43,493
Investments Measured on Level 1 Inputs:		
Mutual Funds:		
US Equity	526,137	476,767
International Equity	126,244	122,764
US Corporate Bonds	377,359	360,930
International Corporate Bonds	46,881	53,213
Real Estate	48,191	54,304
Total	<u>\$ 1,173,756</u>	<u>\$ 1,111,471</u>

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

	2016	2015
Net Realized and Unrealized Gain (Loss)	\$ 66,446	\$ (65,852)
Dividends and Interest, Net of Fees	9,545	47,412
Net Investment Return	<u>\$ 75,991</u>	<u>\$ (18,440)</u>

Investment return is net of investment expense of \$9,677 and \$9,661 for the years ended December 31, 2016 and 2015, respectively.

Midwest Special Services, Inc.

Notes to Financial Statements

December 31, 2016

7. Land, Buildings and Equipment

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

	Useful Lives	2016	2015
Land		\$ 421,224	\$ 421,224
Buildings and Improvements	20–40 Years	4,035,908	3,977,279
Leasehold Improvements	3–40 Years	704,220	682,661
Transportation Equipment	5 Years	2,200,830	1,922,964
Furniture and Office Equipment	5 Years	1,036,861	1,020,916
Workshop Equipment	3–5 Years	77,878	313,369
Total Land, Buildings and Equipment		<u>8,476,921</u>	<u>8,338,413</u>
Less: Accumulated Depreciation		<u>(5,950,498)</u>	<u>(5,814,772)</u>
Land, Buildings and Equipment, Net		<u>\$ 2,526,423</u>	<u>\$ 2,523,641</u>

Depreciation expense was \$451,594 and \$425,330 for the years ended December 31, 2016 and 2015, respectively.

8. Intangible Assets

The Organization developed software both for internal use and for sale to external clients. Certain expenses relating to the software development were capitalized and are being amortized over a useful life of 8 years. The carrying value consisted of the following at December 31:

	2016	2015
E-Trac Software	\$ 463,734	463,734
Less: Accumulated Amortization	<u>(197,062)</u>	<u>(137,269)</u>
E-Trac Software, Net	<u>\$ 266,672</u>	<u>\$ 326,465</u>

Amortization expense was \$59,793 and \$59,391 for the years ended December 31, 2016 and 2015, respectively.

9. Lines of Credit Payable

The Organization has a line of credit agreement whereby it may borrow up to \$350,000. The agreement expires in May 2017, and requires monthly interest payments on the outstanding balance at prime plus 0.50% with a floor of 5.50%, the effective rate at December 31, 2016. The line of credit is secured by Organization assets. The balance outstanding under this credit agreement at December 31, 2016 and 2015 was \$125,000 and \$65,000, respectively.

The Organization has an additional line of credit agreement whereby it may borrow up to \$200,000 for facility improvements. The agreement expires in August 2017, and requires monthly interest payments on the outstanding balance at prime plus 0.50% with a floor of 4.95%, the effective rate at December 31, 2016. The line of credit is secured by Organization assets. The balance outstanding under this credit agreement at December 31, 2016 and 2015 was \$128,700 and \$168,300, respectively.

Midwest Special Services, Inc.

Notes to Financial Statements

December 31, 2016

10. Notes Payable

Notes payable consisted of the following at December 31, 2016 and 2015:

	2016	2015
Note Payable to Bank: Note payable in the original amount of \$400,000 issued to finance the cost of the final disposition of the defined-benefit plan, due in monthly installments of \$5,773, including interest at 0.50% over prime interest rate with a floor of 5.55% (effective rate of 5.55% at December 31, 2016). Final payment is due September 3, 2019. The note is secured by the Shoreview and Saint Paul properties.	\$ 181,059	\$ 238,352
Note Payable to Bank: Note payable in the original amount of \$50,013 issued to finance the cost of transportation equipment. Payments are due in monthly installments of \$1,151 including interest at 4.90%. Final payment is due December 15, 2020. The note is secured by the vehicle.	50,013	-
Note Payable to Bank: Note payable in the original amount of \$66,565 issued to finance the cost of transportation equipment. Payments are due in monthly installments of \$1,551 including interest at 5.5%. Final payment is due September 15, 2019. The note is secured by the vehicle.	47,344	62,831
Note Payable to Bank: Note payable in the original amount of \$66,566 issued to finance the cost of transportation equipment. Payments are due in monthly installments of \$1,551 including interest at 5.5%. Final payment is due August 15, 2019. The note is secured by the vehicle.	45,975	61,522
Note Payable to Bank: Note payable in the original amount of \$32,000 issued to finance the cost of transportation equipment. Payments are due in monthly installments of \$737 including interest at 5%. Final payment is due July 9, 2017. The note is secured by the vehicle.	5,083	13,450
Note Payable to Bank: Note payable in the original amount of \$34,540. This note was paid off in 2016.	-	5,530
Total Notes Payable	329,474	381,685
Less: Current Portion	(111,502)	(103,421)
Net Long-Term Notes Payable	\$ 217,972	\$ 278,264

Midwest Special Services, Inc.

Notes to Financial Statements

December 31, 2016

10. Notes Payable (Continued)

Aggregate maturities of long-term debt at December 31, 2016, are as follows:

Year	Amount
2017	\$ 111,502
2018	111,191
2019	93,407
2020	13,374
Total	<u>\$ 329,474</u>

11. Deferred Compensation

The Organization has a deferred compensation agreement with its former President. 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. A monthly payment of \$1,153 began on March 1, 2000 and is to be paid to him or his designated beneficiary for the shorter of the life of the agreement or their lifetimes. Any unpaid balance at the death of both beneficiaries will be forfeited back to the Organization.

The principal amount of the deferred compensation obligation was \$64,726 and \$71,715 at December 31, 2016 and 2015, respectively. Interest expense on the outstanding obligation amounted to \$6,856 and \$7,518 for the years ended December 31, 2016 and 2015, respectively. The Organization held investments valued at \$130,895 and \$119,131 at December 31, 2016 and 2015, respectively, to fund its obligation under the deferred compensation agreement (Note 5).

Future commitments of the deferred compensation obligation at December 31, 2016 are as follows, assuming the obligation continues for the full term:

Year	Amount
2017	\$ 13,836
2018	13,836
2019	13,836
2020	13,836
2021	13,836
Thereafter	18,448
Less: Interest	(22,902)
Total	<u>\$ 64,726</u>

 December 31, 2016

12. Temporarily Restricted Net Assets

The following schedule reflects net assets temporarily restricted by donors at December 31:

	2016	2015
Time Restrictions:		
Appreciation of Investments—O'Neil Endowment Fund	\$ 358,885	\$ 316,282
Program Restrictions:		
Community Hub Development	150,000	-
Minnesota Department of Transportation Grants	-	108,309
Other	4,394	27,732
Total	\$ 513,279	\$ 452,323

13. Endowment Fund

The Organization 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 the Organization. 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.

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 the Organization has interpreted UPMIFA as requiring the preservation of the original gift of donor-restricted endowment funds absent explicit donor stipulations to the contrary. The original gift is valued at fair value on the date of the gift. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of the gift donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

 December 31, 2016

13. Endowment Fund (Continued)

In accordance with UPMIFA, the Organization 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 the Organization 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 the Organization
- The investment policies of the Organization

Changes in the O'Neil Endowment Fund for the years ended December 31, 2016 and 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
January 1, 2015	\$ 18,517	\$ 334,722	\$ 770,306	\$ 1,123,545
Interest and Dividends, Net of Fees	-	47,412	-	47,412
Depreciation of Investments	-	(65,852)	-	(65,852)
Contributions	-	-	6,366	6,366
December 31, 2015	<u>\$ 18,517</u>	<u>\$ 316,282</u>	<u>\$ 776,672</u>	<u>\$ 1,111,471</u>
Interest and Dividends, Net of Fees	-	9,545	-	9,545
Appreciation of Investments	-	66,446	-	66,446
Contributions	-	-	19,682	19,682
Withdrawals	-	(33,388)	-	(33,388)
December 31, 2016	<u>\$ 18,517</u>	<u>\$ 358,885</u>	<u>\$ 796,354</u>	<u>\$ 1,173,756</u>

December 31, 2016

13. Endowment Fund (Continued)

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 the Organization 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. The Organization 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. The Organization also expects the O’Neil Endowment Fund to achieve a long-term total return equivalent to a benchmark of blended indices. The Organization 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.

Strategies Employed for Achieving Objectives—In accordance with the Endowment Investment Policy, the Organization’s Finance Committee, in conjunction with outside advisors, has developed a diversified endowment investment portfolio. The Organization’s investment strategy seeks both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization 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 committed to accumulating \$1,000,000 in the endowment fund before spending any of the accumulated earnings. The Board has chosen to release funds from the endowment for spending as long as the permanently restricted assets are preserved and the total endowment remains in excess of \$1,000,000.

14. Retirement Plan

The Organization adopted a defined-contribution 401(k) retirement plan effective January 1, 2005. Eligible employees may elect to contribute compensation to the plan under a salary reduction arrangement. The Organization 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 \$108,000 and \$105,000 for the years ended December 31, 2016 and 2015, respectively.

December 31, 2016

15. Lease Commitments

The Organization leases space for the Apple Valley, Eagan, Brooklyn Park, and Oakdale Day Training and Habilitation Centers under multi-year leases. Under the lease terms, the Organization pays a proportionate share of operating costs as additional rent.

Rent expense including operating costs for the years ended December 31, 2016 and 2015 was \$762,794 and \$756,050, respectively. Office equipment lease expense was \$27,308 and \$29,227 for the years ended December 31, 2016 and 2015, respectively.

Future minimum lease payments for operating leases with initial terms in excess of one year were as follows at December 31, 2016:

<u>Year</u>	<u>Amount</u>
2017	\$ 779,587
2018	663,801
2019	673,543
2020	96,316
2021	1,382
Total	<u>\$ 2,214,629</u>

16. Concentrations of Risk

Revenue from governmental units, primarily the State of Minnesota and the Counties of Ramsey, Hennepin, Dakota and Washington represented 86% and 85% of total unrestricted revenue from operations for the years ended December 31, 2016 and 2015, respectively.

17. Reclassifications

Certain reclassifications have been made to the 2015 presentation to provide comparability to the 2016 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, 2016, and have issued our report thereon dated May 2, 2017, which contained an unmodified opinion on those financial statements and which appears on page 1 and 2. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Extended Employment Revenue and Expenses January 1, 2016 to June 30, 2016 and the Schedule of Extended Employment Revenue and Expenses July 1, 2016 to December 31, 2016, which are the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Wilberon, Guthmann & Johnson Ltd.

Saint Paul, Minnesota
May 2, 2017

Midwest Special Services, Inc.

Schedule of Extended Employment Revenue and Expenses

For the Six Months from January 1 to June 30, 2016

	Work Activity Training	Long-Term Employment	Vocational Rehabilitation	Totals
Revenue				
MN DES—EE Grants	\$ 4,529	\$ 7,043	\$ 13,286	\$ 24,858
MN DES—VR Service Fees	-	-	107,215	107,215
County	13,900	-	-	13,900
Sales/Prime Product	49,434	93,469	22,411	165,314
Contributions/Donations	1,270	1,225	1,955	4,450
Other (United Way)	-	-	55,037	55,037
Miscellaneous (5% Max)	497	508	1,514	2,519
Total Revenue	69,630	102,245	201,418	373,293
Expenses				
Compensation:				
Staff Wages	38,824	26,483	112,153	177,460
Staff Benefits	7,368	5,137	19,285	31,790
Staff Payroll Taxes	4,883	3,250	13,877	22,010
Client Wages	20,026	35,663	20,837	76,526
Client Payroll Taxes	2,094	4,004	2,855	8,953
Temporary Worker	3,444	3,866	3,975	11,285
Client Transportation	1,166	25	1,879	3,070
Occupancy	4,914	4,482	6,249	15,645
Program Expenses	15,104	20,779	42,856	78,739
Contract Expenses	696	528	3,142	4,366
General/Administrative	578	2,984	35,460	39,022
Miscellaneous (5% Max)	542	47	909	1,498
Subtotal Expenses	99,639	107,248	263,477	470,364
Interest Expense	253	208	158	619
Depreciation Expense	3,040	1,643	18,817	23,500
	3,293	1,851	18,975	24,119
Total Expenses	102,932	109,099	282,452	494,483
(Deficiency) of Revenue Over Expenses	\$ (33,302)	\$ (6,854)	\$ (81,034)	\$ (121,190)

See independent auditor's report on supplementary information.

Exhibit A

Midwest Special Services, Inc.

Schedule of Extended Employment Revenue and Expenses

For the Six Months from July 1 to December 31, 2016

	Work Activity Training	Long-Term Employment	Vocational Rehabilitation	Totals
Revenue				
MN DES—EE Grants	\$ 8,133	\$ 13,175	\$ 26,531	\$ 47,839
MN DES—VR Service Fees	-	-	145,808	145,808
County	5,013	-	-	5,013
Sales/Prime Product	10,752	27,492	-	38,244
Contributions/Donations	77	68	3,720	3,865
Other (United Way)	-	-	58,458	58,458
Miscellaneous (5% Max)	15	12	3,085	3,112
Total Revenue	23,990	40,747	237,602	302,339
Expenses				
Compensation:				
Staff Wages	5,664	4,512	114,953	125,129
Staff Benefits	1,689	1,391	14,499	17,579
Staff Payroll Taxes	1,109	722	11,911	13,742
Client Wages	6,140	25,667	5,656	37,463
Client Payroll Taxes	839	2,103	986	3,928
Temporary Worker	476	571	333	1,380
Client Transportation	782	49	1,039	1,870
Occupancy	697	619	6,401	7,717
Program Expenses	751	715	20,684	22,150
Contract Expenses	93	71	321	485
General/Administrative	247	1,279	31,379	32,905
Miscellaneous (5% Max)	13	7	1,031	1,051
Subtotal Expenses	18,500	37,706	209,193	265,399
Interest Expense	38	32	110	180
Depreciation Expense	576	268	18,804	19,648
	614	300	18,914	19,828
Total Expenses	19,114	38,006	228,107	285,227
Excess of Revenue Over Expenses	\$ 4,876	\$ 2,741	\$ 9,495	\$ 17,112

See independent auditor's report on supplementary information.

Exhibit B