



Midwest Special Services, Inc.

Financial Statements,
Supplementary Information and
Independent Auditor's Report

December 31, 2020 and 2019

Midwest Special Services, Inc.

Contents

December 31, 2020 and 2019

Independent Auditor’s Report	1–2
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Financial Statements

Statements of Financial Position	3
Statements of Activities	4
Statements of Changes in Net Assets	5
Statements of Cash Flows	6
Statements of Functional Expenses	7-8
Notes to Financial Statements	9–24

Independent Auditor’s Report on Supplementary Information	25
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Statement of Activities—Employment Services	26
Statement of Activities—Day Training and Habilitation Centers	27



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. ("MSS"), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, changes in net assets, cash flows and functional expenses for the year 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 audit. We conducted our audit 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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Auditor’s Responsibility (Continued)

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, 2020, 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.

Prior Period Financial Statements

The financial statements of the Organization as of December 31, 2019 were audited by Wilkerson, Guthmann & Johnson, Ltd. who merged with Boyum & Barescheer PLLP as of January 1, 2021, and whose report dated April 22, 2020, expressed an unmodified opinion on those statements.

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

Boyum & Barescheer PLLP
Saint Paul, Minnesota
April 27, 2021

Midwest Special Services, Inc.

Statements of Financial Position

<i>December 31,</i>	2020	2019
ASSETS		
Current Assets		
Cash	\$ 266,890	\$ 146,233
Investments Held for Operations	40,000	40,000
Accounts Receivable, Net	727,261	1,228,657
Contributions and Grants Receivable	134,645	99,964
Prepaid Expenses and Other	116,300	194,162
Total Current Assets	1,285,096	1,709,016
Other Assets		
Investments Designated for Deferred Compensation	102,589	70,893
Assets Held for Endowment	1,610,692	1,350,809
Land, Buildings and Equipment, Net	1,669,103	1,981,776
Intangible Assets, Net	32,067	87,292
Total Other Assets	3,414,451	3,490,770
Total Assets	\$ 4,699,547	\$ 5,199,786
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current Portion of Notes Payable	\$ 18,546	\$ 31,090
Current Portion of Deferred Compensation Obligation	11,484	10,396
Accounts Payable	92,354	349,339
Accrued Liabilities	293,071	255,661
Total Current Liabilities	415,455	646,486
Long-Term Liabilities		
Notes Payable, Net of Current Portion	188,070	56,656
Deferred Compensation Obligation, Net of Current Portion	17,219	28,703
Total Long-Term Liabilities	205,289	85,359
Total Liabilities	620,744	731,845
Net Assets		
Net Assets Without Donor Restrictions	2,402,936	2,935,643
Net Assets With Donor Restrictions	1,675,867	1,532,298
Total Net Assets	4,078,803	4,467,941
Total Liabilities and Net Assets	\$ 4,699,547	\$ 5,199,786

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

Midwest Special Services, Inc.

Statements of Activities

For the Years Ended December 31, 2020 and 2019

	2020						2019					
	Without Donor Restrictions					Totals	Without Donor Restrictions					Totals
	Employment Services	Day Training and Habilitation	Other Operating	Other Non-Operating	With Donor Restrictions		Employment Services	Day Training and Habilitation	Other Non-Operating	With Donor Restrictions		
Revenue:												
Training Fees—County	\$ 444,060	\$ 3,017,525	\$ -	\$ -	\$ -	\$ 3,461,585	\$ 620,361	\$ 9,647,371	\$ -	\$ -	\$ 10,267,732	
Mobile Work Crew/Subcontract Sales	145,208	32,011				177,219	224,936	87,019			311,955	
Case Service Income	92,067					92,067	43,498				43,498	
Extended Employment and Wage Equity	159,597					159,597	112,998				112,998	
Staff Billings for Leased Staff	66,591	604,450				671,041					-	
Grants and Contributions	335,186	170,424			157,974	663,584	81,390	44,692		174,586	300,668	
Government Grants—PPP Loan Forgiveness			1,247,000			1,247,000					-	
Governmental Emergency Funding			1,035,205			1,035,205					-	
Interest and Investment Income	11	38			179,979	180,028	99	128		215,540	215,767	
Special Event, Net				124,440		124,440			109,840		109,840	
Deferred Compensation Investment Income				31,777		31,777			18,393		18,393	
Miscellaneous Income	98,835	33,486				132,321	39,235	62,180	212		101,627	
Released from Restriction	74,288	120,096			(194,384)	-	117,630	159,739		(277,369)	-	
Total Revenue	1,415,843	3,978,030	2,282,205	156,217	143,569	7,975,864	1,240,147	10,001,129	128,445	112,757	11,482,478	
Expenses:												
Program Services	1,165,005	5,764,810				6,929,815	1,369,894	8,696,110			10,066,004	
Supporting Services:												
Management and General	82,930	1,173,592				1,256,522	85,514	1,311,298			1,396,812	
Fundraising	11,792	166,873				178,665	11,388	174,630			186,018	
Total Expenses	1,259,727	7,105,275	-	-	-	8,365,002	1,466,796	10,182,038	-	-	11,648,834	
Increase (Decrease) in Net Assets	\$ 156,116	\$ (3,127,245)	\$ 2,282,205	\$ 156,217	\$ 143,569	\$ (389,138)	\$ (226,649)	\$ (180,909)	\$ 128,445	\$ 112,757	\$ (166,356)	

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>	2020	2019
Net Assets Without Donor Restrictions		
Net Assets, Beginning of Year	\$ 2,935,643	\$ 3,214,756
Change in Net Assets Without Donor Restrictions:		
Employment Services	156,116	(226,649)
Day Training and Habilitation	(3,127,245)	(180,909)
Other Operating	2,282,205	-
Other Non-Operating	156,217	128,445
Net Assets Without Donor Restrictions, End of Year	\$ 2,402,936	\$ 2,935,643
Net Assets With Donor Restrictions		
Net Assets, Beginning of Year	\$ 1,532,298	\$ 1,419,541
Change in Net Assets With Donor Restrictions	143,569	112,757
Net Assets With Donor Restrictions, End of Year	\$ 1,675,867	\$ 1,532,298
Change in Net Assets Without Donor Restrictions	\$ (532,707)	\$ (279,113)
Change in Net Assets With Donor Restrictions	143,569	112,757
Total Change in Net Assets	\$ (389,138)	\$ (166,356)

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>	2020	2019
Cash Flows from Operating Activities		
Cash Received From Program Services	\$ 5,032,055	\$ 10,520,023
Cash Received From Grants and Contributions, Net of Amounts		
Restricted For Long-Term Purposes	2,770,410	352,478
Receipts from Special Events	124,440	109,840
Other Cash Receipts	131,847	100,409
Payments for Staff Wages, Taxes, and Benefits	(5,535,987)	(7,014,810)
Payments for Client Wages, Taxes, and Benefits	(132,895)	(274,094)
Payments to Vendors	(2,269,785)	(3,922,289)
Payments on Deferred Compensation Plan	(10,396)	(9,404)
Cash Paid for Interest	(7,638)	(7,980)
Net Cash Provided by (Used In) Operating Activities	<u>102,051</u>	<u>(145,827)</u>
Cash Flows from Investing Activities		
Proceeds from Sale of Property and Equipment	29,645	1,445
Purchases of Property and Equipment	(129,906)	(336,930)
Purchases of Investments	(351,260)	(79,754)
Proceeds from Sale of Investments	338,000	91,000
Net Cash (Used In) Investing Activities	<u>(113,521)</u>	<u>(324,239)</u>
Cash Flows from Financing Activities		
Contributions Restricted for Endowment	5,348	33,448
Interest and Dividends Restricted for Endowment	7,260	14,341
Proceeds From Notes Payable	149,900	75,731
Principal Payments on Notes Payable	(31,030)	(40,006)
Net Cash Provided by Financing Activities	<u>131,478</u>	<u>83,514</u>
Net Change in Cash and Restricted Cash	<u>120,008</u>	<u>(386,552)</u>
Cash and Restricted Cash, Beginning of Year	193,675	580,227
Cash and Restricted Cash, End of Year	\$ 313,683	\$ 193,675

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

Midwest Special Services, Inc.

Statements of Functional Expenses

For the Year Ended December 31, 2020 and (with comparative totals for 2019)

	2020					2019	
	Program Services			Management and General	Fundraising	Totals	Totals
	Employment Services	Day Training and Habilitation	Total Program Services Expenses				
Personnel Expenses:							
Salaries and Wages	\$ 559,997	\$ 2,769,552	\$ 3,329,549	\$ 832,990	\$ 128,489	\$ 4,291,028	\$ 5,599,801
Employee Benefits	123,890	512,162	636,052	143,645	12,909	792,606	718,984
Payroll Taxes and Insurance	72,957	320,991	393,948	72,430	11,130	477,508	478,664
Non-Staff Services	-	12,840	12,840	-	-	12,840	185,882
	756,844	3,615,545	4,372,389	1,049,065	152,528	5,573,982	6,983,331
Operating Expenses:							
Transportation	52,190	474,482	526,672	-	-	526,672	1,659,772
Occupancy	20,523	812,069	832,592	2,926	600	836,118	921,837
Depreciation and Amortization	112,161	329,838	441,999	26,768	-	468,767	485,647
Repair and Maintenance	14,490	128,862	143,352	4,946	600	148,898	318,766
Client Wages, Taxes and Benefits	107,122	25,773	132,895	-	-	132,895	274,092
Program Activity and Supplies	9,874	149,908	159,782	-	-	159,782	259,607
Office/Technology	34,733	101,405	136,138	56,584	8,773	201,495	257,044
Professional Fees	10,867	12,928	23,795	76,585	7,520	107,900	161,227
Miscellaneous	9,708	28,127	37,835	20,428	2,087	60,350	75,832
Nursing Services	1,757	19,038	20,795	-	-	20,795	63,927
Meeting and Travel	5,478	5,601	11,079	2,025	60	13,164	46,270
Staff Recruitment/Advertising	1,420	8,088	9,508	196	267	9,971	44,213
Dues, Licensing, and Subscriptions	1,727	9,552	11,279	13,259	3,789	28,327	35,903
Building and Other Insurance	8,877	18,786	27,663	2,618	2,076	32,357	31,061
Training	4,834	6,358	11,192	1,122	365	12,679	21,105
Bad Debt	12,400	18,450	30,850	-	-	30,850	9,200
	408,161	2,149,265	2,557,426	207,457	26,137	2,791,020	4,665,503
Total Expenses	\$ 1,165,005	\$ 5,764,810	\$ 6,929,815	\$ 1,256,522	\$ 178,665	\$ 8,365,002	\$ 11,648,834
Percentages	14%	69%	83%	15%	2%		

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

Midwest Special Services, Inc.

Statements of Functional Expenses

For the Year Ended December 31, 2019

	Program Services			Management and General	Fundraising	Totals
	Employment Services	Day Training and Habilitation	Total Program Services Expenses			
Personnel Expenses:						
Salaries and Wages	\$ 656,053	\$ 3,890,924	\$ 4,546,977	\$ 923,414	\$ 129,410	\$ 5,599,801
Employee Benefits	97,191	481,444	578,635	128,519	11,830	718,984
Payroll Taxes and Insurance	65,895	334,890	400,785	68,863	9,016	478,664
Non-Staff Services	-	185,882	185,882	-	-	185,882
	819,139	4,893,140	5,712,279	1,120,796	150,256	6,983,331
Operating Expenses:						
Transportation	94,909	1,564,863	1,659,772	-	-	1,659,772
Occupancy	22,903	894,936	917,839	3,398	600	921,837
Depreciation and Amortization	117,591	338,073	455,664	29,983	-	485,647
Repair and Maintenance	23,473	287,304	310,777	7,389	600	318,766
Client Wages, Taxes and Benefits	169,766	104,326	274,092	-	-	274,092
Program Activity and Supplies	18,383	241,224	259,607	-	-	259,607
Office/Technology	42,481	133,374	175,855	72,360	8,829	257,044
Professional Fees	8,954	36,587	45,541	100,138	15,548	161,227
Miscellaneous	15,773	36,226	51,999	22,022	1,811	75,832
Nursing Services	3,552	60,375	63,927	-	-	63,927
Meeting and Travel	11,613	19,190	30,803	14,926	541	46,270
Staff Recruitment/Advertising	3,871	37,917	41,788	681	1,744	44,213
Dues, Licensing, and Subscriptions	2,066	11,295	13,361	19,191	3,351	35,903
Building and Other Insurance	8,529	17,975	26,504	2,504	2,053	31,061
Training	4,491	12,505	16,996	3,424	685	21,105
Bad Debt	2,400	6,800	9,200	-	-	9,200
	550,755	3,802,970	4,353,725	276,016	35,762	4,665,503
Total Expenses	\$ 1,369,894	\$ 8,696,110	\$ 10,066,004	\$ 1,396,812	\$ 186,018	\$ 11,648,834
Percentages	11%	75%	86%	12%	2%	

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

December 31, 2020 and 2019

1. Organization

MSS is a nonprofit corporation that provides services and supports to over 600 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 intergraded employment.

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. Board designated amounts within this class represent those net assets that the Board has set aside for a particular purpose until the Board of Directors designates how the funds will be utilized.

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. 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.

December 31, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

Cash

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).

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.

Contributions and Grants Receivable

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 not recognized as revenue until the conditions are substantially met.

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 investment income (loss) 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

Disclosures for investments (Notes 5, 7, and 8) include references to the above inputs.

December 31, 2020 and 2019

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 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.

Mobile Work Crew/Subcontract Sales revenue is recognized as revenue in the period in which the related services are performed.

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

Contributions, including unconditional promises to give, are recognized as revenue without donor restrictions or with donor restrictions, based on the existence and nature of any donor restrictions.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. The organization 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) 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.

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.

December 31, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

MSS holds events during the year in order to raise funds. Revenue from sponsorships and ticket sales 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. The estimated value of in-kind contributions was \$78,959 and \$41,129 for the years ended December 31, 2020 and 2019, respectively, and consisted of other direct costs related to the special event and gifts to facilities.

Advertising

Advertising costs are expensed as incurred and were \$359 and \$10,780 for the years ended December 31, 2020 and 2019, respectively.

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.

December 31, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

MSS is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Organization 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 tax 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.

Subsequent Events

Management has assessed the effects of subsequent events through April 27, 2021, the date the financial statements were available to be released (See Note 23).

Adoption of New Accounting Pronouncements

Revenue From Contracts With Customers—In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contract for the transfer of nonfinancial assets. Under ASU 2014-09, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. ASU 2014-09 was effective for the year ended December 31, 2019. The new standard requires a modified retrospective adoption. There was no adjustment due to the cumulative impact of adopting ASC 606.

Contributions Received and Contributions Made—Effective January 1, 2019, the Organization has adopted Accounting Standards Update (ASU) No. 2018-08 Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958) as the standard improves the usefulness and understandability of the Organization's financial reporting. The new ASU provides guidance on determining whether a transaction should be accounted for as a contribution or as an exchange transaction. A primary aspect of this guidance is the determination on whether two parties receive and sacrifice commensurate value to distinguish which guidance should be applied. FASB 958-605, Not-for-Profit Entities – Revenue Recognition should be followed for contributions while FASB 606, Revenue from Contracts with Customers should be followed for exchange transactions. The adoption of this new guidance was done using the modified prospective method for contributions received. Guidance for contributions made is applicable for periods beginning after December 15, 2019. The new standard was adopted using a modified prospective adoption. There was no adjustment due to the cumulative impact of adopting ASU 2018-08.

 December 31, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Standards

Leases—In February 2016, the FASB issued ASU 2016-02, Leases, which amends the existing accounting standards for lease accounting, including changes to accounting for leases for Lessors. In 2020, the FASB delayed the effective date for nonpublic entities to fiscal years beginning after December 15, 2021. Early adoption is permitted. The new lease standard requires a modified retrospective adoption. MSS is evaluating the impact.

Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07)—Effective in 2022, the amendments in this Update apply to nonprofit organizations that receive contributed nonfinancial assets. Contribution revenue may be presented in the financial statements using different terms (for example, gifts, donations, grants, gifts-in-kind, donated services, or other terms). The amendments address presentation and disclosure of contributed nonfinancial assets. The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets.

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 balance sheet date, are comprised of the following:

	2020	2019
Cash and Cash Equivalents	\$ 266,890	\$ 146,233
Investments Held for Operations	40,000	40,000
Accounts Receivable, Net	727,261	1,228,657
Contributions and Grants Receivable	129,623	30,000
Total	<u>\$ 1,163,774</u>	<u>\$ 1,444,890</u>

MSS's goal is generally to maintain financial assets to meet 60 days of operating expenses (approximately \$2,000,000). 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 where it can borrow up to \$700,000 for use in operations (Note 11). MSS held investments valued at \$102,589 at December 31, 2020 to fund its obligation under the deferred compensation agreement (Note 13). 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 15).

December 31, 2020 and 2019

4. Cash and Restricted 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:

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 266,890	146,233
Investments Held for Operations	40,000	40,000
Assets Held for Endowment	6,793	7,442
Total	<u>\$ 313,683</u>	<u>\$ 193,675</u>

5. 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.

6. Accounts Receivable

Accounts receivable consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Governmental Units	\$ 671,638	\$ 1,198,394
Mobile Work Crew Customers	61,987	34,956
Allowance for Doubtful Accounts	(6,364)	(4,693)
Total	<u>\$ 727,261</u>	<u>\$ 1,228,657</u>

7. Investments Designated for Deferred Compensation

Investments designated for the funding of the deferred compensation obligation (see Note 13) were mutual funds measured based on Level 1 inputs.

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

	<u>2020</u>	<u>2019</u>
Net Realized and Unrealized Gain (Loss)	\$ 18,040	\$ 13,755
Dividends and Interest, Net of Fees	13,737	4,638
Net Investment Return	<u>\$ 31,777</u>	<u>\$ 18,393</u>

December 31, 2020 and 2019

8. Assets Held for Endowment

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

	2020	2019
Cash	\$ 6,794	\$ 7,443
Money Market Funds	385,649	58,119
Endowment Receivables	74,554	-
Investments Measured on Level 1 Inputs:		
Mutual Funds	1,143,695	1,285,247
Total	<u>\$ 1,610,692</u>	<u>\$ 1,350,809</u>

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

	2020	2019
Net Realized and Unrealized Gain (Loss)	\$ 172,720	\$ 201,199
Dividends and Interest, Net of Fees	7,259	14,341
Net Investment Return	<u>\$ 179,979</u>	<u>\$ 215,540</u>

Investment return is net of investment expense of \$10,565 and \$10,567 for the years ended December 31, 2020 and 2019, respectively.

9. Land, Buildings and Equipment

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

	Useful Lives	2020	2019
Land		\$ 421,224	\$ 421,224
Buildings and Improvements	20–40 Years	4,121,093	4,121,093
Leasehold Improvements	3–40 Years	759,005	724,894
Transportation Equipment	5 Years	2,425,984	2,398,269
Furniture and Office Equipment	5 Years	1,166,952	1,151,361
Workshop Equipment	3–5 Years	77,878	77,878
Construction in Progress		-	28,845
Total Land, Buildings and Equipment		8,972,136	8,923,564
Less: Accumulated Depreciation		<u>(7,303,033)</u>	<u>(6,941,788)</u>
Land, Buildings and Equipment, Net		<u>\$ 1,669,103</u>	<u>\$ 1,981,776</u>

Depreciation expense was \$413,542 and \$425,854 for the years ended December 31, 2020 and 2019, respectively.

December 31, 2020 and 2019

10. Intangible Assets

MSS 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 the estimated useful life (ranging from 5 to 8 years). The carrying value consisted of the following at December 31:

	2020	2019
E-Trac Software	\$ 463,734	463,734
Less: Accumulated Amortization	<u>(431,667)</u>	<u>(376,442)</u>
E-Trac Software, Net	<u>\$ 32,067</u>	<u>\$ 87,292</u>

Amortization expense was \$55,225 and \$59,793 for the years ended December 31, 2020 and 2019, respectively.

11. Lines 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 4.50%, the effective rate at December 31, 2020. The line of credit is secured by MSS assets. There were no outstanding balances on this line of credit at December 31, 2020 and 2019.

12. Notes Payable

Notes payable consisted of the following at December 31:

	2020	2019
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 was due December 15, 2020. The note was collateralized by the vehicle.	\$ -	\$ 13,446
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.	<u>56,716</u>	<u>74,300</u>
Subtotal	<u>\$ 56,716</u>	<u>\$ 87,746</u>

December 31, 2020 and 2019

12. Notes Payable (Continued)

	2020	2019
Subtotal Carried Forward	\$ 56,716	\$ 87,746
Note Payable to U.S. Small Business Administration (SBA): Note payable in the original amount of \$149,900 due in monthly installments of \$641 beginning July 19, 2022 including interest at 2.75% and maturing in July 2050. The note is secured by substantially all assets of MSS.	149,900	-
Total Notes Payable	206,616	87,746
Less: Current Portion	(18,546)	(31,090)
Net Long-Term Notes Payable	<u>\$ 188,070</u>	<u>\$ 56,656</u>

Aggregate maturities of long-term debt at December 31, 2020, are as follows:

Year	Amount
2021	\$ 18,546
2022	20,910
2023	22,138
2024	3,560
2025	3,659
Thereafter	137,803
Total	<u>\$ 206,616</u>

EIDL Loan

On July 20, 2020, the MSS executed the standard loan documents required for securing a loan (the “EIDL Loan”) from the United States Small Business Administration (the “SBA”) under its Economic Injury Disaster Loan assistance program in light of the impact of the COVID-19 pandemic on the MSS’s business. The principal amount of the EIDL Loan is \$149,900, with proceeds to be used for working capital purposes. Interest on the EIDL Loan accrues at the rate of 2.75% per annum and installment payments, including principal and interest, are due monthly beginning twenty-four months from the date of the EIDL Loan in the amount of \$641. The balance of principal and interest is payable thirty years from the date of the promissory note.

December 31, 2020 and 2019

13. Deferred Compensation

MSS has a deferred compensation agreement with a 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 the executive or 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 MSS. The former President passed away in April 2020 and the monthly benefit is currently being paid to the designated beneficiary.

The principal amount of the deferred compensation obligation was \$28,703 and \$39,099 at December 31, 2020 and 2019, respectively. Interest expense on the outstanding obligation amounted to \$3,441 and \$4,432 for the years ended December 31, 2020 and 2019, respectively. MSS held investments valued at \$102,589 and \$70,893 at December 31, 2020 and 2019, respectively, to fund its obligation under the deferred compensation agreement (Note 7).

Future commitments of the deferred compensation obligation at December 31, 2020 are as follows, assuming the obligation continues for the full term:

<u>Year</u>	<u>Amount</u>
2021	\$ 13,836
2022	13,836
2023	4,612
Less: Interest	<u>(3,581)</u>
Total	<u>\$ 28,703</u>

14. Net Assets With Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Time Restrictions:		
Appreciation of Investments—O'Neil Endowment Fund	\$ 680,686	\$ 500,707
Program Restrictions:		
Art Related Grants	65,175	51,253
Community Hub Development		65,288
Minnesota Department of Transportation Grants		64,948
Amounts Required to be Maintained in Perpetuity:		
O'Neil Endowment Fund	<u>930,006</u>	<u>850,102</u>
Total	<u>\$ 1,675,867</u>	<u>\$ 1,532,298</u>

December 31, 2020 and 2019

15. 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.

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, 2020 and 2019, 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

December 31, 2020 and 2019

15. Endowment Fund (Continued)

Changes in the O’Neil Endowment Fund for the years ended December 31, 2020 and 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
January 1, 2019	\$	\$ 1,160,854	\$ 1,160,854
Interest and Dividends, Net of Fees		14,341	14,341
Appreciation of Investments		201,199	201,199
Contributions		33,448	33,448
Withdrawals and Transfers		(59,033)	(59,033)
December 31, 2019	\$ -	\$ 1,350,809	\$ 1,350,809
Interest and Dividends, Net of Fees		7,259	7,259
Appreciation of Investments		172,720	172,720
Contributions		79,904	79,904
December 31, 2020	\$ -	\$ 1,610,692	\$ 1,610,692

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.

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.

December 31, 2020 and 2019

15. Endowment Fund (Continued)

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 principal restricted in accordance with the donor’s wishes is preserved and the total endowment remains in excess of \$1,000,000.

16. 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 \$80,000 and \$97,000 for the years ended December 31, 2020 and 2019, respectively.

17. Lease Commitments

MSS leases space for the Apple Valley, Eagan, Brooklyn Park, and Oakdale licensed DT&H programs under multi-year leases. Under the lease terms, MSS pays a proportionate share of operating costs as additional rent. In addition, MSS leased space in a building under a multi-year lease, which expired in 2020, for a collaborative art gallery in St. Paul.

Rent expense including operating costs was \$756,979 and \$857,791 for the years ended December 31, 2020 and 2019, respectively. Office equipment lease expense was approximately \$24,000 and \$27,000 for the years ended December 31, 2020 and 2019, respectively.

Future minimum lease payments for operating leases with initial terms in excess of one year are approximately as follows at December 31, 2020:

Year	Amount
2021	\$ 794,000
2022	712,000
2023	263,000
2024	230,000
2025	38,000
Total	<u>\$ 2,037,000</u>

December 31, 2020 and 2019

18. Special Event

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

	<u>2020</u>	<u>2019</u>
Gross Revenue	\$ 152,302	\$ 171,706
Less:		
Cost of Direct Benefit to Donors	18,163	28,280
Other Direct Costs	<u>9,699</u>	<u>33,586</u>
Special Event Revenue, Net	<u>\$ 124,440</u>	<u>\$ 109,840</u>

19. Concentrations of Risk

Revenue from governmental units, primarily the State of Minnesota and the Counties of Ramsey, Hennepin, Dakota and Washington included under Employment Services and Day Training and Habilitation on the Statements of Activities represented 49% and 94% of total revenue for each of the years ended December 31, 2020 and 2019, respectively. Revenue from Federal, state, and local government grants on the Statement of Activities represented approximately 29% of total revenue for the year ended December 31, 2020.

20. Reclassifications

Certain reclassifications have been made to the 2019 presentation to provide comparability to the 2020 presentation.

21. Paycheck Protection Program

In April 2020, MSS was granted and received a \$1,247,000 loan under the Paycheck Protection Program “PPP” administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and was fully guaranteed by the Federal government. MSS initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. MSS applied for forgiveness with the lender in 2020 and received forgiveness of \$1,247,000 from the Small Business Administration (SBA) in December 2020. MSS has recognized \$1,247,000 as grant revenue for the year ended December 31, 2020, which represents 100% of the loan proceeds.

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 review may include the loan forgiveness application, eligibility for the program, as well as whether the Organization received the proper loan amount. The timing and outcome of any SBA review is not known.

December 31, 2020 and 2019

22. Uncertainty

In March 2020, the United States of America declared a national emergency related to the coronavirus (COVID-19) pandemic and it is anticipated that the impact will continue for some time. Impacts of COVID-19 during 2020 included disruption and restriction on MSS's employees' ability to work, MSS's ability to put on fundraising events, and temporary closures of MSS's facilities. The potential economic impact brought by, and for the duration of, COVID-19 is difficult to assess and will depend on future developments that are highly uncertain and cannot be predicted at this time.

23. Paycheck Protection Program—Second Draw

Subsequent to year-end in February 2021, MSS received loan proceeds in the amount of \$1,247,000 under a second draw PPP loan. The second draw PPP loan was established to provide loans to qualifying businesses. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness might be reduced if the borrower terminates employees or reduces salaries during the measured period.

The unforgiven part of the second draw PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. MSS believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan.

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, 2020, and have issued our report thereon dated April 27, 2021, which contained an unmodified opinion on those financial statements and which 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 Training and Habilitation Centers 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
Saint Paul, Minnesota
April 27, 2021

Midwest Special Services, Inc.

Statement of Activities—Employment Services

For the Year Ended December 31, 2020

	Employment Services DT & H	Community Hub	Vocational Rehabilitation	Totals
Revenue:				
Training Fees—County	\$ 444,060	\$ -	\$ -	\$ 444,060
Mobile Work Crew/Subcontract Sales	95,783	-	49,425	145,208
Case Service Reimbursement	-	-	92,067	92,067
Extended Employment and Wage Equity	-	-	159,597	159,597
Staff Billings for Leased Staff	66,436	13	142	66,591
Grants and Contributions	123,110	-	212,076	335,186
Interest and Investment Income	8	-	3	11
Miscellaneous Income	4,902	55,690	38,243	98,835
Released from Restriction	9,000	35,288	30,000	74,288
Total Revenue	743,299	90,991	581,553	1,415,843
Personnel Expenses:				
Salaries and Wages	351,856	23,738	184,403	559,997
Employee Benefits	73,111	3,356	47,423	123,890
Payroll Taxes and Insurance	51,510	1,906	19,541	72,957
Total Personnel Expenses	476,477	29,000	251,367	756,844
Operating Expenses:				
Client Wages, Taxes and Benefits	73,481	-	33,641	107,122
Depreciation and Amortization	72,549	9,443	30,169	112,161
Transportation	50,546	1,403	241	52,190
Office/Technology	19,621	1,021	14,091	34,733
Repair and Maintenance	10,415	1,937	2,138	14,490
Occupancy	17,161	1,275	2,087	20,523
Program Activity and Supplies	9,712	-	162	9,874
Miscellaneous	7,864	212	1,632	9,708
Meeting and Travel	377	57	5,044	5,478
Professional Fees	771	1,333	8,763	10,867
Building and Other Insurance	7,556	-	1,321	8,877
Training	883	-	3,951	4,834
Staff Recruitment/Advertising	1,020	-	400	1,420
Nursing Services	1,757	-	-	1,757
Bad Debt	9,275	-	3,125	12,400
Dues, Licensing, and Subscriptions	1,589	-	138	1,727
Total Expenses	284,577	16,681	106,903	408,161
Total Program Services Expenses	761,054	45,681	358,270	1,165,005
Management and General Expenses	44,607	-	38,324	82,930
Fundraising Expenses	6,343	-	5,449	11,792
Total Expenses	812,003	45,681	402,043	1,259,727
Net from Operations	\$ (68,704)	\$ 45,310	\$ 179,510	\$ 156,116

See independent auditor's report on supplementary information.

Midwest Special Services, Inc.

Statement of Activities—Day Training and Habilitation Centers

For the Year Ended December 31, 2020

	St. Paul	Shoreview	Apple Valley	Brooklyn Park	Eagan	Oakdale	Totals
Revenue:							
Training Fees—County	\$ 489,285	\$ 357,968	\$ 545,828	\$ 410,992	\$ 650,771	\$ 562,681	\$ 3,017,525
Mobile Work Crew/Subcontract Sales	4,107	-	401	139	222	27,142	32,011
Staff Billings for Leased Staff	130,754	154,904	25,129	92,445	199,056	2,162	604,450
Grants and Contributions	31,294	16,007	31,444	29,818	44,877	16,984	170,424
Interest Income	25	-	2	4	4	3	38
Miscellaneous Income	5,150	3,412	6,667	9,088	6,906	2,263	33,486
Released from Restriction	73,538	8,842	5,307	8,966	9,747	13,696	120,096
Total Revenue	734,153	541,133	614,778	551,452	911,583	624,931	3,978,030
Personnel Expenses:							
Salaries and Wages	567,658	375,543	435,262	392,309	621,777	377,003	2,769,552
Employee Benefits	82,956	71,255	132,323	69,212	103,441	52,975	512,162
Payroll Taxes and Insurance	64,740	45,644	57,406	50,267	67,154	35,780	320,991
Non-Staff Services	-	3,232	-	9,608	-	-	12,840
Total Personnel Expenses	715,354	495,674	624,991	521,396	792,372	465,758	3,615,545
Operating Expenses:							
Transportation	91,604	94,841	58,253	46,577	69,962	113,245	474,482
Occupancy	11,569	15,472	223,178	142,320	261,961	157,569	812,069
Depreciation and Amortization	74,444	63,671	37,009	65,411	82,067	7,236	329,838
Repair and Maintenance	28,548	19,879	15,133	14,324	24,119	26,859	128,862
Program Activity and Supplies	23,915	20,904	20,813	24,332	33,769	26,175	149,908
Office/Technology	18,489	15,204	17,782	18,008	17,011	14,911	101,405
Client Wages, Taxes and Benefits	4,836	533	2,046	534	1,064	16,760	25,773
Nursing Services	5,719	2,128	3,154	1,938	4,047	2,052	19,038
Staff Recruitment/Advertising	1,291	2,510	1,362	986	1,384	555	8,088
Professional Fees	1,927	1,004	4,527	1,241	2,938	1,291	12,928
Miscellaneous	11,612	1,910	5,006	5,565	2,667	1,367	28,127
Meeting and Travel	215	428	1,148	1,143	942	1,725	5,601
Building and Other Insurance	4,851	3,764	2,236	2,944	2,776	2,215	18,786
Training	1,101	760	1,443	1,024	1,363	667	6,358
Dues, Licensing, and Subscriptions	1,781	1,563	1,588	1,834	1,503	1,283	9,552
Bad Debt	2,325	1,900	3,400	2,925	4,000	3,900	18,450
Total Expenses	284,227	246,471	398,078	331,106	511,573	377,810	2,149,265
Total Program Services Expenses	999,581	742,145	1,023,069	852,502	1,303,945	843,568	5,764,810
Management and General Expenses	123,767	107,307	259,849	271,032	312,497	99,140	1,173,592
Fundraising Expenses	17,599	15,258	36,948	38,538	44,434	14,097	166,873
Total Expenses	1,140,947	864,710	1,319,866	1,162,072	1,660,876	956,804	7,105,275
Net from Operations	\$ (406,794)	\$ (323,577)	\$ (705,088)	\$ (610,620)	\$ (749,293)	\$ (331,873)	\$ (3,127,245)