



Financial Statements  
December 31, 2010 and 2009  
**Lifeworks Services, Inc.**

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## Independent Auditor's Report

The Board of Directors  
Lifeworks Services, Inc.  
Eagan, Minnesota

We have audited the accompanying statements of financial position of Lifeworks Services, Inc. (a nonprofit organization) (Organization) as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lifeworks Services, Inc. as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Minneapolis, Minnesota  
April 14, 2011

	<u>2010</u>	<u>2009</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,278,380	\$ 49,710
Investments	1,446,957	1,291,290
Accounts receivable, net of allowance for doubtful accounts of \$130,000 and \$120,000 for 2010 and 2009	3,663,010	4,159,278
Miscellaneous receivable	5,741	7,762
Prepaid expenses	476,361	243,418
Total current assets	<u>6,870,449</u>	<u>5,751,458</u>
Property and Equipment, Net	<u>1,811,515</u>	<u>1,561,968</u>
Other Assets		
Assets limited as to use	175,000	175,000
Deferred compensation investment	143,574	114,353
	<u>318,574</u>	<u>289,353</u>
	<u>\$ 9,000,538</u>	<u>\$ 7,602,779</u>

See Notes to Financial Statements

Lifeworks Services, Inc.  
Statements of Financial Position  
December 31, 2010 and 2009

	2010	2009
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 28,833	\$ 121,581
Line of credit	-	-
Accounts payable	237,890	280,651
Accrued salaries and related expenses	1,535,627	1,251,347
Accrued vacation and sick pay	423,136	398,982
Other accrued expenses	3,356	3,644
Deferred revenue	362	26,253
	2,229,204	2,082,458
<b>Other Liabilities</b>		
Long-term debt	26,430	55,263
Deferred compensation	143,574	114,353
	170,004	169,616
	2,399,208	2,252,074
<b>Net Assets</b>		
<b>Unrestricted</b>		
Investment in property and equipment	1,811,515	1,561,968
Undesignated	4,601,265	3,613,737
	6,412,780	5,175,705
<b>Temporarily restricted</b>	188,550	175,000
	6,601,330	5,350,705
	\$ 9,000,538	\$ 7,602,779

	2010		
	Unrestricted	Temporarily Restricted	Total
<b>Support and Revenue</b>			
Service contracts			
County	\$ 2,366,350	\$ -	\$ 2,366,350
Medicaid and waived services	44,125,536	-	44,125,535
Vocational	2,567,694	-	2,567,694
DRS and school contracts	56,819	-	56,819
Contributions and grants	726,495	13,550	740,045
Private pay	41,839	-	41,839
Investment income	14,421	-	14,421
Net gain (loss) on investments and deferred compensation investment	144,887	-	144,887
Other	103,145	-	103,145
Net assets released from restriction	-	-	-
<b>Total support and revenue</b>	<b>50,147,186</b>	<b>13,550</b>	<b>50,160,736</b>
<b>Expenses</b>			
Program services			
Dakota County DT&H	5,125,560	-	5,125,560
Hennepin County DT&H	4,119,663	-	4,119,663
Nicollet County DT&H	955,601	-	955,601
Vocational	2,645,136	-	2,645,136
Fiscal intermediary services	31,078,183	-	31,078,183
<b>Total program services</b>	<b>43,924,143</b>	<b>-</b>	<b>43,924,143</b>
Supporting Services			
Administration	4,659,467	-	4,659,467
Development	326,501	-	326,501
<b>Total supporting services</b>	<b>4,985,968</b>	<b>-</b>	<b>4,985,968</b>
<b>Total expenses</b>	<b>48,910,111</b>	<b>-</b>	<b>48,910,111</b>
Changes in Net Assets	1,237,075	13,550	1,250,625
Net Assets, Beginning of Year	5,175,705	175,000	5,350,705
Net Assets, End of Year	<u>\$ 6,412,780</u>	<u>\$ 188,550</u>	<u>\$ 6,601,330</u>

See Notes to Financial Statements

Lifeworks Services, Inc.  
 Statements of Activities  
 Years Ended December 31, 2010 and 2009

2009		
Unrestricted	Temporarily Restricted	Total
\$ 2,588,660	\$ -	\$ 2,588,660
38,517,673	-	38,517,673
2,408,315	-	2,408,315
48,312	-	48,312
522,181	150,000	672,181
11,380	-	11,380
13,650	-	13,650
239,465	-	239,465
136,580	-	136,580
68,000	(68,000)	-
44,554,216	82,000	44,636,216
5,095,804	-	5,095,804
4,153,459	-	4,153,459
827,983	-	827,983
2,407,040	-	2,407,040
26,534,464	-	26,534,464
39,018,750	-	39,018,750
4,222,973	-	4,222,973
333,009	-	333,009
4,555,982	-	4,555,982
43,574,732	-	43,574,732
979,484	82,000	1,061,484
4,196,221	93,000	4,289,221
\$ 5,175,705	\$ 175,000	\$ 5,350,705

Program Services

	-----Career Development & Social Enrichment-----			
	<u>Dakota County</u>	<u>Hennepin County</u>	<u>Nicollet County</u>	<u>Vocational</u>
Salaries	\$ 2,834,535	\$ 2,077,456	\$ 493,205	\$ 2,303,282
Payroll Taxes and Benefits	909,947	671,590	178,689	276,638
 Total salaries and related benefits	 3,744,482	 2,749,046	 671,894	 2,579,920
Professional Services	26,898	24,613	12,841	417
Other Supplies	60,839	22,895	6,859	1,746
Travel	480,868	705,546	61,865	10,308
Fiscal Intermediary Purchase	-	-	-	-
Occupancy Costs	557,015	380,372	133,094	2,923
Equipment Expenses	65,892	84,499	15,666	5,690
Printing	608	10	3	819
Telecommunications	45,382	44,038	14,316	2,189
Postage	367	344	149	252
Conferences, Conventions and Meetings	42,302	33,118	7,692	6,706
Insurance	65,514	28,064	12,226	1,152
Advertising & Recruiting	425	379	85	-
Recognition	12,262	10,338	3,197	457
Dues, Memberships and Subscriptions	13,419	9,399	2,898	7,055
Interest	-	-	-	-
Miscellaneous	9,287	27,002	12,816	25,372
Events	-	-	-	130
 Expenses before allocation of administration	 5,125,560	 4,119,663	 955,601	 2,645,136
Administration & Development	996,767	797,414	199,353	-
 Total expenses	 <u>\$ 6,122,327</u>	 <u>\$ 4,917,077</u>	 <u>\$ 1,154,954</u>	 <u>\$ 2,645,136</u>

Lifeworks Services, Inc.  
Statements of Functional Expenses  
Year Ended December 31, 2010

<u>Program Services</u>		<u>Supporting Services</u>		
<u>Customized Support Services</u>	<u>Total Program Services</u>	<u>Administration</u>	<u>Development</u>	<u>Total 2010</u>
\$ 24,833,820	\$ 32,542,298	\$ 2,296,224	\$ 134,557	\$ 34,973,079
2,469,880	4,506,744	655,587	39,208	5,201,539
27,303,700	37,049,042	2,951,811	173,765	40,174,618
-	64,769	335,418	10,283	410,470
-	92,339	57,322	66	149,727
-	1,258,587	37,849	672	1,297,108
3,633,595	3,633,595	-	-	3,633,595
-	1,073,404	355,099	-	1,428,503
-	171,747	479,874	390	652,011
-	1,440	64,874	18,383	84,697
-	105,925	109,789	584	216,298
-	1,112	71,775	5,078	77,965
-	89,818	48,366	1,620	139,804
16,356	123,312	14,812	-	138,124
-	889	58,734	-	59,623
-	26,254	8,292	220	34,766
-	32,771	14,335	7,945	55,051
-	-	1,780	-	1,780
124,532	199,009	44,682	206	243,897
-	130	4,655	107,289	112,074
31,078,183	43,924,143	4,659,467	326,501	48,910,111
2,971,404	4,964,938	(4,659,467)	(305,471)	-
<u>\$ 34,049,587</u>	<u>\$ 48,889,081</u>	<u>\$ -</u>	<u>\$ 21,030</u>	<u>\$ 48,910,111</u>

Program Services

	-----Career Development & Social Enrichment-----			
	<u>Dakota County</u>	<u>Hennepin County</u>	<u>Nicollet County</u>	<u>Vocational</u>
Salaries	\$ 2,875,594	\$ 2,114,740	\$ 438,545	\$ 2,134,991
Payroll Taxes and Benefits	911,023	683,800	151,152	232,077
 Total salaries and related benefits	 3,786,617	 2,798,540	 589,697	 2,367,068
Professional Services	11,395	9,263	1,982	20
Other Supplies	57,922	31,353	7,562	3,206
Travel	418,436	738,462	46,358	8,065
Fiscal Intermediary Purchase	-	-	-	-
Occupancy Costs	546,504	385,388	127,218	2,794
Equipment Expenses	91,902	56,891	21,226	4,293
Printing	2,613	-	-	269
Telephone	43,242	44,128	8,439	2,149
Postage	135	356	411	705
Conferences, Conventions and Meetings	42,814	36,108	7,614	10,292
Insurance	66,105	24,267	10,354	1,074
Advertising & Recruiting	767	601	86	-
Recognition	12,956	11,733	3,631	556
Dues, Memberships and Subscriptions	4,409	3,840	1,563	5,567
Interest	-	-	-	-
Miscellaneous	9,987	12,529	1,842	982
Events	-	-	-	-
 Expenses before allocation of administration	 5,095,804	 4,153,459	 827,983	 2,407,040
Administration & Development	862,346	738,251	157,654	-
 Total expenses	 <u>\$ 5,958,150</u>	 <u>\$ 4,891,710</u>	 <u>\$ 985,637</u>	 <u>\$ 2,407,040</u>

Lifeworks Services, Inc.  
 Statements of Functional Expenses  
 Year Ended December 31, 2009

<u>Program Services</u>		<u>Supporting Services</u>		
<u>Customized Support Services</u>	<u>Total Program Services</u>	<u>Administration</u>	<u>Development</u>	<u>Total 2009</u>
\$ 21,753,011	\$ 29,316,881	\$ 2,065,586	\$ 132,566	\$ 31,515,033
2,257,754	4,235,806	590,030	35,750	4,861,586
24,010,765	33,552,687	2,655,616	168,316	36,376,619
-	22,660	354,117	3,061	379,838
-	100,043	36,679	157	136,879
-	1,211,321	28,595	851	1,240,767
2,454,380	2,454,380	-	-	2,454,380
-	1,061,904	324,923	-	1,386,826
-	174,312	402,191	-	576,503
-	2,882	48,223	12,348	63,453
-	97,958	93,206	687	191,851
-	1,607	66,791	5,647	74,045
-	96,828	56,266	1,248	154,342
15,716	117,516	11,291	-	128,807
-	1,454	75,522	-	76,976
-	28,876	6,155	357	35,388
-	15,379	14,649	5,769	35,797
-	-	16,693	-	16,693
53,603	78,943	23,689	-	102,632
-	-	8,367	134,568	142,935
26,534,464	39,018,750	4,222,973	333,009	43,574,731
2,611,306	4,369,558	(4,222,973)	(146,585)	-
<u>\$ 29,145,770</u>	<u>\$ 43,388,308</u>	<u>\$ -</u>	<u>\$ 186,424</u>	<u>\$ 43,574,731</u>

Lifeworks Services, Inc.  
Statements of Cash Flows  
Years Ended December 31, 2010 and 2009

	2010	2009
Operating Activities		
Change in net assets	\$ 1,250,625	\$ 1,061,484
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	645,716	600,108
Uncompensated care	187,062	75,008
Gain on disposal of property and equipment	(10,686)	(200)
In-kind property and equipment donations	(89,142)	-
Change in unrealized gain on investments	(108,181)	68,146
Realized gain and reinvested income	(47,487)	-
Changes in assets and liabilities		
Accounts receivable	309,207	(661,139)
Miscellaneous receivable	2,021	(6,562)
Prepaid expenses	(232,943)	(77,508)
Accounts payable	(42,761)	(43,260)
Accrued salaries and related expenses	284,280	200,852
Accrued vacation and sick pay	24,154	19,056
Other accrued expenses	(288)	389
Deferred revenue	(25,891)	(94,414)
Net Cash from Operating Activities	2,145,686	1,141,960
Investing Activities		
Purchasing of investments and net reinvested income	-	(1,713,478)
Increase in assets limited as to use	-	(150,000)
Proceeds from sale of investments	-	1,405,156
Purchases of property and equipment	(809,635)	(616,760)
Proceeds from sale of property and equipment	14,200	310
Net Cash used for Investing Activities	(795,435)	(1,074,772)
Financing Activities		
Borrowings on line of credit	293,415	1,399,205
Payments on line of credit	(293,415)	(1,499,205)
Payments on long-term debt	(92,748)	(90,387)
Payment on capital lease	(28,833)	(2,403)
Net Cash used for Financing Activities	(121,581)	(192,790)
Net Change in Cash and Cash Equivalents	1,228,670	(125,602)
Cash and Cash Equivalents, Beginning of Year	49,710	175,312
Cash and Cash Equivalents, End of Year	\$ 1,278,380	\$ 49,710
Supplemental Disclosures of Cash Flow Information		
Cash payment for interest	\$ 1,780	\$ 16,693

## **Note 1 - Nature of Activities and Summary of Significant Account Policies**

### **Organizational Purpose**

Lifeworks Services, Inc. (Lifeworks or the Organization) is a nonprofit organization that helps people with disabilities live fuller, more meaningful lives that are integrated into the flow of community experience. Serving individuals through employment at area businesses, social enrichment opportunities and customized support services, Lifeworks provides the tools clients need to build the lives they want to live. For more than 45 years, Lifeworks has collaborated with employers, volunteers and government agencies to create expanded opportunities for people with disabilities.

### **Lifeworks Career Development**

Through Lifeworks Career Development people with all levels of ability have the opportunity to work. In partnership with area businesses we provide jobs where the individuals we support discover the power of work with jobs that have real pay, real responsibilities, and real rewards. Lifeworks clients build skills while on the job that provide career opportunities in the future. Lifeworks collaborates with employers to ensure the success of employees and support clients in every aspect of their job.

Lifeworks business partners save money; fill high-turnover positions with long-term, dedicated employees and enhance diversity in their workplaces. Lifeworks works closely with individual businesses to match their needs with workers who can do the job. Lifeworks analyzes each job and trains workers to meet the Organization's standards of quality.

### **Lifeworks Social Enrichment**

Lifeworks is passionately committed to fostering a greater understanding of people with disabilities so that they are heard, their interests respected, and their contributions valued. Social enrichment opportunities at Lifeworks help individuals learn about themselves and the world around them. Our innovative offerings are important tools that help individuals learn to express their wants and needs, joys and frustrations.

### **Lifeworks Customized Support**

Thousands of Minnesotans count on Lifeworks Customized Support to help them manage the everyday challenges of living with a disability. As a state-approved fiscal support entity, Lifeworks is dedicated to delivering personal services and consultation tailored to the needs of each individual. We take pride in finding creative solutions that give our clients more freedom, choice, and control in their lives.

### **Basis of Accounting**

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

### **Basis of Presentation**

The Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Organization has no permanently restricted net assets.

### **Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Support/Revenue Recognition**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Contracts for services consist of contracts that are exchange transactions in which there is a reciprocal transfer of assets or services between the parties involved in the grant or contract. Exchange transactions are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each contract, are incurred. Funds received but not yet earned are recorded as deferred revenue on the statement of financial position. Amounts expended but not yet received are classified as receivable.

### **In-kind Contributions and Services**

In-kind contributions are reflected as support and expenses in the financial statements at their estimated values on the date of donation. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization. Volunteers also provide services throughout the year that are not recognized as contributions in the financial statements since the criteria is not met.

### **Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for estimated uncollectible amounts through a provision for uncompensated care expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts and interest is charged on certain past due accounts. Balances that are still outstanding after management has used reasonable collection efforts are written-off through a charge to the valuation allowance and a credit to accounts receivable. The Organization uses the allowance method to determine uncollectible accounts receivable and unconditional grants receivable. The allowance is based on prior year experience and management's analysis.

### Property and Equipment

Property and equipment are stated at cost. Donated property and equipment are valued at fair market value. The Organization capitalizes property and equipment with a value of \$1,000 or more. Depreciation is provided on the straight-line method over the following estimated useful lives:

Leasehold improvements	2-10 years
Vehicles	2-5 years
Furniture and equipment	3-7 years

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid debt instruments with an original maturity of three months or less, excluding money market funds, to be cash equivalents and assets limited as to use. At times, cash and cash equivalents may be in excess of FDIC limits.

### Investments

Investments are stated at the readily determinable fair market value in accordance with FASB Accounting Standards Codification Section (FASB ASC) 958-320, *Accounting for Certain Investments Held by Not-For-Profit Organizations*. The investments may involve investment risks, including the possible loss of the principal invested.

Unrealized and realized gains and losses are included in the statement of activities. Unless donor or law restricts the income or loss, investment income or loss are included in unrestricted net assets.

Investments are available for current operations at the discretion of the Board. As such, investments are included in current assets on the statement of financial position.

### Fair Value Measurements

The Organization has determined the fair value of certain assets and liabilities in accordance with the provision of FASB ASC 820-10, *Fair Value Measurements*, which provides a framework for measuring fair value under generally accepted accounting principles (GAAP).

FASB ASC 820-10 defines fair value at the exchange that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

### **Assets Limited as to Use**

Assets limited as to use include assets set aside at the discretion of the donor for A Home for Innovation, a campaign fund to purchase the Eagan/Administration building.

### **Income Taxes**

Lifeworks is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a).

Lifeworks has adopted the provisions of FASB Accounting Standards Codification (ASC) Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) on January 1, 2009. The Organization undergoes an annual analysis of its various tax authorities. The implementation of this standard had no material impact on the financial statements. As of both the date of adoption and as of December 31, 2010, no amounts were recorded as a result of this analysis.

Lifeworks will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. Lifeworks is no longer subject to Federal or state tax examination by tax authorities for years before 2008.

### **Functional Allocation of Expenses**

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### **Subsequent Events**

The Organization has evaluated subsequent events through April 11, 2011, the date which the financial statements were available to be issued.

**Note 2 - Investments**

Lifeworks' investments are stated at fair value and are held in a fund managed by the Minnesota Community Foundation (Foundation) for an administrative fee. The fund participates fully in the asset allocation of the Foundation's multi-asset endowment. As of December 31, 2010 and 2009, the Foundation's multi-asset endowment portfolio's target allocation percentages were as follows:

	Estimated Allocation
Domestic equity	25%
International equity	25%
Private equity	12%
Absolute return	8%
Fixed income	15%
Real assets	15%
	100%

The fund fair values were \$1,446,937 and \$1,291,290 as of December 31, 2010 and 2009, respectively.

Interest and dividend income was \$14,421 and \$13,650 for 2010 and 2009, respectively. This was net of investment expenses of \$12,755 and \$17,324 for 2010 and 2009, respectively.

**Note 3 - Fair Value Measurements**

The following is a summary of assets held at fair value as of December 31, 2010 and 2009:

	2010		
	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)
Beneficial Interest in Assets Held at the Minnesota Community Foundation	\$ -	\$ -	\$ 1,446,957
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,446,957</u>
	2009		
	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)
Beneficial Interest in Assets Held at the Minnesota Community Foundation	\$ -	\$ -	\$ 1,291,289
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,291,289</u>

The beneficial interest in assets held at the Minnesota Community Foundation (Foundation) has been valued, as a practical expedient, at the fair value of the Organization's share of the Foundation's investment pool as of the measurement date. The Foundation values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the Foundation, which includes private placements and other securities for which prices are not readily available, are determined by the management of the Foundation and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Financial instruments classified as Level 3 in the fair value hierarchy represent the Organization's investments in financial instruments in which management has used at least one significant unobservable input in the valuation model. The following table represents a reconciliation of the activities for the Level 3 financial instruments:

	Alternative Investments
Balance, at December 31, 2008	\$ 195,403
Unrealized gains	25,024
Purchases, sales, issuances, and settlements (net)	1,070,862
Balance, at December 31, 2009	1,291,289
Unrealized gains	108,181
Purchases, sales, issuances, and settlements (net)	47,487
Balance, at December 31, 2010	\$ 1,446,957

The 2009 fair value information above has been restated to conform to the 2010 presentation.

#### **Note 4 - Property and Equipment**

A summary of property and equipment at December 31, 2010 and 2009 follows:

	2010	2009
Leasehold improvements	\$ 1,531,118	\$ 1,029,029
Vehicles	1,007,208	997,559
Furniture and equipment	2,477,119	2,538,283
	5,015,445	4,564,871
Less accumulated depreciation	3,203,929	3,002,903
	\$ 1,811,516	\$ 1,561,968

**Note 5 - In-Kind Contributions**

Donations of goods and services are used to support program service and are stated based on a good faith estimate of the value of goods or services as follows:

	2010	2009
Goods	\$ 104,473	\$ 31,387
Services	51,774	34,649
	\$ 156,247	\$ 66,036

Three hundred and twenty six volunteers contributed approximately 7,700 hours of service to Lifeworks during 2010 and 225 volunteers contributed approximately 3,900 hours of service in 2009.

**Note 6 - Assets Limited as to Use**

Assets limited as to use at December 31, 2010 and 2009, include the following stated at fair value:

	2010	2009
Cash and cash equivalents	\$ 175,000	\$ 175,000

**Note 7 - Line of Credit**

At December 31, 2010, the Organization has a revolving line of credit available from a financial institution for \$2,000,000, maturing October 1, 2011. The credit line bears interest at 5% at December 31, 2010 and is secured by inventory, and equipment and intangibles. There were no outstanding balances as of December 31, 2010 and 2009.

**Note 8 - Long-Term Debt**

Notes payable consisted of the following:

	2010	2009
Note payable to an individual, due in quarterly installments of \$22,100, including interest at 3%, due November 2010, secured by accounts receivable	\$ -	\$ 86,748
Note payable to Dimension Business Center, noninterest bearing, payable in monthly installments of \$500, due March 1, 2011	-	6,000
Capitalized lease obligations - (Note 9) Note payable to KaiserComm, Inc., noninterest bearing, payable in monthly installments of \$2,403, due November 30, 2012 with a \$1 bargain purchase option	55,263	84,096
Less current maturities	55,263 (28,833)	176,844 (121,581)
	\$ 26,430	\$ 55,263

The annual requirements for principal payments on these notes are as follows:

Year Ending December 31,	Amount
2011	\$ 28,833
2012	26,430
Total	\$ 55,263

**Note 9 - Leases**

The Organization leases space and equipment for its operations under operating leases with payments ranging from \$1,080 to \$27,967 per month. In addition to monthly rent payments, some of the leases require the Organization to pay real estate taxes, insurance and other occupancy costs. The lease agreements ending dates vary from October 31, 2011 to March 31, 2021. There is a purchase option for the leased building in Eagan for \$6,525,000 in January of 2015. The Organization also leases phone equipment under a non-cancelable long-term lease agreement, which has been recorded as a capitalized lease.

Rent expense under these leases for the years ended December 31, 2010 and 2009 were \$682,488 and \$687,951, respectively.

The capitalized leased asset consists of:

	2010	2009
Phone equipment	\$ 86,499	\$ 86,499
Less accumulated amortization depreciation	(31,236)	(2,403)
	\$ 55,263	\$ 84,096

Minimum future lease payments for the capital and operating leases are as follows:

	2010	
Year Ending December 31,	Operating Leases	Capital Leases
2011	\$ 675,372	\$ 28,833
2012	592,500	26,430
2013	534,613	-
2014	444,398	-
2015	457,347	-
Thereafter	1,350,903	-
Total	\$ 4,055,133	\$ 55,263

### Note 10 - Collective Bargaining Agreement

A portion of the Organization's employees (the union employees) are covered by a collective bargaining agreement in effect from August 1, 2009 to July 31, 2011. Union employees participate in a 403(b) retirement plan maintained by the Organization. Contributions to the retirement plan were \$165,794 and \$155,785 for 2010 and 2009 respectively. Union members also participate in the Organization's health insurance plan. Contributions to the health insurance were \$807,792 and \$778,156 for 2010 and 2009, respectively.

### Note 11 - Retirement Benefits

Lifeworks has a defined contribution salary deferral plan, a 403(b). Under this plan, nonunion employees who have completed one year of service (1,000 hours minimum) and have reached 21 years of age are eligible to participate in a 403(b) plan maintained by the Organization. The Organization intends to continue to provide the 5% contribution for nonunion employees as a discretionary contribution under the 403(b) retirement plan. Under the 403(b) retirement plan maintained by the Organization for eligible nonunion employees, the Organization contributes annually a 100% matching contribution on the eligible nonunion employee's elective deferral contributions to the 403(b) retirement plan, up to a maximum of 4% of the employee's compensation. The Organization's contributions to the 403(b) retirement plan are fully vested after three years of employment.

Union employees who have completed one year of service (1,000 hours minimum) and have reached 21 years of age are eligible to participate in a 403(b) plan maintained by the Organization. The Organization will annually contribute 3% of each eligible union employee's compensation to the 403(b) retirement plan. The Organization also contributes annually a 100% matching contribution on the eligible union employee's elective deferral contributions to the 403(b) retirement plan, up to a maximum of 2.5% of the employee's compensation. The Organization's contributions to the 403(b) retirement plan are fully vested after three years of employment.

Contributions to the plans for were \$480,984 and \$444,516 for 2010 and 2009, respectively.

### Note 12 - Deferred Compensation

The Organization has a deferred compensation agreement with its highly compensated employees which calls for the Organization to fund an Internal Revenue Code Section 457 deferred compensation plan. Deferred compensation of up to 9% of the employee's salary contract or the maximum limitation allowed pursuant to section 457 of the Code is paid to fund annuity contracts. Deferred compensation payments and expense under the agreement were \$16,500 and \$16,087 for 2010 and 2009, respectively.

### Note 13 - Restricted Net Assets

Temporarily restricted net assets consisted of the following at December 31:

	2010	2009
A Home for Innovation	\$ 175,000	\$ 175,000
Upstream Arts Grant	13,550	-
	\$ 188,550	\$ 175,000

The releases of restrictions for the year ended December 31 are as follows:

	2010	2009
Phase II Automation Project	\$ -	\$ 20,000
Vehicle Grant	-	48,000
	\$ -	\$ 68,000

### Note 14 - Concentrations

The Organization receives a substantial amount of its support and revenue from state and local governments. A significant reduction in the level from either source may have an effect on the Organization's ability to continue its programs and activities.

### **Note 15 - Contingencies**

Lifeworks Customized Support program provides fiscal intermediary services that help clients and their families receive support, services, and equipment needed to allow individuals to continue living at home. Several types of fiscal intermediary services are provided to clients ranging from bill-paying services to education and payroll services. A majority of this funding is provided by the State of Minnesota's medical assistance waiver program. Clients choose which services best fit their needs and works with the county to set up an annual budget detailing the services and/or goods available. Lifeworks' role is to manage the employment tasks, reimburse qualified expenses and to bill the state or county for services. Lifeworks has the authority to disallow expenses that do not meet the budget guidelines. If Lifeworks inadvertently approves expenses that are later denied for reimbursement by the state, Lifeworks could be at risk for payment of these services if they do not have recourse against their clients. Lifeworks charges a rate for administering/managing the plans and billing of services. In addition, there is a markup on salaries to cover the total cost of the payroll such as payroll taxes, workers compensation, liability insurance, etc. These amounts are all included in the clients' budget plans. Revenue related to this program totaled \$34,385,085 and \$29,379,007 for 2010 and 2009, respectively. Administrative fees were allocated to the program of \$2,866,884 and \$2,611,306 for 2010 and 2009, respectively.

Lifeworks is involved in a legal proceeding arising in the ordinary course of business. In the opinion of management, although the outcome of any legal proceedings cannot be predicted, the ultimate liability in connection with its legal proceedings will not have a material adverse affect on the financial positions or activities of Lifeworks.