



Financial Statements  
December 31, 2017 and 2016  
**Lifeworks Services, Inc.**

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Lifeworks Services, Inc. (the Organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows 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.

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 the Organization as of December 31, 2017 and 2016, 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.

**Emphasis of Matter**

As described in Note 2 to the financial statements, the Organization has restated the fair value measurement disclosure to correct an error in the classification of an investment from Level 2 to Level 3 as of December 31, 2016. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Minneapolis, Minnesota  
May 1, 2018

Lifeworks Services, Inc.  
Statements of Financial Position  
December 31, 2017 and 2016

	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 5,753,964	\$ 5,955,930
Accounts receivable, net	4,697,438	4,106,881
Prepaid expenses	461,775	525,756
Beneficial interests in assets held by a community foundation	12,272,152	7,836,613
Promises to give, net	60,169	191,650
Deferred compensation	343,280	349,031
Property and equipment, net	4,264,773	4,973,552
Total assets	\$ 27,853,551	\$ 23,939,413
<b>Liabilities</b>		
Accounts payable	\$ 474,189	\$ 354,335
Accrued salaries and related expenses	2,073,692	1,476,595
Accrued vacation and sick pay	1,364,538	1,132,514
Other accrued expenses	4,791	6,026
Deferred revenue	6,369	4,278
Deferred leases	86,807	122,863
Deferred compensation	343,280	349,031
Notes payable	1,815,303	1,915,658
Total liabilities	6,168,969	5,361,300
<b>Net Assets</b>		
Unrestricted		
Designated for property and equipment	2,449,470	3,057,894
Undesignated	18,946,229	15,154,756
Total unrestricted	21,395,699	18,212,650
Temporarily restricted	288,883	365,463
Total net assets	21,684,582	18,578,113
Total liabilities and net assets	\$ 27,853,551	\$ 23,939,413

Lifeworks Services, Inc.  
Statement of Activities  
Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Service contracts	\$ 66,797,436	\$ -	\$ 66,797,436
Vocational contracts	2,492,138	-	2,492,138
Contributions and grants	877,020	101,000	978,020
Private pay	1,920	-	1,920
Interest income	10,823	-	10,823
Change in value of beneficial interest in assets held by community foundation	1,435,539	-	1,435,539
Other	44,640	-	44,640
Net assets released from restriction	177,580	(177,580)	-
	<u>71,837,096</u>	<u>(76,580)</u>	<u>71,760,516</u>
Total support and revenue			
Expenses			
Program services	62,527,826	-	62,527,826
Supporting services			
Administration	5,833,952	-	5,833,952
Development	292,269	-	292,269
	<u>6,126,221</u>	<u>-</u>	<u>6,126,221</u>
Total supporting services			
Total expenses	<u>68,654,047</u>	<u>-</u>	<u>68,654,047</u>
Changes in Net Assets	3,183,049	(76,580)	3,106,469
Net Assets, Beginning of Year	<u>18,212,650</u>	<u>365,463</u>	<u>18,578,113</u>
Net Assets, End of Year	<u>\$ 21,395,699</u>	<u>\$ 288,883</u>	<u>\$ 21,684,582</u>

Lifeworks Services, Inc.  
Statement of Activities  
Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Service contracts	\$ 60,135,329	\$ -	\$ 60,135,329
Vocational contracts	2,512,195	-	2,512,195
Contributions and grants	765,143	225,875	991,018
Private pay	41,941	-	41,941
Interest income	8,832	-	8,832
Change in value of beneficial interest in assets held by community foundation	481,276	-	481,276
Other	48,971	-	48,971
Net assets released from restriction	204,740	(204,740)	-
Total support and revenue	<u>64,198,427</u>	<u>21,135</u>	<u>64,219,562</u>
Expenses			
Program services	54,674,339	-	54,674,339
Supporting services			
Administration	6,836,756	-	6,836,756
Development	293,172	-	293,172
Total supporting services	<u>7,129,928</u>	<u>-</u>	<u>7,129,928</u>
Total expenses	<u>61,804,267</u>	<u>-</u>	<u>61,804,267</u>
Change in Net Assets	2,394,160	21,135	2,415,295
Net Assets, Beginning of Year	<u>15,818,490</u>	<u>344,328</u>	<u>16,162,818</u>
Net Assets, End of Year	<u>\$ 18,212,650</u>	<u>\$ 365,463</u>	<u>\$ 18,578,113</u>

	Program Services				Total Program Services
	Day Services	Employment Services	Transportation	Fiscal Services	
Expenses					
Salaries	\$ 2,553,538	\$ 4,684,052	\$ 524,909	\$ 40,272,373	\$ 48,034,872
Payroll taxes and benefits	775,124	1,136,627	106,881	3,701,837	5,720,469
Total salaries and related benefits	3,328,662	5,820,679	631,790	43,974,210	53,755,341
Professional services	47,276	3,608	-	16,328	67,212
Other supplies	94,279	5,713	64	-	100,056
Travel	13,811	137,176	966,032	142,663	1,259,682
Fiscal intermediary purchase	-	-	-	5,197,164	5,197,164
Occupancy costs	1,051,468	117,502	227	9,996	1,179,193
Equipment expenses	143,770	24,827	40	10,632	179,269
Printing	1,040	-	-	1,538	2,578
Telecommunications	172,331	56,479	2,223	9,380	240,413
Postage	519	310	-	1,168	1,997
Conferences, conventions, and meetings	16,195	11,256	422	8,022	35,895
Insurance	20,678	4,886	56,733	8,640	90,937
Advertising and recruiting	226	212	370	34,293	35,101
Recognition	11,022	6,202	398	1,196	18,818
Dues, memberships and subscriptions	13,996	1,232	-	9,708	24,936
Interest	61,708	-	-	-	61,708
Miscellaneous	24,436	15,903	134	237,053	277,526
Events	-	-	-	-	-
Total expenses	\$ 5,001,417	\$ 6,205,985	\$ 1,658,433	\$ 49,661,991	\$ 62,527,826

See Notes to Financial Statements



Lifeworks Services, Inc.  
Statement of Functional Expenses  
Year Ended December 31, 2017

<u>Supporting Services</u>		
<u>Administration</u>	<u>Development</u>	<u>Total 2017</u>
\$ 2,749,329	\$ 103,417	\$ 50,887,618
721,250	24,278	6,465,997
<u>3,470,579</u>	<u>127,695</u>	<u>57,353,615</u>
579,888	14,913	662,013
33,866	-	133,922
18,123	1,189	1,278,994
-	-	5,197,164
437,397	-	1,616,590
659,604	39	838,912
58,303	9,764	70,645
177,979	-	418,392
76,323	3,154	81,474
71,148	2,769	109,812
12,180	-	103,117
33,439	-	68,540
21,758	589	41,165
40,041	84	65,061
-	-	61,708
141,963	-	419,489
<u>1,361</u>	<u>132,073</u>	<u>133,434</u>
<u>\$ 5,833,952</u>	<u>\$ 292,269</u>	<u>\$ 68,654,047</u>

	Program Services			Total Program Services
	Career Development and Social Enrichment	Vocational	Fiscal Services	
Expenses				
Salaries	\$ 5,761,304	\$ 2,085,303	\$ 34,175,615	\$ 42,022,222
Payroll taxes and benefits	1,795,730	216,517	3,135,333	5,147,580
Total salaries and related benefits	7,557,034	2,301,820	37,310,948	47,169,802
Professional services	16,073	-	-	16,073
Other supplies	98,843	-	193	99,036
Travel	941,547	314	108,756	1,050,617
Fiscal intermediary purchase	-	-	4,279,618	4,279,618
Occupancy costs	1,149,331	-	2,782	1,152,113
Equipment expenses	177,100	116	-	177,216
Printing	-	-	239	239
Telecommunications	224,385	5,013	-	229,398
Postage	268	-	-	268
Conferences and conventions	43,595	80	6,214	49,889
Insurance	85,618	452	-	86,070
Advertising and recruiting	2,428	-	60,199	62,627
Recognition	16,347	-	-	16,347
Dues and memberships	31,014	35	-	31,049
Interest	57,531	-	-	57,531
Miscellaneous	96,561	2,233	97,652	196,446
Events	-	-	-	-
Total functional expenses	10,497,675	2,310,063	41,866,601	54,674,339
Administration and development	2,247,162	251,116	4,427,383	6,925,661
Expenses after allocation of administration	<u>\$ 12,744,837</u>	<u>\$ 2,561,179</u>	<u>\$ 46,293,984</u>	<u>\$ 61,600,000</u>

See Notes to Financial Statements

Lifeworks Services, Inc.  
Statement of Functional Expenses  
Year Ended December 31, 2016

Supporting Services		
Administration	Development	Total 2016
\$ 3,290,342	\$ 105,778	\$ 45,418,342
844,253	25,302	6,017,135
4,134,595	131,080	51,435,477
730,469	400	746,942
45,832	-	144,868
31,345	1,089	1,083,051
-	-	4,279,618
419,462	-	1,571,575
683,693	-	860,909
68,159	14,738	83,136
195,271	-	424,669
88,783	3,978	93,029
123,615	13,955	187,459
27,869	-	113,939
87,607	-	150,234
23,195	1,611	41,153
20,261	6,081	57,391
10	-	57,541
155,041	1,720	353,207
1,549	118,520	120,069
6,836,756	293,172	61,804,267
(6,836,756)	(88,905)	-
\$ -	\$ 204,267	\$ 61,804,267

Lifeworks Services, Inc.  
Statements of Cash Flows  
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	\$ 3,106,469	\$2,415,295
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	878,932	910,471
Uncompensated care	266,056	144,979
Gain on disposal of property and equipment	(17,434)	(8,500)
Change in beneficial interests in assets held by community foundation	(1,435,539)	(432,390)
Changes in operating assets and liabilities		
Accounts receivable	(856,613)	(279,086)
Promises to give	131,481	55,323
Prepaid expenses	63,981	(97,122)
Accounts payable	119,854	77,786
Accrued salaries and related expenses	597,097	(20,493)
Accrued vacation and sick pay	232,024	371,623
Other accrued expenses	(1,235)	(1,649)
Deferred revenue	2,091	(402)
Deferred leases	(36,056)	(29,673)
Net Cash from Operating Activities	3,051,108	3,106,162
Investing Activities		
Addition to assets held by community foundation	(3,000,000)	(48,533)
Purchases of property and equipment	(172,873)	(585,488)
Proceeds from sale of property and equipment	20,154	8,500
Net Cash used for Investing Activities	(3,152,719)	(625,521)
Financing Activities		
Payment on notes payable	(100,355)	(100,329)
Net Cash used for Financing Activities	(100,355)	(100,329)
Net Change in Cash and Cash Equivalents	(201,966)	2,380,312
Cash and Cash Equivalents, Beginning of Year	5,955,930	3,575,618
Cash and Cash Equivalents, End of Year	\$ 5,753,964	\$ 5,955,930
Supplemental Disclosures of Cash Flow Information		
Cash payment for interest	\$ 61,708	\$ 57,541

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

### **Organizational Purpose**

The mission of Lifeworks Services Inc. (Lifeworks or the Organization), a nonprofit entity, is to serve the community and to serve people with disabilities as they live and work together.

Lifeworks envisions a community where people with disabilities are more broadly valued, hired by employers, receiving support, and participating in ordinary activities.

### **Lifeworks Fiscal Services**

Lifeworks supported more than 1,900 individuals to self-direct the services they received in 2017. As an approved fiscal support entity through the state of Minnesota, Lifeworks helped individuals enrolled in the Consumer Directed Community Supports (CDCS) and Consumer Support Grant (CSG) programs. Lifeworks also served as a knowledgeable PCA Choice provider agency and an in-home licensed provider of personal support.

The individuals supported by Lifeworks selected, hired, and trained more than 4,000 employees to provide the assistance they need to live in their homes and access the community.

### **Lifeworks Employment Services**

Lifeworks supported hundreds of individuals with disabilities in finding and maintaining competitive jobs in the community in 2017. This included close to 200 new job placements and over 80 new employer partners, bringing the total number of individuals supported on the job to over 600 from over 300 employer partners.

On March 1, 2017, Lifeworks chose to become one of just a handful of disability service providers statewide without a special wage certificate, meaning that all individuals supported on the job earn at least minimum wage. The average hourly wage of a Lifeworks associate directly hired by a business was \$11.02.

### **Lifeworks Day Services**

Through Day Services, Lifeworks helped more than 400 individuals connect to the community, engage with their peers, and utilize modern technology in 2017 – all while receiving the highest quality care.

Among many accomplishments, over 50 individuals participated in musical performance groups throughout Lifeworks locations in the Twin Cities, self-advocates from Lifeworks Brooklyn Park visited the Capitol 17 times to make their voices heard and meet with legislators, and 564 volunteers donated 4,580 hours of their time enriching the lives of people served by Lifeworks.

### **Cash and Cash Equivalents**

For purposes of the statements of cash flows, Lifeworks considers all unrestricted, highly liquid financial instruments with an original maturity of three months or less, which are neither held for nor restricted by donors for a long-term purpose, to be cash and cash equivalents.

### **Receivables and Credit Policies**

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. On certain past due accounts, interest is charged. 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. The allowance is based on prior year experience and management's analysis. At December 31, 2017 and 2016, the allowance was \$320,000 and \$197,000, respectively.

### **Beneficial Interest in Assets Held by Community Foundation**

The Organization has an investment fund account held by the Minnesota Community Foundation (the Foundation) as a part of their multi-asset endowment portfolio. The fund was created with the objective of providing lasting support for Lifeworks Services, Inc. The Organization granted variance power to the Foundation, which allows the Foundation to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of the Foundation's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The fund is held and invested by the Foundation for the Organization's benefit and is reported at fair value in the statements of financial position, with distributions and changes in fair value recognized in the statements of activities.

### **Promises to Give**

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques, incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Management determines the allowance for uncollectible promises to give based on historical experiences, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible. At December 31, 2017 and 2016, the allowance was \$1,861 and \$4,675, respectively.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

## Property and Equipment

Property and equipment are stated at cost. Donated property and equipment are valued at fair market value at the date of the donation. The Organization capitalizes property and equipment with a value of \$5,000 or more. Depreciation is provided on the straight-line method over the following estimated useful lives:

Building	40 years
Leasehold improvements	2-10 years
Vehicles	4-5 years
Furniture and equipment	3-7 years

In the instances of implied time restrictions on contributed assets and in the absence of donor stipulations regarding how long contributed assets must be used, the Organization has adopted a policy of implying a time restriction on contributions of such assets that expires over the assets' useful lives. As a result, all contributions of property and equipment, and of assets contributed to acquire property and equipment, are recorded as temporarily restricted support. Subsequently, as depreciation or amortization expense is recognized, temporarily restricted net assets are released and reclassified to unrestricted net assets.

Lifeworks reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2017 and 2016.

## Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Net asset available for use in general operations. Unrestricted Board-designated net assets consist of net assets designated by the Board of Directors related to net property and equipment less the related outstanding note payable.

*Temporarily Restricted Net Assets* – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time.

Lifeworks reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is 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 and reported in the statements of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements. The Organization had no permanently restricted net asset assets at December 31, 2017 and 2016.

### **Revenue and Revenue Recognition**

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 statements of financial position.

Lifeworks participates in the Medicaid program and is reimbursed for contracted services based on established rates.

Contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received.

### **Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to the Organization's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Organization records donated professional services at the respective fair values of the services received.

### **Advertising Costs**

Advertising costs are expensed as incurred, and approximated \$34,947 and \$124,889 during the years ended December 31, 2017 and 2016, respectively.

### **Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. In 2017, management updated the allocation of functional expense estimate to account for certain administration expenses that are specific to fiscal services and day services as program expenses.

### **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). The Organization undergoes an annual analysis of its various tax positions. The Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Organization has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Organization believes that it has appropriate support for any tax position taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization will recognize future accrued interest and penalties related to unrecognized tax benefits or expenses in income tax expenses if incurred.



## Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and those differences could be material.

## Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing cash and investment with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give are considered to be limited due to high historical collection rates. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

## Subsequent Events

The Organization has evaluated subsequent events through May 1, 2018, the date which the financial statements were available to be issued.

## Note 2 - Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Organization develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's assessment of the quality, risk, or liquidity profile of the asset or liability.

The fair value of the multi-asset endowment portfolio assets held at the Foundation are based on the fair value of fund investments as reported by the Foundation. These are considered to be Level 3 measurements.

As of December 31, 2016, the Organization considered its investments in the Foundation to be a Level 2 investment. Based upon information received from the Foundation during the year ended December 31, 2017, the Organization has revised its consideration of the investment with the Foundation, and now considers a Level 3 classification to be appropriate. The 2016 amounts have been reclassified to correct this error.

The following table present assets measured at fair value on a recurring basis, at December 31, 2017 and 2016:

	<u>Fair Value Measurements at Report Date Using</u>			<u>Total</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
<u>December 31, 2017</u>				
Beneficial interest in multi-asset endowment portfolio assets held at the Minnesota Community Foundation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,272,152</u>	<u>\$ 12,272,152</u>
<u>December 31, 2016 (As Restated)</u>				
Beneficial interest in multi-asset endowment portfolio assets held at the Minnesota Community Foundation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,836,613</u>	<u>\$ 7,836,613</u>

Below is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2017 and 2016:

	<u>Fair Value Measurements at Report Date Using Significant Unobservable Inputs (Level 3)</u>
	<u>Assets Held by Community Foundation</u>
 <u>Year Ended December 31, 2017</u>	
Balance at December 31, 2016	\$ 7,836,613
Purchases/Contributions of investments	3,000,000
Net realized and unrealized gain	<u>1,435,539</u>
Balance at December 31, 2017	<u>\$ 12,272,152</u>
Unrealized gain included in net investment return in the statement of activities relating to assets still held at December 31, 2017	   <u>\$ 1,435,539</u>
 <u>Year Ended December 31, 2016</u>	
Balance at December 31, 2015	\$ 7,355,690
Net realized and unrealized gain	<u>480,923</u>
Balance at December 31, 2016	<u>\$ 7,836,613</u>
Unrealized gain included in net investment return in the statement of activities relating to assets still held at December 31, 2016	   <u>\$ 480,923</u>

**Note 3 - Promises to Give**

Unconditional promises to give at December 31, 2017 and 2016, are as follows:

	2017	2016
Capital campaign	\$ 193	\$ 3,558
Operating	61,837	80,620
Vehicle	-	112,147
Less allowance for uncollectible promises receivable	62,030 (1,861)	196,325 (4,675)
Promises to give, net	\$ 60,169	\$ 191,650

At December 31, 2017 and 2016, promises to give were expected to be collected within 12 months.

**Note 4 - Property and Equipment**

A summary of property and equipment at December 31, 2017 and 2016, follows:

	2017	2016
Land	\$ 556,228	\$ 556,228
Building	2,794,446	2,780,014
Leasehold improvements	1,533,120	1,533,120
Vehicles	1,393,815	1,380,921
Furniture and equipment	3,767,468	4,448,947
	10,045,077	10,699,230
Less accumulated depreciation	(5,780,304)	(5,725,678)
	\$ 4,264,773	\$ 4,973,552

**Note 5 - Line of Credit**

At December 31, 2017, the Organization has a revolving line of credit available from a financial institution. The line of credit was \$3,000,000 through October 31, 2018, and increases to \$5,000,000 beginning July 1, 2018, until October 1, 2018. The credit line bears interest at a fluctuating rate per annum determined by the financial institution and will be three and one half (3.50%) above daily one month LIBOR in effect as of December 31, 2017, and is secured by equipment. There was no outstanding balance as of December 31, 2017.

**Note 6 - Notes Payable**

Notes payable consisted of the following:

	2017	2016
Education Facilities Revenue Bond with the City of Apple Valley assigned to Minnesota Bank & Trust payments due in monthly installments of \$13,508 including interest at 3.3% beginning January 1, 2017, maturing December 1, 2021. Secured by a mortgage and security agreement.	\$ 1,815,303	\$ 1,915,658
Less current maturities	(103,745)	(100,382)
	\$ 1,711,558	\$ 1,815,276

Future maturities of notes payable are as follows:

Year Ending December 31,	Amount
2018	\$ 103,745
2019	107,221
2020	110,813
2021	1,493,524
Total	\$ 1,815,303

The outstanding note payable requires compliance with certain financial and non-financial covenants.

**Note 7 - Leases**

The Organization leases space and some equipment for its operations under operating leases with payment ranging from \$1,000 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 December 31, 2018, to March 31, 2021.

Certain leases include escalating rent payments. The leases have been accounted for utilizing the straight-line method and rent expense has been spread evenly over the life of the lease. The difference between the actual rent payments on these leases compared to the straight-line rent expense amount has been recognized on the statements of financial position as deferred leases.

Future minimum lease payments for the operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 577,140
2019	374,548
2020	206,743
2021	44,803
Total	<u>\$ 1,203,234</u>

Rent expense under these leases for the years ended December 31, 2017 and 2016, was \$584,066.

### Note 8 - Donated Goods and Services

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.

<u>For Year Ended December 31, 2017</u>	<u>Program Services</u>	<u>Administration</u>	<u>Development</u>	<u>Total</u>
Printing	\$ -	\$ 200	\$ -	\$ 200
Professional fees	-	46,788	-	46,788
Program supplies and activities	876	-	-	876
Wireless communications	64,308	-	-	64,308
Events	-	-	49,594	49,594
Other	-	2,695	-	2,695
	<u>\$ 65,184</u>	<u>\$ 49,683</u>	<u>\$ 49,594</u>	<u>\$ 164,461</u>
<u>For Year Ended December 31, 2016</u>	<u>Program Services</u>	<u>Administration</u>	<u>Development</u>	<u>Total</u>
Printing	\$ -	\$ 7,100	\$ -	\$ 7,100
Professional fees	-	24,712	-	24,712
Program supplies and activities	488	-	-	488
Wireless communications	64,308	-	-	64,308
Events	-	-	16,107	16,107
Other	4,000	6,070	-	10,070
	<u>\$ 68,796</u>	<u>\$ 37,882</u>	<u>\$ 16,107</u>	<u>\$ 122,785</u>

564 volunteers contributed approximately 4,580 hours of service to Lifeworks during 2017, and 483 volunteers contributed approximately 6,952 hours of service to Lifeworks during 2016.

**Note 9 - Restricted Net Assets**

Temporarily restricted net assets at December 31, 2017 and 2016, consist of:

	2017	2016
2018 annual event	\$ 101,000	\$ -
Grant vehicle(s)	187,883	251,735
2017 annual event	-	113,728
	\$ 288,883	\$ 365,463

Net assets were released from restrictions as follows during the years ended December 31, 2017 and 2016:

	2017	2016
Grant vehicle(s)	\$ 63,852	\$ 48,900
Small group employment 2016	-	64,840
2017 annual event	113,728	-
2016 annual event	-	91,000
	\$ 177,580	\$ 204,740

**Note 10 - Collective Bargaining Agreement**

A portion of Lifeworks' employees are covered by collective bargaining agreements.

The agreement between Lifeworks and Education Minnesota (the union employees) was in effect from August 1, 2015, to July 31, 2017. An updated agreement is in effect from August 1, 2017, to July 31, 2019. As of December 31, 2017 and 2016, approximately 4% and 3% of the Organization's employees were represented by a collective bargaining agreement.

The agreement between SEIU Healthcare Minnesota and the State of Minnesota (the fiscal service union employees) was in effect from July 1, 2015, through June 30, 2017. An updated agreement is in effect from August 1, 2017, to July 31, 2019. As of December 31, 2017 and 2016, approximately 66% and 67% of the Organization's employees were represented by a collective bargaining agreement.

**Note 11 - Retirement Benefits**

Lifeworks has a defined contribution salary deferral plan, a 403(b). Under this plan, employees are eligible to participate in a 403(b) plan maintained by the Organization any time after their date of hire.

For non-union employees who have reached 21 years of age, the Organization intends to continue to provide a 3% contribution as a discretionary contribution under the 403(b) retirement plan, as well as contribute annually a 100% matching contribution on the eligible non-union 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.

For union employees covered by Education Minnesota who have reached 21 years of age, the Organization will annually contribute 3% of each eligible union employees' compensation to the 403(b) retirement plan, as well as contribute 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 4% 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 non-union employees, were \$293,841 and \$276,075 for 2017 and 2016, respectively. Contributions to the retirement plan for union employees were \$206,831 and \$202,111 for 2017 and 2016, respectively.

#### **Note 12 - Deferred Compensation**

The Organization has a deferred compensation agreement with select highly compensated employees which calls for the Organization to fund an Internal Revenue Code Section 457 deferred compensation plan. Deferred compensation of up to 7% of the employee's salary contract or the maximum limitation allowed pursuant to section 457 of the Code, is paid to fund annuity contracts. These 457 deferred compensation plans were fully funded as of December 31, 2017 and 2016. Deferred compensation payments and expense under the agreement were \$13,153 and \$28,033 for 2017 and 2016, respectively.

#### **Note 13 - Concentrations**

The Organization receives a substantial amount of its support and revenue from Medicaid which made up 96% and 93% of revenue in 2017 and 2016, respectively. A significant reduction in the level of revenue received by Medicaid may have an effect on the Organization's ability to continue its programs and activities.

#### **Note 14 - Contingencies**

Lifeworks Fiscal and In-Home Service programs provides in-home personal care and fiscal intermediary services to allow individuals to continue living at home. A majority of this funding is provided by the State of Minnesota's medical assistance waiver program. Lifeworks' role is to manage the employment, training, payroll services, and reimbursements of qualified expenses within a client's approved plan including billing the state or county for those services. If Lifeworks inadvertently approves expenses that are later denied for reimbursement by the state, Lifeworks could be at risk for payment of these services. Revenue related to this program totaled \$55,363,803 and \$48,000,075 for 2017 and 2016, respectively. Administrative fees were allocated to the program of \$3,677,806 and \$3,521,413 for 2017 and 2016, respectively.



**Note 15 - Related Party Transaction**

During the year ended December 31, 2015, Lifeworks entered into a memorandum of understanding (MOA) with other nonprofit organizations (the Parties) relating to the creation and coordination of a collaborative effort referred to as Altair Accountable Care Organization d/b/a Disability Community Collaborative (the Collaborative). The purpose of the Collaborative is to improve the coordination of disability services between and among the Parties, to create quality measurement and data-sharing mechanisms that can be utilized by all Parties, and to help the Parties meet the needs of disabled individuals in Minnesota through a new Life Plan process. Under this MOA, Lifeworks appoints its Chief Executive Officer to represent Lifeworks as an executive committee member of the Collaborative. This member has voting rights. During the years ended December 31, 2017 and 2016, Lifeworks paid \$27,400 in each respective year to the Collaborative to assist in the implementation of the action plan defined within the MOA. During the year ended December 31, 2017, Lifeworks received \$60,000 from the Collaborative in return for delivering on milestones as noted in the MOA.



Supplementary Information  
December 31, 2017 and 2016  
**Lifeworks Services, Inc.**



## Independent Auditor's Report on Supplementary Information

To the Board of Directors  
Lifeworks Services, Inc.  
Eagan, Minnesota

The Extended Employment Program – Schedules of Revenue and Expenses on pages 23 to 24 is not a required part of the basic financial statements of Lifeworks Services, Inc., but is supplementary information required by the State of Minnesota Department of Economic Security. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. Such information is the responsibility of management. We have not audited or reviewed such information, and we do not express an opinion, a conclusion, nor provide any assurance on it.

*Eide Bailly LLP*

Minneapolis, Minnesota  
May 1, 2018

	Total Extended Employment		Supported Employment	
	6/30/2017	12/31/2017	6/30/2017	12/31/2017
Revenue				
A MN DEED - EE grants	\$ 35,341	\$ 37,044	\$ 35,341	\$ 37,044
B MN DEED - VR svc. fees	67,781	75,908	67,781	75,908
C Host county	-	-	-	-
D Other county	-	-	-	-
E Contract income	-	-	-	-
F Ticket to work	3,917	6,255	3,917	6,255
G Contributions/Donations	-	-	-	-
H Other government grants	-	-	-	-
I Miscellaneous	-	-	-	-
J Total revenue	<u>107,039</u>	<u>119,207</u>	<u>107,039</u>	<u>119,207</u>
Expenses				
Compensation				
A Staff wages	18,575	18,095	18,575	18,095
B Staff benefits	4,012	3,951	4,012	3,951
C Staff payroll taxes	1,793	1,751	1,793	1,751
D Client wages	-	-	-	-
E Client benefits	-	-	-	-
F Client payroll taxes	-	-	-	-
G Client transportation	-	-	-	-
H Occupancy	-	-	-	-
I Program expenses	1,560	1,982	1,560	1,982
J Contract expenses	3,500	-	-	-
K General/Administrative	7,396	7,752	7,396	7,752
L Miscellaneous	-	-	-	-
M Subtotal expenses	<u>36,836</u>	<u>33,531</u>	<u>33,336</u>	<u>33,531</u>
N Interest	-	-	-	-
O Depreciation and amortization	-	-	-	-
P Total expenses	<u>36,836</u>	<u>33,531</u>	<u>33,336</u>	<u>33,531</u>
Change in Net Assets	<u>\$ 70,203</u>	<u>\$ 85,676</u>	<u>\$ 73,703</u>	<u>\$ 85,676</u>

Lifeworks Services, Inc.  
 Extended Employment Program – Schedules of Revenue and Expenses  
 Year Ended December 31, 2017 (Unaudited)

Community Employment		Center-Based Employment		SMI Project	
<u>6/30/2017</u>	<u>12/31/2017</u>	<u>6/30/2017</u>	<u>12/31/2017</u>	<u>6/30/2017</u>	<u>12/31/2017</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
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-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	Total Extended Employment		Supported Employment	
	6/30/2016	12/31/2016	6/30/2016	12/31/2016
Revenue				
A MN DEED - EE grants	\$ 37,985	\$ 46,464	\$ 37,985	\$ 46,464
B MN DEED - VR svc. fees	56,685	34,480	56,685	34,480
C Host county	-	-	-	-
D Other county	1,412	-	1,412	-
E Contract income	-	-	-	-
F Ticket to work	2,065	17,091	2,065	17,091
G Contributions/Donations	-	-	-	-
H Other government grants	-	-	-	-
I Miscellaneous	-	-	-	-
J Total revenue	<u>71,341</u>	<u>93,877</u>	<u>71,341</u>	<u>93,877</u>
Expenses				
Compensation				
A Staff wages	33,292	26,794	33,292	26,794
B Staff benefits	4,112	2,460	4,112	2,460
C Staff payroll taxes	3,212	2,586	3,212	2,586
D Client wages	-	-	-	-
E Client benefits	-	-	-	-
F Client payroll taxes	-	-	-	-
G Client transportation	3,441	-	3,441	-
H Occupancy	-	-	-	-
I Program expenses	3,054	2,269	3,054	2,269
J Contract expenses	-	2,500	-	2,500
K General/Administrative	9,937	8,437	9,937	8,437
L Miscellaneous	-	-	-	-
M Subtotal expenses	<u>56,578</u>	<u>58,443</u>	<u>56,578</u>	<u>58,443</u>
N Interest	-	-	-	-
O Depreciation and amortization	-	-	-	-
P Total expenses	<u>56,578</u>	<u>58,443</u>	<u>56,578</u>	<u>58,443</u>
Change in Net Assets	<u>\$ 14,763</u>	<u>\$ 35,434</u>	<u>\$ 14,763</u>	<u>\$ 35,434</u>

