



RUDD & COMPANY LLC
certified public accountants | business consultants

DEVELOPMENT WORKSHOP, INC.

**Financial Statements
with
Independent Auditors' Report**

June 30, 2017 and 2016

giving direction to your future

DEVELOPMENT WORKSHOP, INC.
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June 30, 2017 and 2016

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RUDD & COMPANY^{PLC}

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Development Workshop, Inc.
Idaho Falls, Idaho

We have audited the accompanying financial statements of Development Workshop, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, 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

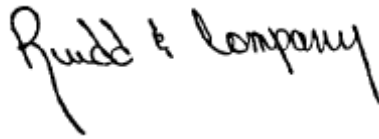
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 Development Workshop, Inc. as of June 30, 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.

A handwritten signature in black ink that reads "Rudd & Company". The signature is written in a cursive, flowing style.

Idaho Falls, Idaho
November 3, 2017

DEVELOPMENT WORKSHOP, INC.
Statements of Financial Position
June 30,

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 357,169	\$ 474,763
Accounts receivable (net of allowance for uncollectible accounts of \$5,000 and \$3,040)	468,992	464,701
Related party receivable	3,850	4,189
Inventories	483,567	486,781
Prepaid expenses	24,570	42,403
Total Current Assets	<u>1,338,148</u>	<u>1,472,837</u>
Property, Plant and Equipment		
Construction in progress	17,477	11,008
Land	1,036,187	1,036,187
Land improvements	75,102	75,102
Buildings	4,235,785	4,134,517
Machinery and equipment	2,528,588	2,485,937
	7,893,139	7,742,751
Less accumulated depreciation	<u>(3,177,622)</u>	<u>(2,916,774)</u>
Net Property, Plant and Equipment	<u>4,715,517</u>	<u>4,825,977</u>
Other Assets		
Restricted cash - USDA Note Reserve Account	44,280	44,280
Long-term investments	236,793	222,721
Membership in Transitional Living Center	25,655	25,655
Investment - Development Workshop Enterprises, LLC	2,000	2,000
Total Other Assets	<u>308,728</u>	<u>294,656</u>
	<u>\$ 6,362,393</u>	<u>\$ 6,593,470</u>

The Accompanying Notes are an Integral
Part of the Financial Statements.

Liabilities and Net Assets	<u>2017</u>	<u>2016</u>
Current Liabilities		
Accounts payable	\$ 51,122	\$ 52,182
Accrued payroll	142,310	121,703
Accrued other liabilities	63,968	30,849
Current portion of lease payable	52,071	50,787
Current portion of long-term debt	70,434	79,028
	<u>379,905</u>	<u>334,549</u>
Long-Term Liabilities		
Lease payable	71,769	123,374
Long-term debt	961,991	1,034,100
Accrued all purpose leave	219,904	219,143
	<u>1,253,664</u>	<u>1,376,617</u>
	<u>1,633,569</u>	<u>1,711,166</u>
Net Assets		
Unrestricted		
Undesignated	4,684,544	4,838,024
Designated for debt service	44,280	44,280
	<u>4,728,824</u>	<u>4,882,304</u>
	<u>\$ 6,362,393</u>	<u>\$ 6,593,470</u>

The Accompanying Notes are an Integral
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DEVELOPMENT WORKSHOP, INC.
Statement of Activities
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Products income	\$ 1,523,186	\$ -	\$ 1,523,186
Service contracts income	1,579,518	-	1,579,518
Medicaid	1,553,616	-	1,553,616
Dept. of Vocational Rehabilitation			
Extended Employment Services	436,880	-	436,880
Dept. of Vocational Rehabilitation	151,483	-	151,483
Other income	153,222	-	153,222
School districts	15,253	-	15,253
United Way	36,747	-	36,747
Interest income	5,682	-	5,682
Gain on investments	11,737	-	11,737
Gain on fixed assets	5,593	-	5,593
Other grant income	5,500	-	5,500
Donations	-	195,943	195,943
Net assets released from restrictions	195,943	(195,943)	-
	<u>5,674,360</u>	<u>-</u>	<u>5,674,360</u>
Total Support and Revenue			

The Accompanying Notes are an Integral
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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Expenses			
Program Services			
Rehabilitation	827,841	-	827,841
Production	1,581,811	-	1,581,811
Medicaid	1,357,277	-	1,357,277
Janitorial	1,282,531	-	1,282,531
Total Program Services	<u>5,049,460</u>	<u>-</u>	<u>5,049,460</u>
Support Services			
General and administrative expense	778,380	-	778,380
Total Support Services	<u>778,380</u>	<u>-</u>	<u>778,380</u>
Total Expense	<u>5,827,840</u>	<u>-</u>	<u>5,827,840</u>
Change in Net Assets	(153,480)	-	(153,480)
Net Assets at Beginning of Year	<u>4,882,304</u>	<u>-</u>	<u>4,882,304</u>
Net Assets at End of Year	<u>\$ 4,728,824</u>	<u>\$ -</u>	<u>\$ 4,728,824</u>

The Accompanying Notes are an Integral
Part of the Financial Statements.

DEVELOPMENT WORKSHOP, INC.
Statement of Activities
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Products income	\$ 1,133,878	\$ -	\$ 1,133,878
Service contracts income	1,961,977	-	1,961,977
Title XIX income	1,436,560	-	1,436,560
Dept. of Vocational Rehabilitation			
Extended Employment Services	377,328	-	377,328
Dept. of Vocational Rehabilitation	177,530	-	177,530
Other income	142,678	-	142,678
School districts	21,666	-	21,666
United Way	35,436	-	35,436
Interest income	10,282	-	10,282
Gain (loss) on investments	(5,951)	-	(5,951)
Other grant income	200	-	200
Donations	-	126,421	126,421
Net assets released from restrictions	126,421	(126,421)	-
	<u>5,418,005</u>	<u>-</u>	<u>5,418,005</u>
Total Support and Revenue			

The Accompanying Notes are an Integral
Part of the Financial Statements.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Expenses			
Program Services			
Rehabilitation	796,583	-	796,583
Production	1,502,007	-	1,502,007
Medicaid	1,243,625	-	1,243,625
Janitorial	1,136,372	-	1,136,372
Total Program Services	<u>4,678,587</u>	<u>-</u>	<u>4,678,587</u>
Support Services			
General and administrative expense	900,354	-	900,354
Total Support Services	<u>900,354</u>	<u>-</u>	<u>900,354</u>
Total Expense	<u>5,578,941</u>	<u>-</u>	<u>5,578,941</u>
Change in Net Assets	(160,936)	-	(160,936)
Net Assets at Beginning of Year	<u>5,043,240</u>	<u>-</u>	<u>5,043,240</u>
Net Assets at End of Year	<u>\$ 4,882,304</u>	<u>\$ -</u>	<u>\$ 4,882,304</u>

The Accompanying Notes are an Integral
Part of the Financial Statements.

DEVELOPMENT WORKSHOP, INC.
Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services		
	Rehabilitation	Production	Medicaid
Direct Materials			
Purchases	\$ -	\$ 396,791	\$ -
Total Direct Materials	-	396,791	-
Direct Labor			
Client labor	1,381	62,669	-
Production labor	6,888	417,229	-
Staff labor	571,699	215,979	908,440
Payroll taxes	49,370	51,226	77,742
Insurance - Workers Comp	20,988	27,524	32,970
Insurance - Employee	60,273	80,783	93,732
Retirement Costs	5,491	5,978	7,730
Total Direct Labor	716,090	861,388	1,120,614
Other Expenses			
Advertising	-	-	-
Bad debts	-	-	-
Commissions	-	23,500	-
Data processing	12,086	3,330	17,610
Depreciation	34,087	123,374	100,975
Dues and subscriptions	226	-	450
Freight - out	-	5,582	-
Insurance - general	6,745	13,675	15,241
Interest	3,311	26,706	11,385
Office supplies/postage	149	211	417
Office equipment/lease expense	-	-	-
Other expenses	6,252	22,132	15,782
Professional development	645	-	1,040
Professional services	-	-	70
Public relations	1,303	-	140
Rent	3,319	98	9,426
Repairs and maintenance	3,395	24,091	9,537
Service contract supplies	-	428	-
Shop and program supplies	4,797	7,687	3,757
Small tool and appliances	1,542	4,966	893
Sub-contracted services	-	15,744	-
Taxes and licenses	738	808	1,835
Telephone	9,900	555	1,183
Travel	160	153	1,263
Utilities	7,743	48,936	22,118
Vehicle operation/maintenance	15,353	1,656	23,541
Total Other Expenses	111,751	323,632	236,663
Total Expenses	\$ 827,841	\$ 1,581,811	\$ 1,357,277

The Accompanying Notes are an Integral
Part of the Financial Statements.

Program Services			
Janitorial	Total Program Services	General and Administrative	Total Expenses
\$ -	\$ 396,791	\$ -	\$ 396,791
-	396,791	-	396,791
875	64,925	4,397	69,322
734,262	1,158,379	165	1,158,544
90,482	1,786,600	449,224	2,235,824
71,786	250,124	39,005	289,129
35,516	116,998	14,972	131,970
186,871	421,659	41,602	463,261
19,863	39,062	6,044	45,106
<u>1,139,655</u>	<u>3,837,747</u>	<u>555,409</u>	<u>4,393,156</u>
-	-	11,391	11,391
-	-	12,661	12,661
56,837	80,337	-	80,337
1,389	34,415	11,451	45,866
6,272	264,708	21,996	286,704
-	676	5,110	5,786
-	5,582	-	5,582
2,488	38,149	20,751	58,900
37	41,439	13,253	54,692
-	777	12,073	12,850
-	-	14,615	14,615
4,056	48,222	19,215	67,437
-	1,685	4,560	6,245
-	70	24,701	24,771
-	1,443	17,612	19,055
1,655	14,498	106	14,604
3,096	40,119	11,566	51,685
53,017	53,445	-	53,445
-	16,241	2,875	19,116
1,768	9,169	4,030	13,199
7,001	22,745	1,383	24,128
233	3,614	1,954	5,568
17	11,655	1,176	12,831
792	2,368	2,064	4,432
1,202	79,999	5,261	85,260
3,016	43,566	3,167	46,733
<u>142,876</u>	<u>814,922</u>	<u>222,971</u>	<u>1,037,893</u>
<u>\$ 1,282,531</u>	<u>\$ 5,049,460</u>	<u>\$ 778,380</u>	<u>\$ 5,827,840</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

DEVELOPMENT WORKSHOP, INC.
Statement of Functional Expenses
Year Ended June 30, 2016

	Program Services		
	Rehabilitation	Production	Medicaid
Direct Materials			
Purchases	\$ -	\$ 387,491	\$ -
Total Direct Materials	-	387,491	-
Direct Labor			
Client labor	1,950	47,889	-
Production labor	1,512	417,236	94
Staff labor	563,648	193,479	824,656
Payroll taxes	44,151	36,508	65,400
Insurance - Workers Comp	14,378	20,747	20,573
Insurance - Employee	55,168	87,836	88,902
Retirement Costs	5,893	5,929	7,528
Total Direct Labor	686,700	809,624	1,007,153
Other Expenses			
Advertising	-	-	-
Bad debts	-	-	-
Commissions	-	28,856	-
Data processing	10,391	3,192	15,076
Depreciation	32,814	102,180	90,476
Dues and subscriptions	157	-	800
Freight - out	-	10,707	-
Insurance - general	7,981	16,286	17,723
Interest	3,615	21,903	12,387
Office supplies/postage	451	203	1,154
Office equipment/lease expense	-	-	-
Other expenses	2,704	7,372	3,861
Professional development	1,144	-	1,131
Professional services	-	-	-
Public relations	2,099	13	294
Rent	5,886	89	10,729
Repairs and maintenance	6,621	37,317	24,502
Samples	-	-	-
Service contract supplies	-	221	-
Shop and program supplies	6,821	8,134	5,087
Small tool and appliances	1,186	8,307	2,922
Sub-contracted services	-	9,142	-
Taxes and licenses	1,236	5,006	3,742
Telephone	8,080	481	1,420
Travel	544	-	1,567
Utilities	6,191	44,145	22,115
Vehicle operation/maintenance	11,962	1,338	21,486
Total Other Expenses	109,883	304,892	236,472
Total Expenses	\$ 796,583	\$ 1,502,007	\$ 1,243,625

The Accompanying Notes are an Integral
Part of the Financial Statements.

Program Services			
Janitorial	Total Program Services	General and Administrative	Total Expenses
\$ -	\$ 387,491	\$ 595	\$ 388,086
-	387,491	595	388,086
1,192	51,031	20,404	71,435
667,091	1,085,933	255	1,086,188
69,090	1,650,873	480,685	2,131,558
58,368	204,427	39,006	243,433
30,585	86,283	11,537	97,820
152,085	383,991	58,989	442,980
23,384	42,734	8,887	51,621
<u>1,001,795</u>	<u>3,505,272</u>	<u>619,763</u>	<u>4,125,035</u>
-	-	16,062	16,062
-	-	11,737	11,737
53,325	82,181	-	82,181
1,232	29,891	9,860	39,751
7,139	232,609	30,797	263,406
45	1,002	5,057	6,059
-	10,707	26	10,733
2,944	44,934	24,448	69,382
-	37,905	26,105	64,010
-	1,808	12,246	14,054
-	-	14,944	14,944
3,270	17,207	21,062	38,269
30	2,305	3,009	5,314
-	-	28,465	28,465
-	2,406	23,312	25,718
2,799	19,503	241	19,744
6,669	75,109	13,728	88,837
-	-	17	17
44,698	44,919	-	44,919
-	20,042	2,356	22,398
1,205	13,620	9,101	22,721
6,100	15,242	3,234	18,476
178	10,162	2,115	12,277
-	9,981	2,117	12,098
878	2,989	4,948	7,937
1,003	73,454	10,453	83,907
3,062	37,848	4,556	42,404
<u>134,577</u>	<u>785,824</u>	<u>279,996</u>	<u>1,065,820</u>
\$ 1,136,372	\$ 4,678,587	\$ 900,354	\$ 5,578,941

The Accompanying Notes are an Integral
Part of the Financial Statements.

DEVELOPMENT WORKSHOP, INC.
Statements of Cash Flows
Years Ended June 30,

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ (153,480)	\$ (160,936)
Adjustments to reconcile net assets to net cash provided (used) by operating activities		
(Gain) loss on sale of assets	(5,593)	-
(Gain) loss on investments	(11,737)	5,951
Depreciation	286,704	263,406
Net change in		
Accounts receivable	(4,291)	(2,667)
Other receivables	339	8,439
Inventories	3,216	(12,225)
Prepaid expenses	17,833	(14,809)
Accounts payable	(1,060)	(45,583)
Accrued expenses	53,726	(31,745)
Accrued all purpose leave	761	(17,236)
	<u>186,418</u>	<u>(7,405)</u>
Net Cash Provided (Used) by Operating Activities		
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	5,593	-
Proceeds from sale of investments	-	464,166
Purchases of property and equipment	(176,246)	(222,697)
Purchases of investments	(2,335)	(94,474)
	<u>(172,988)</u>	<u>146,995</u>
Net Cash Provided (Used) by Investing Activities		

The Accompanying Notes are an Integral
Part of the Financial Statements.

Cash Flows from Financing Activities		
Payments on long-term debt	(80,703)	(66,476)
Payments on capital lease	<u>(50,321)</u>	<u>(49,399)</u>
Net Cash Provided (Used) by Financing Activities	<u>(131,024)</u>	<u>(115,875)</u>
Net Increase (Decrease) in Cash	(117,594)	23,715
Cash at Beginning of Year	<u>519,043</u>	<u>495,328</u>
Cash at End of Year	<u>\$ 401,449</u>	<u>\$ 519,043</u>
Noncash Information		
Capitalized equipment from leases	\$ -	\$ 40,890
Balances Per Statements of Financial Position		
Cash and cash equivalents	\$ 357,169	\$ 474,763
Restricted Cash - USDA Note Reserve Account	<u>44,280</u>	<u>44,280</u>
	<u>\$ 401,449</u>	<u>\$ 519,043</u>

The Accompanying Notes are an Integral
Part of the Financial Statements.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

1. Summary of Significant Accounting Policies

Nature of Activities

The Development Workshop, Inc. (the Workshop) was incorporated in August 1973 and is governed by a Board of Directors who serve without compensation. The Workshop operates a community rehabilitation program to provide vocational services, training, and employment to persons with disabilities with the goal of making them self-supporting. The Workshop serves individuals primarily in a nine county area in eastern Idaho through facilities located in Idaho Falls, Rexburg, and Salmon.

The revenues of the Workshop are derived primarily from the following sources:

1. Contracts with various governmental agencies for services provided in training and employment of persons with a wide range and severity of disabilities.
2. Sale of products and services to federal and state governmental agencies.
3. Sale of products and services in the private sector.
4. Contributions by civic organizations, foundations, corporations, trusts and individuals.

Donated services are not recorded in the books unless the services are to be capitalized, in which case the services are recorded at their fair market value.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Financial Statement Presentation

The Workshop reports financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Each class is defined as follows:

Permanently Restricted - Those net assets resulting from inflows of assets whose use is limited by donor-imposed restrictions, which do not expire by passage of time.

Temporarily Restricted - Those net assets resulting from inflows of assets whose use is limited by donor-imposed restrictions which expire by passage of time or are fulfilled by actions of the Workshop.

Unrestricted - Those net assets that are neither permanently or temporarily restricted.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2017 and 2016

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

The Organization capitalizes property and equipment over \$1,000. Property and equipment purchased are recorded in the books at cost. Equipment that is leased under capital leases is recorded at the present value of the lease payments to be made over the term of the lease. All depreciable assets are being depreciated using the straight-line method, over their estimated useful lives that range from three to forty years.

Inventories

Inventories are valued at the lower of cost (first in, first out) or market.

Accounts Receivable

Accounts receivable are reported at the outstanding balances due from customers for products and services provided. Receivables are billed monthly. An allowance for uncollectible accounts has been established as an estimate of those balances which may not be collected. The allowance is based on experience and other circumstances which may affect the ability of clients and customers to make their payments. Receivables are considered impaired if payments are not received in accordance with the contractual terms. It is the Workshop's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. As of June 30, 2017 and 2016 there was \$9,039 and \$11,770 of accounts receivable in excess of 90 days, respectively.

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Short-term investments consist of stocks and debt securities with original maturities of twelve months or less. Long-term investments consist of mutual funds and debt securities with original maturities greater than twelve months.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Workshop considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. All 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.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2017 and 2016

1. Summary of Significant Accounting Policies (continued)

Tax Exempt Status

The Workshop has received a determination from the Internal Revenue Service that it qualifies as a nonprofit organization under section 501(c)(3) of the Internal Revenue Code. The Workshop also has received a determination from the State of Idaho that it qualifies as a corporation exempt from income taxes, including the minimum tax provisions, under section 63-3025C of the Idaho Code. Accordingly, there is no accounting for income taxes in the accompanying financial statements.

The 2014 through 2016 tax years remain open to examination by the Internal Revenue Service and the Idaho State Tax Commission. These taxing authorities have the authority to examine those years until the applicable statute of limitations expire.

Statement of Functional Expenses

The costs of providing various program and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising

Advertising costs are accrued as a prepaid asset when incurred and expensed each month over the estimated benefit period. Advertising expense for the year ended June 30, 2017 was \$11,391 with \$100 included as a prepaid asset at year end. Advertising expense for the year ended June 30, 2016 was \$16,062 with \$396 included as a prepaid asset at year end.

Subsequent Events

The Workshop has evaluated subsequent events and transactions through November 3, 2017, the date the financial statements were available to be issued.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2017 and 2016

2. Cash and Cash Equivalents

The Workshop maintains several checking and savings accounts in local financial institutions. At times the total cash and cash equivalents held by these financial institutions exceed FDIC insurance coverage. At June 30, 2017 and 2016, the Workshop had \$188,992 and \$310,365 uninsured and uncollateralized, respectively.

3. Restricted Cash – USDA Note Reserve Account

Cash has been restricted under a debt service agreement with the USDA to reflect the required establishment of a reserve account to be used for future note payments or for repairs or improvements to the financed facility upon prior written approval.

4. Related Party Transactions

The Development Workshop, Inc. provides administrative services to the Development Workshop Foundation, a related entity, on a reimbursement basis. Charges for services and reimbursed expenses amounted to \$68,120 and \$67,331 for the years ended June 30, 2017 and 2016, respectively.

As of June 30, 2017 and 2016, the Workshop had related party receivables outstanding from the Foundation of \$3,850 and \$4,189, respectively.

The Workshop receives donations from the Foundation for grants, client scholarships, fixed asset purchases, and other expenses. For the years ended June 30, 2017 and 2016, the Workshop received \$177,137 and \$92,734, respectively, of contributions from the Foundation.

The Workshop leases vehicles from the Foundation under capital leases. For the year ended June 30, 2017 and 2016, the Workshop paid \$54,573 and \$49,399, respectively, to the Foundation to lease vehicles.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2017 and 2016

5. Inventories

Major classes of inventories at June 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Raw Materials	\$ 290,846	\$ 273,705
Finished Goods	<u>192,721</u>	<u>213,076</u>
	<u>\$ 483,567</u>	<u>\$ 486,781</u>

6. Membership in Transitional Living Center

During the fiscal year ended June 30, 1990, Development Workshop, Inc. purchased land for a client residential housing facility on behalf of Transitional Living Center, Inc. After the necessary financing for construction of the housing facility was in place, Development Workshop, Inc. transferred title of the land to Transitional Living Center, Inc. on August 31, 1992. Construction on the housing facility began in October 1992 and was completed in August 1994. Clients have been living in the facility since November 1993.

In 1994, Development Workshop, Inc. was reimbursed by HUD for a portion of the cost of the land for the Transitional Living Center. The remaining cost for the land, or \$25,655, represents the Workshop's membership in Transitional Living Center, Inc., a non-profit organization.

7. Investment – Development Workshop Enterprises, LLC

On September 25, 2006, Development Workshop, Inc. created a new for-profit company called Development Workshop Enterprises, LLC. The purpose of the new company is to provide training opportunities for people with disabilities and a vehicle for contracting with private businesses. The initial investment is being carried on the books of the Workshop at the original cost of \$2,000. There was no activity in the Development Workshop Enterprises, LLC for the years ended June 30, 2017 and 2016.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2017 and 2016

8. Fair Value Measurement

FASB ASC 820 specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). The following summarizes the fair value hierarchy:

- Level 1 Inputs – Unadjusted quoted market prices for identical assets and liabilities in an active market.
- Level 2 Inputs – Inputs other than the quoted process in active markets that are observable either directly or indirectly.
- Level 3 Inputs – Inputs based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurements.

FASB ASC 820 required the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2017 and 2016

8. Fair Value Measurement (continued)

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at June 30, 2017 are as follows:

		<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
	<u>Fair Value</u>			
Long-term Investments				
Corporate bonds	\$ 39,946	\$ 39,946	\$ -	\$ -
Municipal bonds	36,336	36,336	-	-
Real estate investment trust	20,755	20,755	-	-
Equity mutual funds	97,861	97,861	-	-
International equity mutual funds	41,895	41,895	-	-
Total Long-term Investments	<u>\$ 236,793</u>	<u>\$ 236,793</u>	<u>\$ -</u>	<u>\$ -</u>

The fair value measurements and levels with the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at June 30, 2016 are as follows:

		<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
	<u>Fair Value</u>			
Long-term Investments				
Corporate bonds	\$ 39,130	\$ 39,130	\$ -	\$ -
Municipal bonds	37,642	37,642	-	-
Real estate investment trust	29,138	29,138	-	-
Equity mutual funds	83,451	83,451	-	-
International equity mutual funds	33,360	33,360	-	-
Total Long-term Investments	<u>\$ 222,721</u>	<u>\$ 222,721</u>	<u>\$ -</u>	<u>\$ -</u>

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2017 and 2016

8. Fair Value Measurement (continued)

Long-term investments are reported at fair value and measured on a recurring basis determined by reference to quoted market prices and other relevant information generated by market transactions.

The Organization recognizes transfers of assets into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels in the years ended June 30, 2017 and 2016.

9. Employee Retirement Plan

The Workshop has a tax sheltered deferred annuity plan, as described in Section 403(b) of the Internal Revenue Code, covering all staff employees who have met the service requirements. The contribution by the Workshop for staff employees is at a rate of zero to 2.5% of the employee's compensation depending upon the employee's length of service. Workshop contributions for Service Contract Act employees are determined by the federal contract they worked on and the contractual rate specified. Voluntary contributions to the plan are permitted to a maximum of \$18,000 with a \$5,500 additional allowance for employees who are 50 years old or older. Contributions to the retirement plan amounted to \$45,106 and \$51,620 for the years ended June 30, 2017 and 2016, respectively.

10. Operating Leases

The Workshop entered into an operating lease agreement in June 2013 for office equipment. The lease calls for monthly payments of \$901 and has a term of 60 months. Lease expense for the years ended June 30, 2017 and 2016 were \$14,615 and \$14,944, respectively. The minimum lease payments required under the operating lease as of June 30, 2017 are as follows:

2018		\$ 5,404
		\$ 5,404

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2017 and 2016

11. Capital Leases

In the years ended June 30, 2017 and 2016, the Workshop entered into agreements with the Development Workshop Foundation to lease vehicles under capital leases. The economic substance of the lease is that the Organization is financing the acquisition of the assets through the lease, and accordingly, it is recorded in the Workshop's assets and liabilities.

The following is an analysis of the leased assets included in fixed assets:

Vehicles	\$ 252,632
Less accumulated depreciation	<u>(130,740)</u>
	<u>\$ 121,892</u>

The lease agreements contain a bargain purchase option at the end of the lease term. The following is a schedule by years of future minimum payments required under the leases together with their present value at June 30, 2017:

2018	\$ 54,573
2019	54,573
2020	18,434
2021	<u>105</u>
Total minimum lease payments	127,685
Less amount representing interest	<u>(3,845)</u>
	<u>\$ 123,840</u>

Amortization of assets held under capital leases is included in depreciation expense.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2017 and 2016

12. Long-term Debt

Long-term debt as of June 30, is as follows:

	<u>2017</u>	<u>2016</u>
4.25% note payable to USDA, due in monthly installments of \$3,690, including interest. Original principal amount of \$750,000. Secured by deed of trust. Final installment due July 2039.	\$ 566,804	\$ 587,417
4.03% note payable to US Bank, due in 59 monthly installments of \$826, including interest, with one final payment of all principal and interest due August 10, 2018. Original principal amount of \$44,750, secured by deed of trust.	10,310	20,359
3.75% note payable to USDA, due in monthly installments of \$1,894, including interest. Original principal amount of \$408,000, secured by deed of trust. Final installment due December 2040.	353,421	362,706
0% note payable to SourceAmerica, due in quarterly installments of \$10,189. Original principal amount of \$203,780, secured by deed of trust. Final installment due October 2019.	<u>101,890</u>	<u>142,646</u>
	1,032,425	1,113,128
Less current portion of long-term debt	<u>(70,434)</u>	<u>(79,028)</u>
	<u>\$ 961,991</u>	<u>\$ 1,034,100</u>

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2017 and 2016

12. Long-term Debt (continued)

Future installments of long-term debt as of June 30, 2017 are as follows:

2018	.....	\$	80,623
2019	.....		72,916
2020	.....		53,179
2021	.....		33,968
2022	.....		24,397
Thereafter	.....		<u>767,342</u>
		\$	<u>1,032,425</u>

13. Line of Credit

The Workshop had a line of credit in the amount of \$125,000 from US Bank. The line of credit had a variable rate of interest of 0.5% plus prime, with a minimum annual interest rate of 4.25%. The line of credit matured on December 10, 2016 and was not renewed. As of June 30, 2017 and 2016, the balance of the line of credit was \$0. There were no advances or payments on the line of credit in the year ended June 30, 2017. Advances on the line of credit during the year ended June 30, 2016 were \$225,000 and payments were \$225,000.

14. Statement of Cash Flows Additional Information

Interest paid by the Workshop for the years ended June 30, 2017 and 2016 amounted to \$54,611 and \$64,010, respectively.

Since the Workshop is a non-profit organization, there are no payments for income taxes.

15. Temporarily Restricted Net Assets

During 2017, net assets were temporarily restricted for grants, client scholarships, and other expenses. The amount of contributions received from the Development Workshop Foundation for June 30, 2017 was \$177,137. The amount of other donations amounted to \$18,806. These restrictions were satisfied during the June 30, 2017 fiscal year.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2017 and 2016

15. Temporarily Restricted Net Assets (continued)

During 2016, net assets were temporarily restricted for grants, client scholarships, and other expenses. The amount of contribution received from the Development Workshop Foundation for June 30, 2016 was \$92,734. The amount of other donations amounted to \$33,687. These restrictions were satisfied during the June 30, 2016 fiscal year.

16. Permanently Restricted Net Assets

The Workshop currently has no permanently restricted net assets at June 30, 2017 and 2016.