



**RUDD & COMPANY** PLLC  
*certified public accountants | business consultants*

## **DEVELOPMENT WORKSHOP, INC.**

**Financial Statements  
with  
Independent Auditors' Report**

**June 30, 2015 and 2014**

*giving direction to your future*

**DEVELOPMENT WORKSHOP, INC.**  
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**June 30, 2015 and 2014**

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RUDD & COMPANY<sup>INC.</sup>

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## 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, 2015 and 2014, 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.

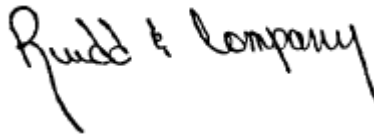
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

IDAHO FALLS | REXBURG | DRIGGS | BOZEMAN | WEST YELLOWSTONE

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## **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, 2015 and 2014, 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  
October 28, 2015

**DEVELOPMENT WORKSHOP, INC.**  
**Statements of Financial Position**  
**June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 451,048	\$ 296,806
Accounts receivable (net of allowance for uncollectable accounts of \$2,700 and \$2,400)	456,432	413,105
Related party receivable	9,791	10,592
Other receivable	8,439	10,448
Inventories	474,556	541,825
Prepaid expenses	<u>27,594</u>	<u>26,450</u>
Total Current Assets	<u>1,427,860</u>	<u>1,299,226</u>
Property, Plant and Equipment		
Construction in progress	88,125	123,362
Land	1,036,187	1,036,187
Land improvements	75,102	75,102
Buildings	3,897,961	3,887,661
Machinery and equipment	<u>2,381,789</u>	<u>1,874,193</u>
	7,479,164	6,996,505
Less accumulated depreciation	<u>(2,653,368)</u>	<u>(2,588,197)</u>
Net Property, Plant and Equipment	<u>4,825,796</u>	<u>4,408,308</u>
Other Assets		
Restricted cash - USDA Note Reserve Account	44,280	44,280
Long-term investments	598,364	446,346
Membership in Transitional Living Center	25,655	25,655
Investment - Development Workshop Enterprises, LLC	<u>2,000</u>	<u>2,000</u>
Total Other Assets	<u>670,299</u>	<u>518,281</u>
	<u>\$ 6,923,955</u>	<u>\$ 6,225,815</u>

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

<b>Liabilities and Net Assets</b>	<b>2015</b>	<b>2014</b>
<b>Current Liabilities</b>		
Accounts payable	\$ 97,765	\$ 79,055
Accrued payroll	102,473	72,941
Accrued other liabilities	81,824	76,046
Current portion of lease payable	41,654	-
Current portion of long-term debt	77,495	35,272
Total Current Liabilities	<u>401,211</u>	<u>263,314</u>
<b>Long-term Liabilities</b>		
Lease payable	141,016	-
Long-term debt	1,102,109	1,006,314
Accrued all purpose leave	236,379	230,152
Total Long-term Liabilities	<u>1,479,504</u>	<u>1,236,466</u>
Total Liabilities	<u>1,880,715</u>	<u>1,499,780</u>
<b>Net Assets</b>		
Unrestricted		
Undesignated	4,998,960	4,681,755
Designated for debt service	44,280	44,280
Total Net Assets	<u>5,043,240</u>	<u>4,726,035</u>
	<u>\$ 6,923,955</u>	<u>\$ 6,225,815</u>

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

**DEVELOPMENT WORKSHOP, INC.****Statement of Activities****Year Ended June 30, 2015**

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Products income	\$ 1,075,491	\$ -	\$ 1,075,491
Service contracts income	2,021,241	-	2,021,241
Title XIX income	1,340,239	-	1,340,239
Dept. of Vocational Rehabilitation			
Extended Employment Services	420,814	-	420,814
Dept. of Vocational Rehabilitation	179,266	-	179,266
Other income	139,321	-	139,321
School districts	28,028	-	28,028
United Way	31,374	-	31,374
Interest income	9,523	-	9,523
Gain on investments	3,964	-	3,964
Other grant income	14,947	-	14,947
Donations	-	295,561	295,561
Net assets released from restrictions	295,561	(295,561)	-
	<u>5,559,769</u>	<u>-</u>	<u>5,559,769</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	748,606	-	748,606
Production	1,436,874	-	1,436,874
Medicaid	1,094,627	-	1,094,627
Janitorial	1,129,944	-	1,129,944
Total Program Services	<u>4,410,051</u>	<u>-</u>	<u>4,410,051</u>
Support Services			
General and administrative expense	841,699	-	841,699
Total Support Services	<u>841,699</u>	<u>-</u>	<u>841,699</u>
Total Expense	<u>5,251,750</u>	<u>-</u>	<u>5,251,750</u>
Other Income and Expenses			
Gain on sale of fixed assets	9,186	-	9,186
Total Other Income and Expenses	<u>9,186</u>	<u>-</u>	<u>9,186</u>
Change in Net Assets	317,205	-	317,205
Net Assets at Beginning of Year	<u>4,726,035</u>	<u>-</u>	<u>4,726,035</u>
Net Assets at End of Year	<u>\$ 5,043,240</u>	<u>\$ -</u>	<u>\$ 5,043,240</u>

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



**DEVELOPMENT WORKSHOP, INC.**  
**Statement of Activities**  
**Year Ended June 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Products income	\$ 1,129,858	\$ -	\$ 1,129,858
Service contracts income	1,450,384	-	1,450,384
Title XIX income	1,112,004	-	1,112,004
Dept. of Vocational Rehabilitation			
Extended Employment Services	448,653	-	448,653
Dept. of Vocational Rehabilitation	175,127	-	175,127
Other income	79,530	-	79,530
School districts	40,275	-	40,275
United Way	36,822	-	36,822
Interest income	858	-	858
Gain on investments	19,228	-	19,228
Other grant income	35,492	-	35,492
Donations	-	226,272	226,272
Net assets released from restrictions	226,272	(226,272)	-
	<u>4,754,503</u>	<u>-</u>	<u>4,754,503</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			
DWI - Idaho Falls rehabilitation	1,131,093	-	1,131,093
DWI - Idaho Falls production	740,833	-	740,833
DWI - Salmon	230,385	-	230,385
DWI - Rexburg	789,726	-	789,726
Administrative support and janitorial	868,463	-	868,463
Total Program Services	<u>3,760,500</u>	<u>-</u>	<u>3,760,500</u>
Support Services			
General and administrative expense	812,297	-	812,297
Total Support Services	<u>812,297</u>	<u>-</u>	<u>812,297</u>
Total Expense	<u>4,572,797</u>	<u>-</u>	<u>4,572,797</u>
Other Income and Expenses			
Loss on sale of fixed assets	(1,350)	-	(1,350)
Total Other Income and Expenses	<u>(1,350)</u>	<u>-</u>	<u>(1,350)</u>
Change in Net Assets	180,356	-	180,356
Net Assets at Beginning of Year	<u>4,545,679</u>	<u>-</u>	<u>4,545,679</u>
Net Assets at End of Year	<u>\$ 4,726,035</u>	<u>\$ -</u>	<u>\$ 4,726,035</u>

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

**DEVELOPMENT WORKSHOP, INC.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2015**

	<b>Program Services</b>		
	<b>Rehabilitation</b>	<b>Production</b>	<b>Medicaid</b>
Direct Materials			
Purchases	\$ -	\$ 358,755	\$ -
Total Direct Materials	-	358,755	-
Direct Labor			
Client labor	6,405	55,310	-
Production labor	1,152	433,738	66
Staff labor	529,803	172,216	751,455
Payroll taxes	40,848	38,403	57,550
Insurance - Workers Compensation	10,743	9,717	14,672
Insurance - Employee	54,286	54,391	72,092
Retirement Costs	6,059	5,068	5,373
Total Direct Labor	649,296	768,843	901,208
Other Expenses			
Advertising	-	-	-
Bad debts	-	-	-
Commissions	-	29,471	-
Data processing	6,397	744	10,309
Depreciation	23,154	93,909	63,669
Dues and subscriptions	140	-	60
Freight - out	-	13,526	-
Insurance - general	13,164	13,117	18,609
Interest	3,152	22,095	12,564
Office supplies/postage	209	166	329
Office equipment/lease expense	-	-	-
Other expenses	2,385	8,566	3,197
Professional development	1,073	189	577
Professional services	-	-	-
Public relations	996	-	324
Rent	3,835	313	250
Repairs and maintenance	4,413	29,557	17,663
Samples	-	29	-
Service contract supplies	-	570	-
Shop and program supplies	3,486	11,378	9,116
Small tool and appliances	1,386	8,882	3,808
Sub-contracted services	-	23,086	250
Taxes and licenses	954	2,768	2,103
Telephone	12,321	2,481	7,503
Travel	4,040	46	2,381
Utilities	4,740	45,378	20,073
Vehicle operation/maintenance	13,465	3,005	20,634
Total Other Expenses	99,310	309,276	193,419
Total Expenses	\$ 748,606	\$ 1,436,874	\$ 1,094,627

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

<b>Program Services</b>			
<b>Janitorial</b>	<b>Total Program Services</b>	<b>General and Administrative</b>	<b>Total Expenses</b>
\$ -	\$ 358,755	\$ -	\$ 358,755
-	358,755	-	358,755
13,454	75,169	17,322	92,491
650,067	1,085,023	455	1,085,478
85,744	1,539,218	455,868	1,995,086
55,991	192,792	35,873	228,665
14,313	49,445	8,810	58,255
137,068	317,837	50,635	368,472
28,572	45,072	8,656	53,728
985,209	3,304,556	577,619	3,882,175
-	-	21,377	21,377
-	-	6,330	6,330
46,793	76,264	-	76,264
373	17,823	4,788	22,611
5,375	186,107	21,789	207,896
-	200	4,537	4,737
-	13,526	-	13,526
6,212	51,102	21,578	72,680
-	37,811	22,460	60,271
-	704	12,647	13,351
-	-	12,737	12,737
3,455	17,603	30,884	48,487
-	1,839	5,990	7,829
-	-	32,602	32,602
-	1,320	14,137	15,457
850	5,248	240	5,488
8,516	60,149	12,664	72,813
-	29	-	29
52,866	53,436	125	53,561
185	24,165	2,985	27,150
4,944	19,020	5,473	24,493
6,072	29,408	1,742	31,150
120	5,945	1,026	6,971
615	22,920	7,965	30,885
3,351	9,818	3,787	13,605
212	70,403	11,314	81,717
4,796	41,900	4,903	46,803
144,735	746,740	264,080	1,010,820
\$ 1,129,944	\$ 4,410,051	\$ 841,699	\$ 5,251,750

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

**DEVELOPMENT WORKSHOP, INC.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2014**

	<b>Program Services</b>		
	<b>DWI Idaho Falls Rehabilitation</b>	<b>DWI Idaho Falls Production</b>	<b>DWI Salmon</b>
Direct Materials			
Purchases	\$ -	\$ 317,404	\$ 519
Total Direct Materials	-	317,404	519
Direct Labor			
Client labor	1,643	45,954	-
Production labor	7,934	66,809	47,596
Staff labor	800,622	123,452	101,593
Payroll taxes	62,819	19,381	12,015
Insurance - Workers Compensation	19,002	6,751	4,021
Insurance - Employee	101,033	22,984	10,637
Retirement Costs	8,154	2,948	5,120
Total Direct Labor	1,001,207	288,279	180,982
Other Expenses			
Advertising	-	-	-
Bad debts	-	-	-
Commissions	-	22,423	3,708
Data processing	14,008	880	1,698
Depreciation	15,647	30,297	10,351
Dues and subscriptions	75	-	50
Freight - out	-	23,417	-
Insurance - general	14,208	6,264	2,604
Interest	-	-	20
Office supplies/postage	120	156	636
Office equipment/lease expense	-	-	-
Other expenses	8,303	4,216	4,056
Professional development	1,041	-	172
Professional services	-	-	383
Public relations	1,085	-	465
Rent	2,700	53	-
Repairs and maintenance	7,982	15,413	984
Samples	-	37	-
Service contract supplies	-	-	7,449
Shop and program supplies	7,704	5,072	1,105
Small tool and appliances	763	1,791	483
Sub-contracted services	2,096	60	233
Taxes and licenses	775	33	99
Telephone	10,940	1,509	1,585
Travel	959	1,688	2,048
Utilities	18,061	20,813	4,521
Vehicle operation/maintenance	23,419	1,028	6,234
Total Other Expenses	129,886	135,150	48,884
Total Expenses	\$ 1,131,093	\$ 740,833	\$ 230,385

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

<b>Program Services</b>				
<b>DWI Rexburg</b>	<b>Administrative Support and Janitorial</b>	<b>Total Program Services</b>	<b>General and Administrative</b>	<b>Total Expenses</b>
\$ 51,622	\$ -	\$ 369,545	\$ -	\$ 369,545
51,622	-	369,545	-	369,545
12,413	2,149	62,159	30,717	92,876
133,152	508,948	764,439	382	764,821
287,461	54,760	1,367,888	442,218	1,810,106
31,474	44,420	170,109	35,991	206,100
10,748	17,297	57,819	8,964	66,783
36,222	95,812	266,688	41,932	308,620
3,009	29,598	48,829	8,479	57,308
514,479	752,984	2,737,931	568,683	3,306,614
-	-	-	29,228	29,228
-	-	-	4,268	4,268
9,136	49,543	84,810	-	84,810
4,460	441	21,487	4,749	26,236
61,181	3,859	121,335	21,771	143,106
164	-	289	5,688	5,977
592	-	24,009	-	24,009
11,088	8,136	42,300	19,687	61,987
41,354	-	41,374	12,220	53,594
834	-	1,746	9,514	11,260
-	-	-	10,989	10,989
7,574	1,574	25,723	17,959	43,682
975	-	2,188	7,572	9,760
-	-	383	25,986	26,369
1,081	934	3,565	11,707	15,272
-	-	2,753	-	2,753
12,851	4,337	41,567	30,472	72,039
175	-	212	140	352
3,753	33,519	44,721	22	44,743
4,369	-	18,250	1,731	19,981
579	1,073	4,689	3,857	8,546
879	3,267	6,535	805	7,340
3,529	104	4,540	1,036	5,576
5,213	418	19,665	4,702	24,367
348	161	5,204	9,585	14,789
39,423	139	82,957	5,959	88,916
14,067	7,974	52,722	3,967	56,689
223,625	115,479	653,024	243,614	896,638
\$ 789,726	\$ 868,463	\$ 3,760,500	\$ 812,297	\$ 4,572,797

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

**DEVELOPMENT WORKSHOP, INC.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 317,205	\$ 180,356
Adjustments to reconcile net assets to net cash provided (used) by operating activities		
(Gain) loss on sale of assets	(9,186)	1,350
Gain on investments	(3,964)	(19,228)
Depreciation	207,896	143,106
Net change in		
Accounts receivable	(42,526)	(111,236)
Other receivables	2,009	(6,623)
Inventories	67,269	(25,506)
Prepaid expenses	(1,144)	5,914
Accounts payable	18,710	40,742
Accrued expenses	35,310	22,587
Accrued all purpose leave	6,227	(12,968)
	<u>597,806</u>	<u>218,494</u>
Net Cash Provided by Operating Activities		
	<u>597,806</u>	<u>218,494</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of property and equipment	9,186	200
Proceeds from sale of investments	272,564	132,551
Purchases of property and equipment	(413,642)	(266,431)
Purchases of investments	(420,618)	(369,899)
	<u>(552,510)</u>	<u>(503,579)</u>
Net Cash Used by Investing Activities		
	<u>(552,510)</u>	<u>(503,579)</u>

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

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**Cash Flows from Financing Activities**

Payments on long-term debt	(65,762)	(32,682)
Payments on capital lease payable	(29,072)	-
Proceeds from long-term debt	<u>203,780</u>	<u>44,750</u>
Net Cash Provided by Financing Activities	<u>174,708</u>	<u>44,750</u>
Net Increase (Decrease) in Cash	220,004	(273,017)
Cash at Beginning of Year	<u>341,086</u>	<u>614,103</u>
Cash at End of Year	<u>\$ 561,090</u>	<u>\$ 341,086</u>
<b>Noncash Information</b>		
Capitalized equipment from leases	\$ 211,742	\$ -
<b>Balances Per Statements of Financial Position</b>		
Cash and cash equivalents	\$ 451,048	\$ 296,806
Restricted Cash - USDA Note Reserve Account	<u>44,280</u>	<u>44,280</u>
	<u>\$ 495,328</u>	<u>\$ 341,086</u>

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



**DEVELOPMENT WORKSHOP, INC.**  
**Notes to Financial Statements**  
**Years Ended June 30, 2015 and 2014**

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**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, 2015 and 2014**

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**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, 2015 and 2014 there was \$12,980 and \$6,511 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 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, 2015 and 2014**

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**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 2012 through 2014 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, 2015 was \$21,377 with \$600 included as a prepaid asset at year end. Advertising expense for the year ended June 30, 2014 was \$29,228 with \$1,200 included as a prepaid asset at year end.

**Subsequent Events**

The Workshop has evaluated subsequent events and transactions through October 28, 2015, the date the financial statements were available to be issued.

**DEVELOPMENT WORKSHOP, INC.**  
**Notes to Financial Statements (continued)**  
**June 30, 2015 and 2014**

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**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, 2015 and 2014, the Workshop had \$287,315 and \$101,731 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 \$66,805 and \$67,356 for the years ended June 30, 2015 and 2014, respectively.

As of June 30, 2015 and 2014, the Workshop had related party receivables outstanding from the Foundation of \$9,791 and \$10,592, respectively.

The Workshop receives contributions from the Foundation for grants, client scholarships, fixed asset purchases, and other expenses. For the year ended June 30, 2015, the Workshop received \$254,299 of contributions from the Foundation.

The Workshop leases vehicles from the Foundation under capital leases. For the year ended June 30, 2015, the Workshop paid \$32,662 to the Foundation to lease vehicles.

**DEVELOPMENT WORKSHOP, INC.**  
**Notes to Financial Statements (continued)**  
**June 30, 2015 and 2014**

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**5. Inventories**

Major classes of inventories at June 30, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Raw Materials	\$ 294,448	\$ 343,114
Finished Goods	<u>180,108</u>	<u>198,711</u>
	<u>\$ 474,556</u>	<u>\$ 541,825</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 cost. There was no activity in the Development Workshop Enterprises, LLC for the years ended June 30, 2015 and 2014.

**DEVELOPMENT WORKSHOP, INC.**  
**Notes to Financial Statements (continued)**  
**June 30, 2015 and 2014**

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**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, 2015 and 2014**

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**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, 2015 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Market (Level 1)</u>
Long-term Investments		
Corporate bonds	\$ 39,335	\$ 39,335
Municipal bonds	34,687	34,687
Real estate investment trust	22,930	22,930
Equity mutual funds	192,058	192,058
International equity mutual funds	103,400	103,400
Hedged equity mutual funds	20,060	20,060
Fixed income mutual funds	185,894	185,894
	<u>\$ 598,364</u>	<u>\$ 598,364</u>
Total Long-term Investments		

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, 2014 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Market (Level 1)</u>
Long-term Investments		
Corporate bonds	\$ 48,849	\$ 48,849
Municipal bonds	34,707	34,707
Real estate investment trust	13,104	13,104
Equity mutual funds	184,595	184,595
International equity mutual funds	25,003	25,003
Fixed income mutual funds	140,088	140,088
	<u>\$ 446,346</u>	<u>\$ 446,346</u>
Total Long-term Investments		

**DEVELOPMENT WORKSHOP, INC.**  
**Notes to Financial Statements (continued)**  
**June 30, 2015 and 2014**

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**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, 2015 and 2014.

**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 \$17,000 with a \$5,500 additional allowance for employees who are 50 years old or older. The maximum includes employee and employer contributions. Contributions to the retirement plan amounted to \$53,727 and \$57,308 for the years ended June 30, 2015 and 2014, 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 year ended June 30, 2015 was \$12,737. The minimum lease payments required under the operating lease as of June 30, 2015 are as follows:

2016	.....	\$	10,812
2017	.....		10,812
2018	.....		10,812
			<hr/>
		\$	32,436
			<hr/>



**DEVELOPMENT WORKSHOP, INC.**  
**Notes to Financial Statements (continued)**  
**June 30, 2015 and 2014**

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**11. Capital Leases**

In the year ended June 30, 2015, the Workshop entered into agreements with the Development Workshop Foundation to lease vehicles under capital leases expiring in the year ended June 30, 2015. 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	\$ 211,742
Less accumulated depreciation	<u>(30,314)</u>
	<u>\$ 181,428</u>

The lease agreement contains 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 lease together with their present value at June 30, 2015:

2016	\$ 45,745
2017	45,745
2018	45,745
2019	45,745
2020	<u>9,667</u>
Total minimum lease payments	192,647
Less amount representing interest	<u>(9,977)</u>
	<u>\$ 182,670</u>

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

**DEVELOPMENT WORKSHOP, INC.**  
**Notes to Financial Statements (continued)**  
**June 30, 2015 and 2014**

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**12. Long-term Debt**

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

	<u>2015</u>	<u>2014</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.	\$ 605,451	\$ 623,580
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.	29,290	37,741
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.	371,650	380,265
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>173,213</u>	<u>-</u>
	1,179,604	1,041,586
Less current portion of long-term debt	<u>(77,495)</u>	<u>(35,272)</u>
	<u>\$ 1,102,109</u>	<u>\$ 1,006,314</u>

**DEVELOPMENT WORKSHOP, INC.**  
**Notes to Financial Statements (continued)**  
**June 30, 2015 and 2014**

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**12. Long-term Debt (continued)**

Future installments of long-term debt as of June 30, 2015 are as follows:

2016	.....	\$	77,495
2017	.....		79,028
2018	.....		80,623
2019	.....		73,761
2020	.....		42,990
Thereafter	.....		<u>825,707</u>
		\$	<u>1,179,604</u>

**13. Statement of Cash Flows Additional Information**

Interest paid by the Workshop for the years ended June 30, 2015 and 2014 amounted to \$60,271 and \$53,594, respectively.

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

**14. Statements of Functional Expenses**

The financial statements include statements of functional expenses for the years ended June 30, 2015 and 2014. For the year ended June 30, 2015, the Workshop changed the presentation of the statement of functional expenses to show program expenses by functional departments instead of location departments. The statement of functional expenses for the year ended June 30, 2014 presents expenses under the previous method of location departments.

**15. Temporarily Restricted Net Assets**

During 2015, 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, 2015 was \$254,299. The amount of other donations amounted to \$41,262. These restrictions were satisfied during the June 30, 2015 fiscal year.

**DEVELOPMENT WORKSHOP, INC.**  
**Notes to Financial Statements (continued)**  
**June 30, 2015 and 2014**

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**15. Temporarily Restricted Net Assets (continued)**

During 2014, 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, 2014 was \$155,670. The amount of other donations amounted to \$70,602. These restrictions were satisfied during the June 30, 2014 fiscal year.

**16. Permanently Restricted Net Assets**

The Workshop currently has no permanently restricted net assets at June 30, 2015 and 2014.