



RUDD & COMPANY PLLC
certified public accountants | business consultants

DEVELOPMENT WORKSHOP, INC.

**Financial Statements
with
Independent Auditors' Report**

June 30, 2020 and 2019

giving direction to your future

DEVELOPMENT WORKSHOP, INC.
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June 30, 2020 and 2019

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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, 2020 and 2019, 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.

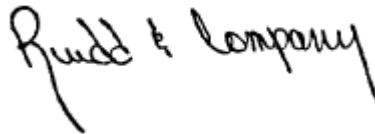
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

IDAHO FALLS | REXBURG | DRIGGS | BOZEMAN | WEST YELLOWSTONE

Post Office Box 1895 | 725 South Woodruff Avenue | Idaho Falls, ID 83403 -1895 | 208-529-9276 | www.ruddco.com

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, 2020 and 2019, 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 13, 2020

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

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,425,079	\$ 667,752
Accounts receivable (net of allowance for uncollectible accounts of \$6,000 and \$14,700)	418,065	460,704
Related party receivable	1,977	6,596
Inventories	407,120	456,855
Prepaid expenses	41,021	42,345
	<u>2,293,262</u>	<u>1,634,252</u>
Property, Plant and Equipment		
Land	1,036,187	1,036,187
Land improvements	75,102	75,102
Buildings	4,408,431	4,349,918
Machinery and equipment	2,699,548	2,542,933
	8,219,268	8,004,140
Less accumulated depreciation	<u>(3,983,207)</u>	<u>(3,726,015)</u>
	<u>4,236,061</u>	<u>4,278,125</u>
Other Assets		
Restricted cash - USDA Note Reserve Account	44,280	44,280
Long-term investments	218,273	239,715
Membership in Transitional Living Center	25,655	25,655
Investment - Development Workshop Enterprises, LLC	-	2,000
	<u>288,208</u>	<u>311,650</u>
Total Other Assets	<u>288,208</u>	<u>311,650</u>
	<u>\$ 6,817,531</u>	<u>\$ 6,224,027</u>

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

	<u>2020</u>	<u>2019</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 47,603	\$ 65,488
Accrued payroll	154,670	154,767
Accrued other liabilities	56,734	107,176
PPP refundable advance	785,300	-
Current portion of lease payable	25,218	22,005
Current portion of long-term debt	34,168	43,644
Total Current Liabilities	<u>1,103,693</u>	<u>393,080</u>
Long-Term Liabilities		
Lease payable	100,297	12,489
Long-term debt	791,540	825,710
Accrued all purpose leave	223,882	226,239
Total Long-Term Liabilities	<u>1,115,719</u>	<u>1,064,438</u>
Total Liabilities	<u>2,219,412</u>	<u>1,457,518</u>
Net Assets		
Without donor restrictions	4,595,672	4,743,392
With donor restrictions	2,447	23,117
Total Net Assets	<u>4,598,119</u>	<u>4,766,509</u>
	<u>\$ 6,817,531</u>	<u>\$ 6,224,027</u>

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

DEVELOPMENT WORKSHOP, INC.
Statement of Activities
Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Support and Other Income			
Revenues:			
Medicaid services income	\$ 1,459,993	\$ -	\$ 1,459,993
Service contracts income	1,673,702	-	1,673,702
Products income	1,057,811	-	1,057,811
Health and welfare income	349,983	-	349,983
Vocational rehabilitation	85,876	-	85,876
Prevocational - school districts	4,114	-	4,114
Other income	4,081	-	4,081
	<u>4,635,560</u>	<u>-</u>	<u>4,635,560</u>
Total Revenues			
Support and Other Income:			
Donations	-	127,932	127,932
United Way	-	20,367	20,367
Other income	153,257	-	153,257
Earnings on investments	6,496	-	6,496
Loss on investments	(19,186)	-	(19,186)
Gain on sale of fixed assets	1,001	-	1,001
	<u>141,568</u>	<u>148,299</u>	<u>289,867</u>
Total Support and Other Income			
Support Provided by Expiring Time and Purpose Restrictions	<u>168,969</u>	<u>(168,969)</u>	<u>-</u>
Total Revenues, Support and Other Income	4,946,097	(20,670)	4,925,427

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

Expenses			
Program Services:			
Rehabilitation	567,799	-	567,799
Production	1,266,970	-	1,266,970
Medicaid	1,253,345	-	1,253,345
Janitorial	1,243,845	-	1,243,845
	<u>4,331,959</u>	<u>-</u>	<u>4,331,959</u>
Total Program Services			
General and Administrative	761,858	-	761,858
	<u>761,858</u>	<u>-</u>	<u>761,858</u>
Total Expenses	<u>5,093,817</u>	<u>-</u>	<u>5,093,817</u>
Change in Net Assets	(147,720)	(20,670)	(168,390)
Net Assets at Beginning of Year	<u>4,743,392</u>	<u>23,117</u>	<u>4,766,509</u>
Net Assets at End of Year	<u>\$ 4,595,672</u>	<u>\$ 2,447</u>	<u>\$ 4,598,119</u>

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

DEVELOPMENT WORKSHOP, INC.
Statement of Activities
Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Support and Other Income			
Revenues:			
Medicaid services income	\$ 1,651,897	\$ -	\$ 1,651,897
Service contracts income	1,592,163	-	1,592,163
Products income	1,257,429	-	1,257,429
Health and welfare income	453,234	-	453,234
Vocational rehabilitation	172,843	-	172,843
Prevocational - school districts	11,055	-	11,055
	<u>5,138,621</u>	<u>-</u>	<u>5,138,621</u>
Total Revenues			
Support and Other Income:			
Donations	-	64,207	64,207
United Way	11,873	-	11,873
Other income	146,295	-	146,295
Earnings on investments	3,565	-	3,565
Loss on investments	(1,000)	-	(1,000)
Gain on sale of fixed assets	6,859	-	6,859
	<u>167,592</u>	<u>64,207</u>	<u>231,799</u>
Total Support and Other Income			
Support Provided by Expiring Time and Purpose Restrictions	<u>51,090</u>	<u>(51,090)</u>	<u>-</u>
Total Revenues, Support and Other Income	5,357,303	13,117	5,370,420

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

Expenses			
Program Services:			
Rehabilitation	709,401	-	709,401
Production	1,496,689	-	1,496,689
Medicaid	1,330,084	-	1,330,084
Janitorial	1,176,411	-	1,176,411
	<u>4,712,585</u>	<u>-</u>	<u>4,712,585</u>
Total Program Services			
General and Administrative	641,021	-	641,021
	<u>641,021</u>	<u>-</u>	<u>641,021</u>
Total Expenses	<u>5,353,606</u>	<u>-</u>	<u>5,353,606</u>
Change in Net Assets	3,697	13,117	16,814
Net Assets at Beginning of Year	<u>4,739,695</u>	<u>10,000</u>	<u>4,749,695</u>
Net Assets at End of Year	<u>\$ 4,743,392</u>	<u>\$ 23,117</u>	<u>\$ 4,766,509</u>

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

DEVELOPMENT WORKSHOP, INC.
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services		
	Rehabilitation	Production	Medicaid
Direct Materials			
Purchases	\$ -	\$ 448,333	\$ -
Total Direct Materials	-	448,333	-
Direct Labor			
Client labor	1,527	67,924	98
Production labor	-	207,185	4,775
Staff labor	412,404	130,927	848,699
Payroll taxes	31,061	30,065	63,935
Insurance -workers comp	7,285	7,308	15,160
Insurance - employee group	26,742	53,200	75,521
Retirement costs	4,771	5,435	8,905
Total Direct Labor	483,790	502,044	1,017,093
Other Expenses			
Advertising	-	-	-
Bad debts	-	-	-
Commissions	-	23,493	-
Data processing	10,413	7,951	20,938
Depreciation	22,878	130,434	78,741
Dues and subscriptions	-	249	720
Freight - out	-	6,239	-
Insurance - general	10,573	10,016	24,458
Interest	2,743	27,733	6,199
Office supplies/postage	48	31	377
Other expenses	3,462	24,775	17,629
Professional development	45	390	1,267
Professional services	-	-	-
Public relations	187	-	213
Rent	-	-	11,635
Repairs and maintenance	1,958	23,857	11,896
Service contract supplies	-	83	-
Shop and program supplies	403	1,656	3,081
Small tool and appliances	128	1,994	80
Sub-contracted services	-	6,608	-
Taxes and licenses	878	1,609	2,423
Telephone	9,952	-	3,263
Travel	282	-	1,273
Utilities	3,183	49,366	22,828
Vehicle operation/maintenance	16,876	109	29,231
Total Other Expenses	84,009	316,593	236,252
Total Expenses	\$ 567,799	\$ 1,266,970	\$ 1,253,345

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

Program Services			
Janitorial	Total Program Services	General and Administrative	Total Expenses
\$ -	\$ 448,333	\$ -	\$ 448,333
-	448,333	-	448,333
21	69,570	1,570	71,140
756,992	968,952	1,557	970,509
56,610	1,448,640	469,676	1,918,316
61,964	187,025	34,424	221,449
22,151	51,904	8,434	60,338
169,315	324,778	34,907	359,685
22,299	41,410	6,871	48,281
1,089,352	3,092,279	557,439	3,649,718
-	-	14,982	14,982
-	-	8,799	8,799
61,987	85,480	-	85,480
1,230	40,532	19,613	60,145
6,090	238,143	23,109	261,252
-	969	7,748	8,717
-	6,239	(133)	6,106
7,192	52,239	20,684	72,923
521	37,196	8,751	45,947
-	456	8,265	8,721
3,047	48,913	21,625	70,538
-	1,702	2,150	3,852
-	-	30,018	30,018
-	400	9,942	10,342
1,608	13,243	112	13,355
2,571	40,282	9,966	50,248
53,464	53,547	-	53,547
-	5,140	969	6,109
1,935	4,137	2,961	7,098
8,551	15,159	38	15,197
206	5,116	830	5,946
-	13,215	805	14,020
-	1,555	5,647	7,202
1,782	77,159	4,433	81,592
4,309	50,525	3,105	53,630
154,493	791,347	204,419	995,766
\$ 1,243,845	\$ 4,331,959	\$ 761,858	\$ 5,093,817

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

DEVELOPMENT WORKSHOP, INC.
Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services		
	Rehabilitation	Production	Medicaid
Direct Materials			
Purchases	\$ -	\$ 553,331	\$ -
Total Direct Materials	-	553,331	-
Direct Labor			
Client labor	2,978	68,899	-
Production labor	4,284	254,326	27
Staff labor	512,811	156,727	896,097
Payroll taxes	41,973	37,723	72,363
Insurance -workers comp	17,024	17,520	30,003
Insurance - employee group	26,486	63,006	67,935
Retirement costs	5,553	5,503	10,132
Total Direct Labor	611,109	603,704	1,076,557
Other Expenses			
Advertising	-	20	-
Bad debts	-	-	-
Commissions	6	30,557	-
Data processing	9,537	4,258	19,461
Depreciation	29,968	137,603	100,131
Dues and subscriptions	-	-	207
Freight - out	-	9,937	-
Insurance - general	8,851	8,994	21,050
Interest	2,447	25,716	6,198
Office supplies/postage	229	77	647
Other expenses	6,549	24,193	19,634
Professional development	719	40	569
Professional services	-	-	-
Public relations	1,006	-	-
Rent	1,097	-	11,416
Repairs and maintenance	2,139	28,612	12,481
Service contract supplies	-	175	-
Shop and program supplies	535	5,801	2,917
Small tool and appliances	291	5,288	637
Sub-contracted services	-	1,417	-
Taxes and licenses	812	2,523	1,658
Telephone	9,073	118	899
Travel	619	100	2,955
Utilities	3,799	53,182	20,935
Vehicle operation/maintenance	20,615	1,043	31,732
Total Other Expenses	98,292	339,654	253,527
Total Expenses	\$ 709,401	\$ 1,496,689	\$ 1,330,084

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

Program Services			
Janitorial	Total Program Services	General and Administrative	Total Expenses
\$ -	\$ 553,331	\$ -	\$ 553,331
-	553,331	-	553,331
595	72,472	3,047	75,519
693,458	952,095	1,308	953,403
64,194	1,629,829	353,488	1,983,317
61,557	213,616	28,617	242,233
38,569	103,116	11,487	114,603
144,099	301,526	29,069	330,595
28,189	49,377	4,232	53,609
1,030,661	3,322,031	431,248	3,753,279
-	20	19,801	19,821
-	-	16,907	16,907
58,911	89,474	-	89,474
1,494	34,750	13,909	48,659
5,436	273,138	19,663	292,801
-	207	4,774	4,981
-	9,937	(135)	9,802
6,283	45,178	19,549	64,727
-	34,361	11,403	45,764
203	1,156	13,199	14,355
3,858	54,234	18,479	72,713
-	1,328	2,317	3,645
-	-	27,493	27,493
-	1,006	19,210	20,216
1,916	14,429	112	14,541
2,569	45,801	9,401	55,202
51,326	51,501	7	51,508
-	9,253	46	9,299
240	6,456	241	6,697
5,905	7,322	354	7,676
204	5,197	541	5,738
-	10,090	820	10,910
-	3,674	6,221	9,895
1,146	79,062	3,033	82,095
6,259	59,649	2,428	62,077
145,750	837,223	209,773	1,046,996
\$ 1,176,411	\$ 4,712,585	\$ 641,021	\$ 5,353,606

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

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

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ (168,390)	\$ 16,814
Adjustments to reconcile net assets to net cash provided (used) by operating activities		
(Gain) loss on sale of assets	(1,001)	(6,859)
Loss on investments	19,186	1,000
Depreciation	261,252	292,801
Net change in		
Accounts receivable	43,022	10,330
Inventories	49,735	(27,916)
Prepaid expenses	1,324	26,566
Accounts payable	(13,649)	28,678
Accrued expenses	(50,539)	60,045
Accrued all purpose leave	(2,357)	10,511
	<u>138,583</u>	<u>411,970</u>
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	1,001	11,154
Purchases of property and equipment	(100,331)	(73,929)
Proceeds from sale of investments	42,000	9,000
Purchases of investments	(37,744)	(10,789)
	<u>(95,074)</u>	<u>(64,564)</u>
Net Cash Used by Investing Activities		

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

	<u>2020</u>	<u>2019</u>
Cash Flows from Financing Activities		
Proceeds from PPP refundable advance	785,300	-
Payments on long-term debt	(43,646)	(83,233)
Payments on capital lease	(27,836)	(37,274)
Net Cash Provided (Used) by Financing Activities	<u>713,818</u>	<u>(120,507)</u>
Net Increase in Cash	757,327	226,899
Cash at Beginning of Year	<u>712,032</u>	<u>485,133</u>
Cash at End of Year	<u>\$ 1,469,359</u>	<u>\$ 712,032</u>
Noncash Information		
Capitalized equipment from leases	\$ 115,612	\$ 19,324
Balances Per Statements of Financial Position		
Cash and cash equivalents	\$ 1,425,079	\$ 667,752
Restricted Cash - USDA Note Reserve Account	<u>44,280</u>	<u>44,280</u>
	<u>\$ 1,469,359</u>	<u>\$ 712,032</u>

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

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements
June 30, 2020 and 2019

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.

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Net Assets With Donor Restrictions

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose of in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the organization must continue to use the resources in accordance with the donor's instructions.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

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 net realizable value.

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, 2020 and 2019 there was \$12,626 and \$19,200 of accounts receivable in excess of 90 days, respectively.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

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.

Contribution Revenue Not Recognized Paycheck Protection Program (PPP) Loan

The Organization was granted a \$785,300 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has initially recorded the loan as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Organization maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expense. No contribution revenue has been recorded for the year ended June 30, 2020.

Accounting For Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are recorded as increases in net assets without donor restrictions unless use of the contributed asset is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2020 and 2019

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 2017 through 2020 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, 2020 was \$14,982 with \$0 included as a prepaid asset at year end. Advertising expense for the year ended June 30, 2019 was \$19,821 with \$0 included as a prepaid asset at year end.

Subsequent Events

The Workshop has evaluated subsequent events and transactions through November 13, 2020, the date the financial statements were available to be issued.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2020 and 2019

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, 2020 and 2019, the Workshop had \$1,218,917 and \$19,821 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 \$67,363 and \$63,790 for the years ended June 30, 2020 and 2019, respectively.

As of June 30, 2020 and 2019, the Workshop had related party receivables outstanding from the Foundation of \$6,213 and \$11,097, respectively.

As of June 30, 2020 and 2019, the Workshop had related party payables outstanding to the Foundation of \$4,236 and \$4,501, respectively.

The Workshop receives donations from the Foundation for grants, client scholarships, fixed asset purchases, and other expenses. For the years ended June 30, 2020 and 2019, the Workshop received \$120,660 and \$59,039, respectively, of contributions from the Foundation.

The Workshop leases vehicles from the Foundation under capital leases. For the year ended June 30, 2020 and 2019, the Workshop paid \$32,882 and \$38,705, respectively, to the Foundation to lease vehicles.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2020 and 2019

5. Inventories

Major classes of inventories at June 30, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Raw Materials	\$ 296,788	\$ 299,679
Finished Goods	<u>110,332</u>	<u>157,176</u>
	<u>\$ 407,120</u>	<u>\$ 456,855</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 Development Workshop Enterprises, LLC for the year ended June 30, 2019. During the year ended June 30, 2020, the Development Workshop Inc. discontinued Development Workshop Enterprises, LLC.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2020 and 2019

8. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor restrictions limiting their use, within one year of June 30, 2020 are:

Financial assets:

Cash and cash equivalents	\$ 1,425,079
Accounts receivable, net	418,065
Related party receivable	<u>1,977</u>
Total financial assets	1,845,121
Less financial assets held to meet donor-imposed restrictions	
Purpose-restricted net assets	2,447
Debt payment	<u>44,280</u>
Amount available for general expenditures within one year	<u>\$ 1,798,394</u>

9. 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.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2020 and 2019

9. Fair Value Measurement (continued)

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.

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, 2020 are as follows:

		<u>Fair Value Measurements at Reporting Date Using</u>		
	<u>Fair Value</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>
Long-term Investments				
Corporate bonds	\$ 34,413	\$ 34,413	\$ -	\$ -
Municipal bonds	36,307	36,307	-	-
Real estate investment trust	6,165	6,165	-	-
Equity mutual funds	103,550	103,550	-	-
International equity mutual funds	37,838	37,838	-	-
	<u>\$ 218,273</u>	<u>\$ 218,273</u>	<u>\$ -</u>	<u>\$ -</u>
Total Long-term Investments				

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2020 and 2019

9. Fair Value Measurement (continued)

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, 2019 are as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term Investments				
Corporate bonds	\$ 29,561	\$ 29,561	\$ -	\$ -
Municipal bonds	36,228	36,228	-	-
Negotiable certificates of deposit	10,006	10,006	-	-
Real estate investment trust	7,945	7,945	-	-
Equity mutual funds	112,734	112,734	-	-
International equity mutual funds	43,241	43,241	-	-
Total Long-term Investments	<u>\$ 239,715</u>	<u>\$ 239,715</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2020 and 2019.

10. 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 allowed by IRS regulations. Contributions to the retirement plan amounted to \$48,281 and \$53,609 for the years ended June 30, 2020 and 2019, respectively.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2020 and 2019

11. Capital Leases

In the years ended June 30, 2020 and 2019, 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	\$ 175,825
Less accumulated depreciation	<u>(56,014)</u>
	<u>\$ 119,811</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, 2020:

2021	\$ 31,635
2022	30,125
2023	30,125
2024	28,755
2025	<u>18,519</u>
Total minimum lease payments	139,159
Less amount representing interest	<u>(13,644)</u>
	<u>\$ 125,515</u>

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

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2020 and 2019

12. Long-term Debt

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

	<u>2020</u>	<u>2019</u>
4.25% note payable to USDA, due in monthly installments of \$3,690, including interest. Original principal amount of \$750,000.	\$ 502,322	\$ 524,734
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.	323,386	333,777
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>-</u>	<u>10,843</u>
	825,708	869,354
Less current portion of long-term debt	<u>(34,168)</u>	<u>(43,644)</u>
	<u>\$ 791,540</u>	<u>\$ 825,710</u>

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2020 and 2019

12. Long-term Debt (continued)

Future installments of long-term debt as of June 30, 2020 are as follows:

2021	.....	\$	34,168
2022	.....		35,594
2023	.....		37,078
2024	.....		38,624
2025	.....		38,624
Thereafter	.....		<u>641,620</u>
		\$	<u>825,708</u>

13. Paycheck Protection Program (PPP) Refundable Advance

The Workshop was granted a \$785,300 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Workshop is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Workshop has initially recorded the loan as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. No forgiveness income has been recorded for the year ended June 30, 2020. The Workshop will be required to repay any remaining balance, plus interest accrued at 1% in monthly payments with a maturity date of May 4, 2022.

14. Statement of Cash Flows Additional Information

Interest paid by the Workshop for the years ended June 30, 2020 and 2019 amounted to \$45,947 and \$45,764, respectively.

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