



RUDD & COMPANY PLLC
certified public accountants | business consultants

DEVELOPMENT WORKSHOP, INC.

**Financial Statements
with
Independent Auditors' Report**

June 30, 2014 and 2013

giving direction to your future

DEVELOPMENT WORKSHOP, INC.

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June 30, 2014 and 2013

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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, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

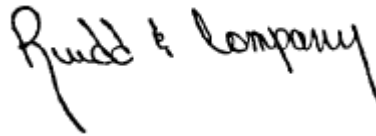
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Development Workshop, Inc. as of June 30, 2014 and 2013, 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, 2014

DEVELOPMENT WORKSHOP, INC.
Statements of Financial Position
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 296,806	\$ 569,823
Short-term investments	-	60,940
Accounts receivable (net of allowance for uncollectable accounts of \$2,400 and \$4,400)	413,105	297,912
Related party receivable	10,592	14,549
Other receivable	10,448	3,825
Inventories	541,825	516,319
Prepaid expenses	26,450	32,364
	<u>1,299,226</u>	<u>1,495,732</u>
Property, Plant and Equipment		
Construction in progress	123,362	23,136
Land	1,036,187	1,036,187
Land improvements	75,102	75,102
Buildings	3,887,661	3,853,264
Machinery and equipment	1,874,193	1,800,631
	6,996,505	6,788,320
Less accumulated depreciation	<u>(2,588,197)</u>	<u>(2,501,787)</u>
	<u>4,408,308</u>	<u>4,286,533</u>
Other Assets		
Restricted Cash - USDA Note Reserve Account	44,280	44,280
Long-term investments	446,346	128,830
Membership in Transitional Living Center	25,655	25,655
Investment - Development Workshop Enterprises, LLC	2,000	2,000
	<u>518,281</u>	<u>200,765</u>
Total Other Assets	<u>518,281</u>	<u>200,765</u>
	<u>\$ 6,225,815</u>	<u>\$ 5,983,030</u>

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

	<u>2014</u>	<u>2013</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 79,055	\$ 38,313
Accrued payroll	72,941	60,609
Accrued other liabilities	76,046	65,791
Current portion of long-term debt	<u>35,272</u>	<u>25,674</u>
Total Current Liabilities	<u>263,314</u>	<u>190,387</u>
Long-term Liabilities		
Long-term debt	1,006,314	1,003,844
Accrued all purpose leave	<u>230,152</u>	<u>243,120</u>
Total Long-term Liabilities	<u>1,236,466</u>	<u>1,246,964</u>
Total Liabilities	<u>1,499,780</u>	<u>1,437,351</u>
Net Assets		
Unrestricted		
Undesignated	4,681,755	4,501,399
Designated for debt service	<u>44,280</u>	<u>44,280</u>
Total Net Assets	<u>4,726,035</u>	<u>4,545,679</u>
	<u>\$ 6,225,815</u>	<u>\$ 5,983,030</u>

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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
Life skills 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
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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Expenses			
Program Services			
Idaho Falls rehabilitation	1,131,093	-	1,131,093
Idaho Falls production	740,833	-	740,833
Salmon River Industries	230,385	-	230,385
Upper Valley Industries	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 Activities****Year Ended June 30, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Products income	\$ 1,261,692	\$ -	\$ 1,261,692
Service contracts income	1,437,775	-	1,437,775
Life skills income	1,092,555	-	1,092,555
Dept. of Vocational Rehabilitation			
Extended Employment Services	477,082	-	477,082
Dept. of Vocational Rehabilitation	205,050	-	205,050
Other income	90,004	-	90,004
School districts	27,910	-	27,910
United Way	37,115	-	37,115
Interest income	3,435	-	3,435
Loss on investments	(4,366)	-	(4,366)
Donations	-	85,704	85,704
Net assets released from restrictions	85,704	(85,704)	-
	<u>4,713,956</u>	<u>-</u>	<u>4,713,956</u>
Total Support and Revenue	<u>4,713,956</u>	<u>-</u>	<u>4,713,956</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Expenses			
Program Services			
Idaho Falls rehabilitation	1,144,919	-	1,144,919
Idaho Falls production	828,990	-	828,990
Salmon River Industries	232,509	-	232,509
Upper Valley Industries	765,837	-	765,837
Administrative support and janitorial	<u>802,295</u>	-	<u>802,295</u>
Total Program Services	<u>3,774,550</u>	-	<u>3,774,550</u>
Support Services			
General and administrative expense	<u>849,860</u>	-	<u>849,860</u>
Total Expenses	<u>4,624,410</u>	-	<u>4,624,410</u>
Other Income and Expenses			
Gain on sale of fixed assets	449,997	-	449,997
Donations	<u>(400,000)</u>	-	<u>(400,000)</u>
Total Other Income and Expenses	<u>49,997</u>	-	<u>49,997</u>
Change in Net Assets	139,543	-	139,543
Net Assets at Beginning of Year	<u>4,406,136</u>	-	<u>4,406,136</u>
Net Assets at End of Year	<u>\$ 4,545,679</u>	<u>\$ -</u>	<u>\$ 4,545,679</u>

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

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

	Program Services		
	Idaho Falls Rehabilitation	Idaho Falls Production	Salmon River Industries
Direct Materials			
Purchases	\$ -	\$ 317,404	\$ 519
Total Direct Materials	<u>-</u>	<u>317,404</u>	<u>519</u>
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	<u>1,001,207</u>	<u>288,279</u>	<u>180,982</u>
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	<u>129,886</u>	<u>135,150</u>	<u>48,884</u>
Total Expenses	<u>\$ 1,131,093</u>	<u>\$ 740,833</u>	<u>\$ 230,385</u>

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

Program Services				
Upper Valley Industries	Administrative Support and Janitorial	Total Program Services	General and Administrative	Total Expenses
\$ 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.
Statement of Functional Expenses
Year Ended June 30, 2013

	Program Services		
	Idaho Falls Rehabilitation	Idaho Falls Production	Salmon River Industries
Direct Materials			
Purchases	\$ -	\$ 325,628	\$ 16,846
Total Direct Materials	<u>-</u>	<u>325,628</u>	<u>16,846</u>
Direct Labor			
Client labor	3,247	71,777	345
Production labor	944	75,366	46,325
Staff labor	790,373	145,684	90,481
Payroll taxes	66,808	23,908	11,190
Insurance - Workers Compensation	23,582	9,164	4,491
Insurance - Employee	112,814	22,899	4,090
Retirement Costs	8,522	2,847	10,097
Total Direct Labor	<u>1,006,290</u>	<u>351,645</u>	<u>167,019</u>
Other Expenses			
Advertising	-	-	-
Bad debts	-	-	-
Commissions	-	33,408	4,375
Data processing	15,647	1,040	1,516
Depreciation	17,998	26,028	1,232
Dues and subscriptions	363	-	132
Freight - out	-	32,043	39
Insurance - general	14,481	6,384	2,654
Interest	-	-	-
Office supplies/postage	135	161	271
Other expenses	4,426	5,095	3,029
Professional development	1,173	198	359
Professional services	60	-	-
Public relations	586	-	444
Rent	2,703	59	10,800
Repairs and maintenance	9,650	11,376	664
Samples	-	470	-
Service contract supplies	-	-	6,200
Shop and program supplies	6,762	2,566	991
Small tool and appliances	78	517	440
Sub-contracted services	14,281	5,073	3,654
Taxes and licenses	842	39	66
Telephone	9,928	1,410	1,505
Travel	1,820	-	1,462
Utilities	9,907	25,361	3,614
Vehicle operation/maintenance	27,789	489	5,197
Total Other Expenses	<u>138,629</u>	<u>151,717</u>	<u>48,644</u>
Total Expenses	<u>\$ 1,144,919</u>	<u>\$ 828,990</u>	<u>\$ 232,509</u>

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

Program Services				
Upper Valley Industries	Administrative Support and Janitorial	Total Program Services	General and Administrative	Total Expenses
\$ 79,689	\$ -	\$ 422,163	\$ 1,300	\$ 423,463
<u>79,689</u>	<u>-</u>	<u>422,163</u>	<u>1,300</u>	<u>423,463</u>
18,631	-	94,000	3,054	97,054
92,271	473,366	688,272	38	688,310
268,259	50,383	1,345,180	459,849	1,805,029
29,164	41,103	172,173	36,213	208,386
11,734	19,092	68,063	13,171	81,234
48,810	47,375	235,988	52,866	288,854
3,930	56,972	82,368	7,532	89,900
<u>472,799</u>	<u>688,291</u>	<u>2,686,044</u>	<u>572,723</u>	<u>3,258,767</u>
-	-	-	31,488	31,488
-	-	-	14,941	14,941
7,772	51,704	97,259	-	97,259
4,715	499	23,417	4,152	27,569
64,962	4,178	114,398	25,410	139,808
1,045	-	1,540	5,103	6,643
365	-	32,447	-	32,447
11,679	8,791	43,989	20,168	64,157
42,361	-	42,361	16,909	59,270
277	-	844	12,298	13,142
7,105	14	19,669	25,128	44,797
186	-	1,916	5,725	7,641
-	-	60	22,856	22,916
495	786	2,311	14,986	17,297
885	-	14,447	-	14,447
9,421	3,049	34,160	45,049	79,209
-	-	470	127	597
2,998	32,047	41,245	-	41,245
586	-	10,905	2,577	13,482
1,713	1,473	4,221	3,796	8,017
7,405	5,082	35,495	805	36,300
832	66	1,845	973	2,818
5,709	377	18,929	4,352	23,281
-	-	3,282	4,436	7,718
34,521	102	73,505	11,047	84,552
8,317	5,836	47,628	3,511	51,139
<u>213,349</u>	<u>114,004</u>	<u>666,343</u>	<u>275,837</u>	<u>942,180</u>
<u>\$ 765,837</u>	<u>\$ 802,295</u>	<u>\$ 3,774,550</u>	<u>\$ 849,860</u>	<u>\$ 4,624,410</u>

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

DEVELOPMENT WORKSHOP, INC.
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 180,356	\$ 139,543
Adjustments to reconcile net assets to net cash provided (used) by operating activities		
(Gain) Loss on sale of assets	1,350	(449,997)
(Gain) Loss on investments	(19,228)	4,366
Depreciation	143,106	139,808
Net change in		
Accounts receivable	(111,236)	33,704
Other receivables	(6,623)	(3,618)
Inventories	(25,506)	27,401
Prepaid expenses	5,914	916
Accounts payable	40,742	(37,436)
Accrued expenses	22,587	1,938
Accrued all purpose leave	(12,968)	5,720
	<u>218,494</u>	<u>(137,655)</u>
Net Cash Provided (Used) by Operating Activities		
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	200	631,848
Proceeds from sale of investments	132,551	99,339
Purchases of property and equipment	(266,431)	(75,582)
Purchases of investments	(369,899)	(98,823)
	<u>(503,579)</u>	<u>556,782</u>
Net Cash Provided (Used) by Investing Activities		

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

Cash Flows from Financing Activities

Proceeds from long-term debt	44,750	-
Payments on long-term debt	<u>(32,682)</u>	<u>(372,665)</u>
Net Cash Provided (Used) by Financing Activities	<u>12,068</u>	<u>(372,665)</u>
Net Increase (Decrease) in Cash	(273,017)	46,462
Cash at Beginning of Year	<u>614,103</u>	<u>567,641</u>
Cash at End of Year	<u>\$ 341,086</u>	<u>\$ 614,103</u>
Balances Per Statements of Financial Position		
Cash and cash equivalents	\$ 296,806	\$ 569,823
Restricted Cash - USDA Note Reserve Account	<u>44,280</u>	<u>44,280</u>
	<u>\$ 341,086</u>	<u>\$ 614,103</u>

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

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements
Years Ended June 30, 2014 and 2013

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.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2014 and 2013

1. Summary of Significant Accounting Policies (continued)

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.

Property and Equipment

The Organization capitalizes property and equipment over \$1,000. Property and equipment are recorded in the books at cost. 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, 2014 and 2013 there was \$6,511 and \$4,858 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.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2014 and 2013

1. Summary of Significant Accounting Policies (continued)

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.

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 2011 through 2013 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.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2014 and 2013

1. Summary of Significant Accounting Policies (continued)

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, 2014 was \$29,228 with \$1,200 included as a prepaid asset at year end. Advertising expense for the year ended June 30, 2013 was \$31,488 with \$966 included as a prepaid asset at year end

Subsequent Events

The Workshop has evaluated subsequent events and transactions through November 3, 2014, the date the financial statements were available to be issued.

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, 2014 and 2013, the Workshop had \$101,731 and \$140,716 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. Investments

The fair value of long-term investments totaled \$446,346 and \$128,830, respectively, at June 30, 2014 and 2013. The fair value of short-term investments totaled \$0 and \$60,940, respectively, at June 30, 2014 and 2013. All investments and their returns are classified as unrestricted.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2014 and 2013

5. 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 \$67,356 and \$81,176 for the years ended June 30, 2014 and 2013, respectively.

As of June 30, 2014 and 2013, the Workshop had related party receivables outstanding from the Foundation of \$10,592 and \$14,549, respectively.

6. Inventories

Major classes of inventories at June 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Raw Materials	\$ 343,114	\$ 354,003
Finished Goods	<u>198,711</u>	<u>162,316</u>
	<u>\$ 541,825</u>	<u>\$ 516,319</u>

7. 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.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2014 and 2013

8. 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, 2014 and 2013.

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.

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, 2014 and 2013

9. 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, 2014 are as follows:

	Fair Value	Quoted Prices in Active Market (Level 1)
	<u> </u>	<u> </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	<u>140,088</u>	<u>140,088</u>
Total Long-term Investments	<u>\$ 446,346</u>	<u>\$ 446,346</u>

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2014 and 2013

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, 2013 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Market (Level 1)</u>
Short-term Investments		
US Government mutual funds	\$ 37,449	\$ 37,449
Fixed income mutual funds	23,491	23,491
	<u>\$ 60,940</u>	<u>\$ 60,940</u>
Total Short-term Investments		
Long-term Investments		
Corporate bonds	\$ 48,806	\$ 48,806
Fixed income mutual funds	37,678	37,678
Municipal bonds	32,671	32,671
US Government securities	9,675	9,675
	<u>\$ 128,830</u>	<u>\$ 128,830</u>
Total Long-term Investments		

Short-term investments and long-term investments are reported at fair value 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, 2014 and 2013.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2014 and 2013

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 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 \$57,308 and \$89,900 for the years ended June 30, 2014 and 2013, respectively.

11. 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, 2014 was \$10,989. The minimum lease payments required under the operating lease as of June 30, 2014 are as follows:

2015	\$	10,812
2016		10,812
2017		10,812
2018		10,812
			<hr/>
		\$	43,248
			<hr/>

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2014 and 2013

12. Long-term Debt

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

	<u>2014</u>	<u>2013</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.	\$ 623,580	\$ 640,955
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.	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.	<u>380,265</u>	<u>388,563</u>
	1,041,586	1,029,518
Less current portion of long-term debt	<u>(35,272)</u>	<u>(25,674)</u>
	<u>\$ 1,006,314</u>	<u>\$ 1,003,844</u>

Future installments of long-term debt as of June 30, 2014 are as follows:

2015	\$ 35,272
2016	36,739
2017	38,272
2018	39,867
2019	32,927
Thereafter	<u>858,509</u>
	<u>\$ 1,041,586</u>

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2014 and 2013

13. Statement of Cash Flows Additional Information

Interest paid by the Workshop for the years ended June 30, 2014 and 2013 amounted to \$53,594 and \$59,270, respectively.

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

14. Temporarily Restricted Net Assets

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.

During 2013, 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, 2013 was \$45,478. The amount of other donations amounted to \$40,226. These restrictions were satisfied during the June 30, 2013 fiscal year.

15. Permanently Restricted Net Assets

The Workshop currently has no permanently restricted net assets at June 30, 2014 and 2013.