

VERNON SHELTERED WORKSHOP, INC.

Notes to the Financial Statements (Cont.)

Notes 5--Long-Term Debt

Long-term debt at December 31, 1995 consists of the following:

	<u>Current</u>	<u>Long Term</u>
Letter of credit dated April 19, 1995 with original balance of \$55,005 and interest of 10%, payable upon 30 day demand by Sabine State Bank.	\$ 48,505	\$ ---
Note dated August 10, 1995 with original balance of \$32,000 payable to Sabine State Bank in monthly installments of \$1,035, interest rate 11%, unsecured.	9,705	19,293
Note dated December 12, 1995 with original balance of \$32,030 payable to Sabine State Bank in monthly installments of \$1,135, interest rate 10%, unsecured.	<u>10,594</u>	<u>24,436</u>
Totals	<u>\$68,804</u>	<u>\$43,729</u>

The following is a summary of maturities, including interest of \$20,039 due on long-term debt as of December 31, 1995:

1996	84,272
1997	26,035
1998	<u>22,265</u>
	<u>\$132,572</u>

ELLIOTT & ASSOCIATES, INC.

A Professional Accounting Corporation

P. O. Box 1287

Leesville, Louisiana 71496-1287

(318) 239-2535

(318) 238-5135

Fax 239-2295

W. Micheal Elliott, CPA

Board of Directors
Vernon Sheltered Workshop, Inc.
Leesville, Louisiana:

I have audited the general purpose financial statements of Vernon Sheltered Workshop, Inc., as of and for the year ended December 31, 1995, and have issued my report thereon dated September 23, 1996.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Vernon Sheltered Workshop, Inc. is the responsibility of Vernon Sheltered Workshop, Inc.'s management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of Vernon Sheltered Workshop, Inc.'s compliance with certain provisions of laws, regulations, contracts, and grants. However, my objective was not to provide an opinion on overall compliance with such provisions.

The results of my tests indicate that, with respect to the items tested, Vernon Sheltered Workshop, Inc. complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to my attention that caused me to believe that Vernon Sheltered Workshop, Inc. had not complied, in all material respects, with those provisions. However, the results of my procedures disclosed one material instance of noncompliance with those requirements which is described below:

Finding This audit report is not being issued within the six months of the close of its December 31, 1995 fiscal year-end. This is a violation of LA R.S. #24:513(A)(5)(a).

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VERNON SHELTERED WORKSHOP, INC.
Annual Financial Statements
December 31, 1995

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date OCT 09 1996

VERNON SHELTERED WORKSHOP, INC.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANT

Board of Directors
Vernon Sheltered Workshop, Inc.
Leesville, Louisiana:

I have audited the accompanying balance sheet of the Vernon Sheltered Workshop, Inc. as of December 31, 1995 and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Vernon Sheltered Workshop, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Vernon Sheltered Workshop, Inc. at December 31, 1995, and the results of its operations and changes in cash flows for the year then ended, in conformity with generally accepted accounting principles.

Elliott & Assoc. "APAC"
Leesville, Louisiana
September 23, 1996

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W. Micheal Elliott, CPA

Board of Directors
Vernon Sheltered Workshop, Inc.
Leesville, Louisiana:

I have audited the general purpose financial statements of Vernon Sheltered Workshop, Inc., as of and for the year ended December 31, 1995, and have issued my report thereon dated September 23, 1996.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing my audit of the general purpose financial statements of Vernon Sheltered Workshop, Inc., for the year ended December 31, 1995, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of Vernon Sheltered Workshop, Inc. is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, I have classified the significant internal control structure policies and procedures in the following categories:

Cash receipts	Payroll
Purchasing/receiving	Property and equipment
Accounts payable	General ledger
Cash disbursements	

For all of the internal control structure categories listed above, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control structure and its operation that I consider to be material weaknesses as defined above.

This report is intended for the information of the management of Vernon Sheltered Workshop, Inc. and the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Elliott & Assoc. "APAC"
Leesville, Louisiana
September 23, 1996

Cause

We realize that much of the financial information necessary to complete our 1995 audit has been delayed due to extenuating circumstances.

In October of 1995 our one computer that ran our accounting program experienced a hard drive failure that resulted in the loss of considerable data. We began immediately to reconstruct the data that was lost. In November the bookkeeper who had been with us for two years left our organization without offering notice.

In addition to training a new employee on our system, we had to attempt to complete the data reconstruction that was underway. Before this process could be completed, the replacement bookkeeper resigned and this further delayed the process.

Mgmt.

Response All such audit reports in future years will be filed on a timely basis in accordance with state law.

This report is intended for the information of the management of Vernon Sheltered Workshop, Inc. and the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Elliott & Assoc. "APAC"
Leesville, Louisiana
September 23, 1996

VERNON SHELTERED WORKSHOP, INC.

Balance Sheet

December 31, 1995

Assets

Current assets:

Cash in bank and on hand (Note 2)	\$ 21,745
Accounts receivable (Note 3)	148,575
Inventories	<u>1,855</u>

Total current assets	<u>172,175</u>
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Property, plant and equipment (Note 4)	389,372
Less: Accumulated depreciation	<u>(224,840)</u>

Net property, plant and equipment	<u>164,532</u>
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Total assets	<u>\$336,707</u>
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Liabilities and Equity

Current liabilities:

Accounts payable	\$ 37,250
Advances payable - NISH	20,833
Current portion of long-term debt (Note 5)	43,729
Note payable - current (Note 5)	48,505
Other accrued expenses	<u>45,631</u>

Total current liabilities	<u>195,948</u>
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Long-term debt (Note 5)	<u>20,299</u>
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Equity:

Donated capital and grants (Note 10)	112,346
Retained earnings	<u>8,114</u>

Total equity	<u>120,460</u>
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Total liabilities and equity	<u>\$336,707</u>
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The accompanying notes are an integral part of this statement.

VERNON SHELTERED WORKSHOP, INC.
Statement of Revenue and Expenses and
Changes in Retained Earnings

For the year ended December 31, 1995

Operating revenues:	
Workshop sales	\$ 132,504
Services	<u>490,658</u>
Total revenue	<u>623,162</u>
Direct costs:	
Services	75,410
Materials and other costs	55,919
Salaries and related benefits	<u>487,494</u>
Total direct costs	<u>618,823</u>
Gross profit	<u>4,339</u>
Operating expenses:	
Advertising expenses	26
Depreciation (Notes 4 and 10)	21,421
Insurance	17,724
Repairs and maintenance	3,516
Utilities	11,257
Travel and training	2,649
Shipping/freight costs	664
Bad debt expense	185
Other expenses (Note 9)	2,461
Rent expense (Note 5)	418
Office supplies	2,938
Mail/postage expense	<u>535</u>
Total operating expenses	<u>63,794</u>
Net income (loss) from operations	(59,455)
Other income (expense):	
Other income	6,299
Interest expense	<u>(7,328)</u>
Net loss	(60,484)
Add depreciation on assets acquired through contributed capital (Note 10)	<u>19,833</u>
Decrease in retained earnings	(40,651)
Retained earnings, beginning of year	<u>48,765</u>
Retained earnings, end of year	<u>\$ 8,114</u>

The accompanying notes are an integral part of this statement.

VERNON SHELTERED WORKSHOP, INC.

Statement of Cash Flows

For the year ended December 31, 1995

Operating activities

Net income (loss)	\$(60,484)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	21,421
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	(131,479)
(Increase) decrease in inventories and prepaid expenses	14,259
Increase (decrease) in accounts payable	21,430
Increase (decrease) in advances payable	20,833
Increase (decrease) in other accrued expenses	<u>44,217</u>
Net cash used by operating activities	<u>(69,803)</u>

Investing activities

Purchases of property, plant, and equipment	<u>(34,778)</u>
Net cash used by investing activities	<u>(34,778)</u>

Financing activities

Proceeds from issuance of debt	<u>112,533</u>
Net cash provided by financing activities	<u>112,533</u>
Increase in cash	7,952
Cash, beginning of year	<u>13,793</u>
Cash, end of year	<u>\$ 21,745</u>

The accompanying notes are an integral part of this statement.

VERNON SHELTERED WORKSHOP, INC.

Notes to the Financial Statements (Concluded)

Note 10--Contributed Capital

Changes during 1995 in the contributed capital account are as follows:

Balance, December 31, 1994	\$132,179
Depreciation of assets acquired by contributed capital	<u>_(19,833)</u>
Balance, December 31, 1995	<u>\$112,346</u>

VERNON SHELTERED WORKSHOP, INC.

Notes to the Financial Statements (Cont.)

Fixed Assets

All fixed assets are stated at historical cost.

Bad Debts

Uncollectible amounts due from workshop customers are charged through a reduction in revenue using the allowance for bad debts method. In the opinion of management, all outstanding account balances as of December 31, 1995 were considered collectible after the establishment of the allowance account.

Inventories

Inventories are stated at cost, determined by use of the first-in, first-out method.

Note 2--Cash Collateral

As of December 31, 1995, cash held by Vernon Sheltered Workshop, Inc. was secured in full by FDIC (Federal Depositors Insurance Corporation) insurance at the respective financial institution where deposited.

Note 3--Accounts Receivable

Receivables at December 31, 1995 consist of the following:

Gross Receivables	\$150,572
Less: Allowance for bad debts	<u>(1,997)</u>
Total	<u>\$148,575</u>

Note 4--Property, Plant and Equipment

A summary of property, plant and equipment at December 31, 1995 follows:

Leasehold improvements	\$295,840
Workshop equipment	68,973
Evaluation equipment	18,228
Automobiles	1,202
Furniture and fixtures	<u>5,129</u>
	389,372
Less accumulated depreciation	<u>(224,840)</u>
Net property, plant, and equipment	<u>\$164,532</u>

VERNON SHELTERED WORKSHOP, INC.

Notes to the Financial Statements
December 31, 1995

Note 1--Summary of Significant Accounting Policies

The accounting and reporting policies of Vernon Sheltered Workshop, Inc., conform to generally accepted accounting principles as applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:513 and to the guides set forth in the Louisiana Municipal Audit and Accounting Guide, and to the industry audit guide, Audits of State and Local Governmental Units.

The following is a summary of such significant policies:

Principles Determining Scope of Reporting Entity

The financial statements of the Vernon Sheltered Workshop (the "Workshop") consist only of the funds and account groups of the Workshop. The Workshop has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Workshop.

Proprietary Fund

The Workshop accounts for its entire operations as an enterprise fund. Enterprise funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, excluding depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Depreciation

Depreciation of assets is charged as an expense against operations and as an offset against contributed capital instead of retained earnings since contributed capital was used in the acquisition of the assets. Depreciation for leasehold improvements has been provided for over the remaining life of the lease of the workshop site. Depreciation for equipment has been provided for over the estimated useful lives of the assets using the straight line method.

VERNON SHELTERED WORKSHOP, INC.

Notes to the Financial Statements (Cont.)

Note 6--Lease Expense

On October 8, 1980, Vernon Sheltered Workshop, Inc. entered into a 25-year lease agreement with the Department of Transportation and Development of the State of Louisiana. The terms of the lease require annual payments of \$100, payable at the completion of the first year and each succeeding year. This lease payment has been classified in rent expense in 1995.

Note 7--Per Diem/Other Compensation to Board Members

No board members received any per diem or compensation for their services to the Workshop during 1995.

Note 8--Non-profit Status

Vernon Sheltered Workshop, Inc., is a non-profit multi-disability sheltered workshop and is an exempt organization for income tax purposes under Section 501 (c) (3) of the Internal Revenue Code.

Note 8--State Payment of Salaried Employees

The salaries paid by the Workshop consist of those paid directly to the individuals receiving rehabilitation and to approximately six full time staff members. A portion of the executive director's salary as well as the bookkeeper's salary is charged to operating costs and the remaining salaries are recorded as direct costs.

Note 9--Other Expenses

The following is a list of other expenses for the year ended December 31, 1995:

Consulting fees	\$ 1,200
Client expense	640
General supplies	179
Bank charges	16
Licensing expense	<u>426</u>
	<u>\$ 2,461</u>