



**AUGLAIZE INDUSTRIES, INC.
AUGLAIZE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Auglaize Industries, Inc.
330 West Boesel Avenue
New Bremen, Ohio 45869

To the Members of the Board:

We have audited the accompanying financial statements of Auglaize Industries, Auglaize County, as of and for the year ended December 31, 1999, as listed in the table of contents. These financial statements are the responsibility of Auglaize Industries' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Auglaize Industries, as of December 31, 1999, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2000 on our consideration of Auglaize Industries' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

April 11, 2000

**BALANCE SHEET
AS OF DECEMBER 31, 1999**

Current Assets:

Cash	\$27,293
Certificates of Deposit	55,883
Investment Securities	377,840
Accounts Receivable (Trade)	32,574
Prepaid Expenses	<u>1,000</u>

Total Current Assets 494,590

Fixed Assets:

Leasehold Improvements	11,106
Building	329,548
Shop and Office Equipment	69,176
Transportation Equipment	114,852
Less: Accumulated Depreciation	<u>(142,352)</u>

Total Fixed Assets 382,330

Total Assets \$876,920

Current Liabilities:

Accounts Payable	\$3,607
Accrued Wages	1,840
Accrued Payroll Taxes	710
Compensated Absences Payable	2,800
Accrued Real Estate Taxes	3,400
Workers Compensation Payable	740
Accrued Interest	1,232
Current Portion - Long-Term Debt	<u>10,166</u>

Total Current Liabilities 24,495

Long-Term Liabilities:

Mortgage Payable, net of current portion	<u>178,722</u>
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Total Liabilities 203,217

Fund Equity and Other Credits:

Retained Earnings	651,486
Contributed Capital	<u>22,217</u>

Total Fund Equity and Other Credits 673,703

Total Liabilities, Fund Equity and Other Credits \$876,920

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999**

Operating Revenues:	
Charges for Services (Workshop)	\$372,960
Vocational Revenue	65,024
Total Operating Revenues	<u>437,984</u>
Cost of Sales:	
Labor and Employment Taxes	259,407
Subcontracts	12,644
Repair and Maintenance	26,213
Total Cost of Sales	<u>298,264</u>
Operating Expenses:	
Community Employment Wages	59,276
Insurance	6,917
Depreciation	19,851
Professional Fees	10,428
Membership Dues	1,529
Administrative Expenses	57,627
Total Operating Expenses	<u>155,628</u>
(Loss) From Operations	<u>(15,908)</u>
Non-Operating Revenues (Expenses):	
Miscellaneous Revenue	13,208
Rental Income	22,200
Rental Expenses	(20,489)
Investment Income	84,082
Donations	18,116
Employee Program Revenue	36,913
Employee Program Expense	(37,602)
Unrestricted Support	147,030
Expenditures of Unrestricted Support	(147,030)
Total Non-Operating Revenues (Expenses)	<u>116,428</u>
Net Income	100,520
Depreciation on Fixed Asset Acquired by Contributed Capital	2,469
Retained Earnings - January 1, 1999	548,497
Retained Earnings - December 31, 1999	<u>651,486</u>
Contributed Capital Received from:	
Grants	24,686
Depreciation on Fixed Asset Acquired by Contributed Capital	(2,469)
Contributed Capital - December 31, 1999	<u>22,217</u>
Total Fund Equity - December 31, 1999	<u><u>\$673,703</u></u>

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1999**

Cash Flows from Operating Activities:	
Cash Received from Customers	\$457,252
Cash Payments to Employees for Services	(322,252)
Cash Payments to Suppliers for Goods and Services	(115,407)
Net Cash Used for Operating Activities	<u>19,593</u>
Cash Flows from Noncapital Financing Activities:	
Miscellaneous Non-Operating Revenue	12,517
Cash Received from Donations	18,116
Net Cash Provided by Noncapital Financing Activities	<u>30,633</u>
Cash Flows from Capital and Related Financing Activities:	
Payments on Long-term Debt	(28,438)
Acquisition of Capital Assets	(41,370)
Net Cash (Used) for Capital Financing Activities	<u>(69,808)</u>
Cash Flows from Investing Activities:	
Net Rental Income - Cash	11,625
Net Redemptions of Certificates of Deposit	29,909
Net Purchases of Investments	(46,466)
Cash Received from Interest	37,696
Net Cash Provided by Investing Activities	<u>32,764</u>
Net Increase (Decrease) in Cash	13,182
Cash at Beginning of Year	<u>14,111</u>
Cash at End of Year	<u><u>\$27,293</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Used for Operating Activities:	
Operating Income (Loss)	<u>(\$15,908)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used for Operating Activities:	
Depreciation	19,851
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable (Trade)	19,268
(Decrease) in Accounts Payable	(49)
(Decrease) in Accrued Wages	(1,555)
(Decrease) in Accrued Payroll Taxes	(349)
(Decrease) in Workmen's Compensation Payable	(1,665)
Net Cash Used for Operating Activities	<u><u>\$19,593</u></u>
Non-Cash Capital Financing Activities:	
Acquisition of Real Estate through Debt Financing	
Cost of Real Estate	158,048
Debt Financing	125,440
Down Payment	<u><u>\$32,608</u></u>
Interest Paid	<u><u>\$9,790</u></u>

The notes to the financial statements are an integral part of this statement.

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**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999**

1. DESCRIPTION OF THE ENTITY

Auglaize Industries, is a non-profit corporation that was incorporated in 1983 for the purposes of providing adult services for the Auglaize County Mental Retardation and Developmental Disabilities Board (ACMRDD). The ACMRDD principally subsidizes and staffs this adult sheltered workshop. The mission of the adult services workshop is to provide training and community job placement for adults with disabilities.

Auglaize Industries is considered a component unit of Auglaize County.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles for governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. The operations of Auglaize Industries are accounted for using proprietary fund accounting. Auglaize Industries applies Financial Accounting Standards Board Statements and Interpretations issued prior to November 30, 1989, provided they do not conflict with or contradict GASB pronouncements.

A. Accounting System

Auglaize Industries maintains its own set of accounting records. These financial statements were prepared from the accounts and financial records of Auglaize Industries and, accordingly, these financial statements do not present the financial position or results of operations of Auglaize County.

B. Revenue and Expenditure Recognition

Auglaize Industries prepares its financial statements on the accrual basis of accounting, consequently, certain revenues and related assets are recognized when earned rather than when received, and certain expenditures are recognized when incurred rather than when the obligation is paid.

C. Cash and Investments

To improve cash management, cash received by Auglaize Industries is maintained in a checking account or used to purchase investments. During fiscal year 1999, investments were limited to certificates of deposits, government securities and mutual funds. Investments are stated at fair market value.

For purposes of the statement of cash flows and for presentation on the balance sheet, investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

D. Budgetary Process

Through a contractual agreement with the Auglaize County Board of Mental Retardation and Developmental Disabilities, Section VII, Item Number 11, Auglaize Industries is required to prepare and approve an annual budget. A summary of 1999 budgetary activity appears in Note 4.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fixed Assets

Buildings, equipment and improvements are stated at cost except for donated assets, which are stated at fair market value at the date of receipt. Auglaize Industries maintains a capitalization threshold of five hundred dollars. A portion of the facilities occupied by Auglaize Industries consists of additions to the original facilities owned by Auglaize County. Leasehold improvements are depreciated rateably over the estimated useful life.

Depreciation of fixed assets is on a declining balance basis over the estimated useful lives of the respective assets, as follows:

Class of Asset	Years
Buildings (Residential Properties)	25 - 40
Leasehold Improvements	15 - 31½
Transportation Equipment	5 - 10
Computers	5
Furniture and Fixtures	5 - 7

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 1999, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

G. Inventory

Work is performed on customer owned materials. Inventory on hand at any one time consists primarily of consumable manufacturing supplies in nominal amounts. Accordingly, no manufacturing inventories are recognized on the financial statements.

H. Compensated Absences

Governmental Accounting and Financial Reporting Standards specify that a liability should be accrued for leave benefits if the employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered; the obligation relates to rights that vest or accumulate; payment of the compensation is probable; and the amount can be reasonably estimated. Auglaize Industries records a liability for accumulated unused vacation time when earned for workshop employees.

I. Advertising

Advertising costs are charged to operations when incurred. Advertising costs amounted to \$5,951.

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Contributed Capital

Contributed capital represents resources provided from other governments and other sources whose use is restricted to capital acquisition or construction and is not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to either unreserved retained earnings or contributed capital at year end.

3. CASH AND INVESTMENTS

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits - At fiscal year end, Auglaize Industries had cash on hand of \$200 and, the carrying amount of deposits was \$27,093 and the bank balance was \$37,494, which is covered by federal depository insurance.

Investments - Auglaize Industries' investments are categorized below to give an indication of the level of risk assumed at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by Auglaize Industries or its agent in Auglaize Industries' name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Auglaize Industries' name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Auglaize Industries' name.

	Category 1	Category 2	Market/ Carrying Value
Certificates of Deposit (Long Term)	\$ 55,883	\$ 0	\$ 55,883
Mutual Funds	0	302,556	302,556
Government Agency Securities	<u>0</u>	<u>75,284</u>	<u>75,284</u>
Total Investments	<u>\$ 55,883</u>	<u>\$ 377,840</u>	<u>\$ 433,723</u>

4. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 1999, was as follows:

The 1999 budget approved by the Auglaize Industries Board did not include projected revenue for the 1999 fiscal year. Total actual revenues for the 1999 fiscal year totaled \$637,972.

1999 Projected vs. Actual Expenses

Projected Expenses	Actual Expenses	Variance
<u>\$571,125</u>	<u>\$501,571</u>	<u>\$69,554</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999
(Continued)**

5. ACCOUNTS RECEIVABLE

Receivables at December 31, 1999, consisted of outstanding balances on customer accounts. Auglaize Industries allows grants credit to customers, substantially all of whom reside in Auglaize County. Consequently, Auglaize Industries ability to collect amounts due from customers may be effected by economic fluctuations in the local economy.

Management has elected to write off bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

6. FEDERAL TAXES

A. Federal Income Tax

Auglaize Industries qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code, therefore, has no provision for Federal income taxes.

B. Social Security System

Employees of the Workshop are members of the Social Security System. The Board's liability is a matching 6.2 percent of wages paid.

7. LONG TERM DEBT

Long term debt at December 31, 1999 consisted of the following:

Home Savings and Loan of Wapakoneta		
Original Amount:	\$120,000	
Interest Rate:	7.5%	
Due:	June 1, 2006	
Security:	Mortgage on Residential Property	\$ 64,077
Home Savings and Loan of Wapakoneta		
Original Amount:	\$ 63,920	
Interest Rate:	8.0%	
Balloon Payment:	April 1, 2014	
Security:	Mortgage on Residential Property	63,370
Community First Bank and Trust		
Original Amount:	\$ 61,520	
Interest Rate:	8.25%	
Due:	October 1, 2029	
Security:	Mortgage on Residential Property	<u>61,441</u>
Total Long-Term Debt Outstanding at December 31, 1999		188,888
Current Principal Due:		<u>10,166</u>
Long Term Portion:		<u>\$178,722</u>

Interest expense amounted to \$11,022, for 1999.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999
(Continued)**

7. LONG TERM DEBT (Continued)

Future minimum annual principal payments under existing long-term obligations through the years ending December 31, 2004, are as follows:

Year Ending December 31	Principal Amount	Interest	Total
2000	\$ 10,166	\$ 14,444	\$ 24,610
2001	10,941	13,670	24,611
2002	11,775	12,837	24,612
2003	12,672	11,939	24,611
2004	13,638	10,974	24,612
Thereafter	<u>129,696</u>	<u>136,739</u>	<u>266,435</u>
Total	<u>\$188,888</u>	<u>\$200,603</u>	<u>\$389,491</u>

8. RISK MANAGEMENT

Auglaize Industries is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 1999, they contracted with several companies for various types of insurance as follows:

Company	Type of Coverage	Maximum Deductible	
Nationwide/Wausau	Education Liability (Sheltered Workshop):		
	General Liability (Aggregate)	\$5,000,000	None
	(Each Occurrence)	2,000,000	None
	Fire Damage	100,000	None
	Medical Expense	5,000	None
	Fleet Insurance (Aggregate)	2,000,000	None
	(Per Claim)	1,000,000	None
Cincinnati Insurance	Property and General Liability:		
	Building	30,000	None
	General Liability (Aggregate)	1,000,000	None
	(Each Occurrence)	1,000,000	None
	Fire Damage	100,000	None
	Medical	5,000	None
	Equipment	75,000	250
	Employee Dishonesty	20,000	None
Midwest Pool Management Agency	Auglaize County Property:		
	Building and Contents	1,000,000	None
	Vehicle Liability (Uninsured)	1,000,000	None
	(Personal Property)	5,000	None
	(Per Occurrence)	1,000,000	None
	Public Official Liability	1,000,000	None
Erie Insurance Company	Residential Dwelling	338,500	200
	Business Personal Property	15,500	None
	Personal Injury Liability		
	(Aggregate)	2,000,000	None
	(Each Occurrence)	1,000,000	None
	Property Damage Liability		
	(Aggregate)	2,000,000	None
	(Each Occurrence)	1,000,000	None
	Medical Payment (Each Person)	5,000	None
The Hartford	Residential Flood Insurance	62,000	500

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999
(Continued)**

9. EMPLOYEE PROGRAMS

Auglaize Industries provides a hot lunch program, recreational outings and other miscellaneous items to the employees of the workshop. The programs operate on a reimbursement basis, with the employee reimbursing for goods or services received. The transactions for these activities are reported as non-operating revenue and expenses on the financial statements.

10. COMPENSATED ABSENCES

Employees of Auglaize Industries workshop earn vacation in accordance with the adopted policies detailed in the Operations Manual. Workshop employees who have been employed for the last six months of the previous calendar year are entitled to one week of paid vacation for the week of July 4th. The employee must be on active payroll status at the time of the vacation period. The amount paid to each employee is based on one average week's pay.

Auglaize Industries records an amount considered as earned for the six-month period prior to December 31, 1999.

11. RELATED PARTY TRANSACTIONS

Auglaize Industries has entered into a contract with the Auglaize County Board of Mental Retardation and Developmental Disabilities (ACMRDD), whereby the ACMRDD has agreed to pay specified overhead expenses for the workshop. The additional income and related expenses are reported on the income statement as Unrestricted Support. The unaudited operating expenses paid by the ACMRDD on behalf of Auglaize Industries amounted to \$147,030, for the year ended December 31, 1999.

12. MAJOR CUSTOMERS

Substantially all of the production of Auglaize Industries, Inc. is purchased by three major customers. Sales to these customers amounted to 68 percent of total sales with each customer individually accounting for 16, 22 and 30 percent of total sales, respectively.



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Auglaize Industries, Inc.
330 West Boesel Avenue
New Bremen, Ohio 45869

To the Members of the Board:

We have audited the financial statements of Auglaize Industries, Auglaize County, as of and for the year ended December 31, 1999 and have issued our report thereon dated April 11, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Auglaize Industries' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Auglaize Industries' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the management of Auglaize Industries in a separate letter dated April 11, 2000.

This report is intended for the information and use of the audit committee, management, and the Members of the Board, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

April 11, 2000

Auglaize Industries, Inc.



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OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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AUGLAIZE INDUSTRIES , INC.

AUGLAIZE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 30, 2000**