



**Auditor of State  
Betty Montgomery**



**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

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# Auditor of State Betty Montgomery

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of Auglaize Industries, Inc., Auglaize County, Ohio, (the Industries), a component unit of Auglaize County, as of and for the years ended December 31, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Industries' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, Inc., Auglaize County, Ohio, as of December 31, 2005 and 2004, and the changes in its financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2004, the Industries implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2006, on our consideration of the Auglaize Industries' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

July 20, 2006

**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
UNAUDITED**

The management's discussion and analysis of Auglaize Industries, Inc. (the Industries) financial performance provides an overall review of the corporation's financial activities for the years ended December 31, 2005 and 2004.

The intent of this discussion and analysis is to look at the Industries' financial performance as whole; readers should also review the basic financial statements and the notes to the basic financial statement to enhance their understanding of the Industries financial performance.

A financial compilation of the financial activity for the years 2005 and 2004 was completed by McCrate, Delaet, and Company of Sidney, Ohio on March 1, 2006. A follow-up audit of this compilation, that will include the years 2005 and 2004, is being conducted by the State of Ohio auditor's office, and their report is included herein.

**FINANCIAL HIGHLIGHTS**

The Statement of Revenues, Expenses and Changes in Net Assets reflects a loss from operations of \$29,832 in 2005, much improved over the loss from operations in 2004 of \$87,173. The 2005 budget had projected a loss on operations of just under \$35,000.

Sales revenue saw a further decline from \$316,057 in 2003 to \$299,216 in 2004 to \$276,998 in 2005, a decline of approximately 7.4 percent from last year. Job coaching revenue fell slightly from \$18,649 in 2004 to \$17,172 in 2005.

As expected, with less production work, client wages and taxes declined 20 percent from \$219,711 in 2004 to \$176,503 in 2005. Investment income return was \$50,137, just under last year's return of \$55,309. The resulting bottom line for 2005 was a net gain of \$25,265, a significant improvement over last year's \$23,739 net loss.

Although the corporation continues to face significant challenges in restoring lost work opportunities and dependable revenue sources, the corporation remains healthy. Total assets for example, increased from \$664,290 at the end of 2004 to \$692,942 at the end of 2005. Liabilities remain very low at just \$9,551 at December 31, 2005.

**USING AND UNDERSTANDING THE FINANCIAL STATEMENTS**

This report is an analysis of the financial statement and notes to those statements. These statements are organized so the reader can understand the financial operations of Auglaize Industries, Inc. The notes to those statements provide a detailed description of the financial entity, significant accounting policies, and investment overview, receivables, tax status, risk management (insurance coverage), paid employee vacation, business customer activity, and a description of accounting methods. Each of these items is further explained as follows:

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the activities of the Industries and present a longer-term view of the Industries' finances. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Industries' net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Industries as a whole, the financial position of the Industries has improved or diminished.

The statement of cash flows provides information about how the Industries finances and meets the cash flow needs of its operations.

**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
UNAUDITED  
(Continued)**

The Statement of Net Assets provides the perspective of the Industries as a whole. Table 1 provides a summary of the Auglaize Industries' net assets for 2005 compared to 2004:

**(Table 1)  
Net Assets**

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Current and Other Assets	\$637,413	\$605,048
Capital Assets	<u>55,529</u>	<u>59,242</u>
Total Assets	692,942	664,290
<b>Liabilities</b>		
Current Liabilities	<u>9,551</u>	<u>6,164</u>
<b>Net Assets</b>		
Invested in Capital Assets	55,529	59,242
Unrestricted	<u>627,862</u>	<u>598,884</u>
	<u>\$683,391</u>	<u>\$658,126</u>

Total assets increased by \$28,652 from 2004 to 2005. The majority of this change was due to an increase in the fair value of investments. Total liabilities increased by \$3,387 from 2004 to 2005. The increase was the result of an increase in accounts payable for consulting fees on the installation of a new computer system. This resulted in an increase in net assets of \$25,265 for 2005.

Table 2 shows the revenues, expenses and the changes in net assets for the year ended December 31, 2005 compared to the year ended December 31, 2004.

**(Table 2)  
Changes in Net Assets**

	<u>2005</u>	<u>2004</u>
Operating Revenues	\$294,170	\$317,865
Operating Expenses	<u>(324,002)</u>	<u>(405,038)</u>
Operating Loss	(29,832)	(87,173)
Non-operating Revenues	<u>55,097</u>	<u>63,434</u>
Increase (Decrease) in Net Assets	<u>\$25,265</u>	<u>(\$23,739)</u>

Operating revenues decreased by \$23,695 mainly due to a decrease in production work. Operating expenses decreased by \$81,036 due to decreases in cost of sales which included a reduction in payroll related expenses.

The notes to the financial statements are an integral part of the financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Financial Entity**

Auglaize Industries, Inc. is a 501(C)(3) non-profit corporation that relies on professional staffing subsidized by the Auglaize County Mental Retardation and Developmental Disabilities Board (ACMRDD). In as much as the Industries provides adult services through an annual contract, the non-profit corporation is considered a component unit of Auglaize County.

**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
UNAUDITED  
(Continued)**

**Accounting Policies**

The Industries accounting policies conform to principles described for governmental entities by the General Accounting Standards Board (GASB). Auglaize Industries maintains its own financial accounting system, namely SBT software for business operations and Infallible software for payroll. The financial statements do not reflect the operations of Auglaize County.

The program follows an accrual accounting system, recognizing revenues and expenses in the period in which they are earned or accrued rather than when they are received or paid. An annual budget is prepared by the non-profit corporation and presented to the non-profit board for approval at their April meeting.

All cash is maintained in an MMDA bank account and is transferred into a payroll checking account to meet bi-monthly payroll obligations. Excess capital is held in certificates of deposit, government securities and mutual funds.

Fixed assets are stated at cost. Only those valued over \$1,000 are depreciated and appear on the amortization schedule. Leasehold improvements are depreciated over an estimated useful life of 10 to 31 ½ years, vehicles over 5 to 10 years, computers over 5 years, furniture and fixtures, 7 years, and machinery and equipment, 7 years.

Eligible employees with disabilities receive one week of paid vacation each year, once they have been employed for six months or more. Vacation pay is based on an average week's pay from the previous 12 month work period prior to July 1<sup>st</sup> each year.

Capital contributions from other governmental entities or other sources are recorded at fair market value and not subject to repayment.

**Cash and Investments**

The Industries holds investment interests in two major risk levels, Category 1 investments include those instruments that are insured or for which are held by Auglaize Industries or its agent in Auglaize Industries name. These items are limited to one certificate of deposit valued at \$5,193 at 2005 year-end. The balance of the Industries' investments are held in Category 2 investments which include uninsured and unregistered investments held by an outside company in the Industries' name. These items include mutual funds, corporate bonds, government securities and asset and mortgage back securities. These items are distributed as follows:

	<b>Category 1</b>	<b>Category 2</b>
Certificates of Deposit	\$5,193	
Mutual Funds		\$411,554
Government and Agency Securities		45,770
Asset and Mortgaged Backed Securities		128,410
<b>Totals</b>	<b>\$5,193</b>	<b>\$585,734</b>

Investment activity at December 31, for the following years was:

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Fair Value at Year-end	\$585,734	\$537,040	\$566,903
Proceeds of Investments Sold	55,314	90,500	76,454
Less Cost of Investments Purchased	(75,335)	(21,707)	(72,580)
Total	565,713	605,833	570,777
Prior Year Fair Value	(537,040)	(566,903)	(489,055)
Change in Fair Market Value	<b>\$28,673</b>	<b>\$38,930</b>	<b>\$81,722</b>

**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
UNAUDITED  
(Continued)**

**Budgetary Activity**

Estimated expenses fell \$31,037 and \$22,177 under projections for the years 2005 and 2004 respectively. Revenues exceeded predictions by \$28,517 and \$17,294 an increase of nearly 9 and 5 percent, respectively, and for the years 2005 and 2004. The 2005 and 2004 budget activity reflected the following key figures:

<b>2005</b>			
Projected Revenues	\$320,750	Projected Expenses	\$355,039
Actual Revenues	<u>349,267</u>	Actual Expenses	<u>324,002</u>
Variance	<u><u>\$28,517</u></u>	Variance	<u><u>\$31,037</u></u>
 <b>2004</b>			
Projected Revenues	\$363,375	Projected Expenses	\$427,215
Actual Revenues	<u>381,299</u>	Actual Expenses	<u>405,038</u>
Variance	<u><u>\$17,924</u></u>	Variance	<u><u>\$22,177</u></u>

**Receivables**

Receivables consisted of outstanding balances on customer account activity. Credit is granted to customers although the monthly aging report seldom reflects balances beyond 60 days. The ability to collect on accounts may be affected by economic fluctuations in the economy.

**Federal and State Taxes**

As a 501(C)(3) non-profit corporation and a charitable business under Ohio law, Auglaize Industries is exempt from paying both state and federal income tax. Employees of Auglaize Industries are enrolled in Social Security, with the non-profit board matching 6.2 percent of wages paid.

**Insurance Coverage (Risk Management)**

Auglaize Industries is exposed to a variety of risks including but not limited to products liability, negligence, errors and omissions, destruction of assets, embezzlement, injuries to employees and staff, and natural disaster. During 2004, Auglaize Industries contracted through the ACMRDD with the Ohio School Plan as well as with the Cincinnati Insurance Company,

The Ohio School Plan covers losses for injury and accident to employees, employment practices, sexual abuse, fire damage and products liability. Maximum coverage is \$1,000,000 within each classification, with a \$3,000,000 limit on aggregate claims.

The Cincinnati Insurance Company cover losses on vehicles, injuries and fire damage relating to vehicle, shop equipment, faithful performance, and general liability. Coverage ranges from \$5,000 to \$1,000,000. An additional \$1,000,000 liability umbrella was added in 2004.

There have been no significant reductions in any area of coverage over the previous fiscal year, and there have been no settled claims that have exceeded the above stated coverages.

**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
UNAUDITED  
(Continued)**

**CAPITAL ASSETS AND DEBT**

Table 3 shows 2005 capital asset balances compared with 2004.

**(Table 3)**  
**Capital Assets at December 31**  
**(Net of Depreciation)**

	<u>2005</u>	<u>2004</u>
Equipment	\$49,315	\$52,683
Leasehold Improvements	6,214	6,559
	<u>\$55,529</u>	<u>\$59,242</u>

The \$3,713 decrease in capital assets was attributable to depreciation expense in excess of additions.

Auglaize Industries uses these capital assets to provide services to the businesses and the public. There is no debt on any of the assets owned by Auglaize Industries.

**2005 YEAR-END FINANCIAL CONDITIONS**

Auglaize Industries, Inc. will continue to seek revenue generating opportunities that are consistent with our mission and financial needs. The management team has been able to control and cut expenses which had a positive impact on the 2005 financial outcomes, much improved over 2004 financial conditions.

The obvious challenge will be to wisely invest long held financial assets in additional revenue generating opportunities, production equipment, etc. The management team will continue to keep careful watch over ongoing expenses and remain very selective in regard to creating additional services that might incur long-term expenses.

**CONTACTING AUGLAIZE INDUSTRIES FINANCAL MANAGEMENT**

This report is designed to provide taxpayers, clients and client families, care providers and other affiliated business associates, staff, workshop production partners, and all legal and financial regulatory agencies, with information necessary to their understanding of the fiscal operations of Auglaize Industries, Inc., a 501(C)(3) non-profit corporation.

If you have any questions regarding this report, contact Greg Farrell, Director of Adult Services at Auglaize industries, 330 West Boesel Avenue, New Bremen, Ohio 45869; telephone 419-629-3603.

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**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**STATEMENTS OF NET ASSETS  
DECEMBER 31, 2005 AND 2004**

	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$25,081	\$35,286
Certificates of Deposit	5,193	5,090
Investment Securities	585,734	537,040
Accounts Receivable	20,405	26,632
Prepaid Expenses	1,000	1,000
Total Current Assets	637,413	605,048
Property and Equipment		
Property, Plant and Equipment	265,876	250,820
Less: Accumulated Depreciation	(210,347)	(191,578)
Total Non-Current Assets	55,529	59,242
<b>Total Assets</b>	692,942	664,290
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts Payable	6,353	2,182
Accrued Payroll Taxes	662	1,126
Workers' Compensation Payable	397	278
Compensated Absences Payable	2,139	2,578
Total Liabilities	9,551	6,164
<b>Net Assets</b>		
Invested in Capital Assets	55,529	59,242
Unrestricted	627,862	598,884
<b>Total Net Assets</b>	\$683,391	\$658,126

*See accompanying notes to the basic financial statements.*

**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<b>2005</b>	<b>2004</b>
<b>Operating Revenues:</b>		
Charges for Services	\$276,998	\$299,216
Vocational Revenue	17,172	18,649
<b>Total Operating Revenues</b>	<b>294,170</b>	<b>317,865</b>
 <b>Cost of Sales</b>		
Labor and Employment Taxes	176,503	219,711
Subcontractors	4,046	3,106
Repairs and Maintenance	12,507	19,625
<b>Total Cost of Sales</b>	<b>193,056</b>	<b>242,442</b>
 <b>Operating Expenses</b>		
Professional Fees	36,494	29,742
Depreciation	21,803	27,753
Insurance	10,567	11,369
Community Employment Wages	37,241	41,392
Administrative Expenses	24,841	52,340
<b>Total Operating Expenses</b>	<b>130,946</b>	<b>162,596</b>
 Operating Income (Loss)	 (29,832)	 (87,173)
 <b>Non-Operating Revenues (Expenses):</b>		
Net Investment Income	50,137	55,309
Donations	1,905	3,198
Miscellaneous Revenue	3,055	4,927
Unrestricted Support	148,225	141,686
Expenditure of Unrestricted Support	(148,225)	(141,686)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>55,097</b>	<b>63,434</b>
 Change in Net Assets	 25,265	 (23,739)
 Net Assets, Beginning of Year	 658,126	 681,865
 <b>Net Assets, End of Year</b>	 <b>\$683,391</b>	 <b>\$658,126</b>

*See accompanying notes to the basic financial statements.*

**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<b>2005</b>	<b>2004</b>
<b>Cash Flows from Operating Activities</b>		
Cash Received from Customers	\$300,397	\$333,611
Cash Paid to Employees	(214,528)	(266,952)
Cash Paid to Suppliers	(84,284)	(152,363)
Net Cash Provided (Used) from Operating Activities	1,585	(85,704)
<b>Cash Flows from Investing Activities</b>		
Purchase of Certificates of Deposit	(5,193)	
Redemption of Certificates of Deposit	5,090	15,502
Purchase of Investments	(75,335)	(21,707)
Redemption of Investments	55,314	90,500
Interest and Dividends	21,464	16,379
Net Cash Provided by Investing Activities	1,340	100,674
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition of Capital Assets	(18,090)	(5,000)
Net Cash Used for Capital and Related Financing Activities	(18,090)	(5,000)
<b>Cash Flows from Non Capital Financing Activities</b>		
Miscellaneous Non-operating Revenue	3,055	4,927
Cash Received From Donations	1,905	3,198
Net Cash From Non Capital Financing Activities	4,960	8,125
Net Increase (Decrease) in Cash and Cash Equivalents	(10,205)	18,095
Cash and Cash Equivalents at Beginning of Year	35,286	17,191
<b>Cash and Cash Equivalents at End of Year</b>	<b>25,081</b>	<b>35,286</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities:</b>		
Operating Income (Loss)	(29,832)	(87,173)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities</b>		
Depreciation	21,803	27,753
<b>Changes in Assets and Liabilities:</b>		
Accounts Receivable	6,227	15,746
Accounts Payable	4,171	(36,181)
Accrued payroll and Related Liabilities	(784)	(5,849)
Total Adjustments	31,417	1,469
<b>Net Cash from Operating Activities</b>	<b>\$1,585</b>	<b>(\$85,704)</b>

*See accompanying notes to the basic financial statements.*

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**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**1. DESCRIPTION OF THE ENTITY**

Auglaize Industries, Inc. is a non-profit corporation that was incorporated in 1983 for the purpose 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 apply Financial Accounting Standards Board Statements and Interpretations issued prior to November 30, 1989, provided they do not conflict with or contradict GASB pronouncements.

**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.

**Revenue and Expense 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 expenses are recognized when incurred rather than when the obligation is paid.

**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 2005 and 2004 budgetary activity appears in Note 5.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United State of America requires the use of management's estimates. Actual results may differ from those estimates.

**Cash and Investments**

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

**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital Assets and Depreciation**

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 \$1,000. A portion of the facilities occupied by Auglaize Industries consists of additions to the original facilities owned by Auglaize County. Leasehold improvements are depreciated ratably 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:

<u>Class of Asset</u>	<u>Years</u>
Leasehold Improvements	15-31-½
Transportation Equipment	5-10
Computers	5
Furniture and Fixtures	7
Machinery and Equipment	7

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the year end, 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.

**Advertising**

Advertising costs are charged to operations when incurred. Advertising costs amounted to \$1,222 and \$1,026 for 2005 and 2004, respectively.

**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.

**Compensated Absences**

Governmental Accounting and Financial Reporting Standards specifies 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.

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. For the Industries, these revenues are primarily charges for services for work performed for customers. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Industries. Revenues and expenses not meeting this definition are reported as non-operating.

**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**3. CHANGE IN ACCOUNTING AND REPORTING METHOD**

Effective January 1, 2004, Auglaize Industries adopted GASB Statement 34 "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. GASB Statement No. 34 creates new basic financial statements for reporting on financial activities.

For fiscal year 2005, the Industries implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosure". GASB Statement No. 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the financial statements.

**4. CASH AND INVESTMENTS**

**Cash on Hand** - At December 31, 2005 the Industries had \$200 in cash on hand, and at December 31, 2004 the Industries had \$300 in cash on hand.

**Deposits** - At December 31, 2005 and 2004, the carrying value of deposits was \$30,074 and \$40,076, respectively. Custodial credit risk for deposits is the risk that in the event of bank failure, the Industries will not be able to recover deposits. At December 31, 2005 and 2004, \$35,304, and \$53,416, respectively, of the Industries' bank balances were not exposed to custodial credit risk because they were insured by the Federal Deposit Insurance Corporation (FDIC). The Industries has no deposit policy for custodial credit risk.

**Investments**

As of December 31, 2005 and 2004, the carrying and fair market value of the Industries investments are as follows:

<u><b>U. S. Government Securities</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>	<u><b>Maturity</b></u>
Federal Home Loan Mortgage Corporation Medium Term Note - Dated 3/28/2002 – 6.3% Callable 3/15/2006 @100	\$22,885	\$23,172	3/15/2022
Federal National Mortgage Association Medium Term Note – Dated 3/28/2002 – 6.5% Callable 3/28/2006 @100	<u>22,885</u>	<u>23,201</u>	3/28/2002
Total U. S. Government Securities	<u><u>\$45,770</u></u>	<u><u>\$46,373</u></u>	

  

<u><b>Mutual Funds</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>
American Funds Capital Income Builder – Class A	\$20,717	\$
American Funds Europacific Growth Fund – Class A	87,189	77,725
American Funds Fundamental Investors Fund – Class A	62,722	55,238
American Funds Growth Fund of America – Class A	83,699	87,300
American Funds New Economy Fund – Class A	75,807	63,195
American Funds Washington Mutual Investors – Class A	79,189	76,263
American Funds Intermediate Bond Fund of America Class A, AAA Average Credit Quality, 3.44 Year Average Maturity	<u>2,231</u>	<u>662</u>
Total Mutual Funds	<u><u>\$411,554</u></u>	<u><u>\$360,383</u></u>

  

<u><b>Corporate Bond</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>	<u><b>Maturity</b></u>
General Electric Capital Corporation Global Medium Term Notes Series A Dated 3/28/2002 – 6.5%	<u>\$ 0</u>	<u>\$22,885</u>	3/28/2007

**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**4. CASH AND INVESTMENTS (Continued)**

<u>Asset and Mortgage Backed Securities</u>	<u>2005</u>	<u>2004</u>	<u>Maturity</u>
Structured Asset Securities Corporation Pass Thru Certificate Series 2001-17 Dated 11/01/2001 - MBIA Insured – 6.5%	\$3,960	\$10,890	12/26/2031
Federal National Mortgage Association REMIC Pass Thru Certificate 2002-21 Dated 3/1/2002 – 6.25%	17,820	23,760	4/25/2032
CWMBS Incorporated Mortgage Pass Thru Certificate 2002-31 Dated 11/1/2002 - MBIA Insured - 5.65%	4,919	5013	1/25/2033
Residential Asset Securitization Trust 2002-A14 Dated 11/1/2002 ANBAC Insured – 5.65%	8,865	8,933	1/25/2033
Master Asset Securitization Trust Series 2003-1 Dated 1/1/2003 – MBIA Insured – 5.5%	4,906	4,773	2/25/2033
First Horizon Mortgage Pass Thru Certificate 2003-01 Dated 1/1/2003 - MBIA Insured – 5.4%	15,680	15,900	3/25/2033
Washington Mutual Mortgage –Series 2003-MS8 Dated 4/1/2003 – MBIA Insured – 5.45%	3,845	3,915	5/25/2033
Residential FDG. Mortgage Securities Pass Thru Certificate 2003-S13 Dated 6/1/2003 – MBIA Insured – 4.75%	6,230	6,475	6/25/2033
Residential Asset Securitization Trust 2003-A7 Dated 6/1/2003 – MBIA Insured - 5.0%	5,400	5,715	7/25/2033
Federal National Mortgage Association REMIC Pass Thru Certificate 2003-80 Dated 7/1/2003 – 5.0%	12,828	13,160	8/25/2033
Citicorp Mortgage Securities, Inc. Series 2003-11 Dated 12/1/2003 – MBIA Insured – 5.5%	8,482	8,865	12/25/2033
Washington Mutual Mortgage –Series 2005-2 Dated 3/1/2005 – Assured Guaranty – 5.5%	21,850		4/25/2035
Countrywide Home Loan Mortgage Pass Thru Certificate 2005-15 Dated 6/1/2005 – MBIA Insured – 5.1%	9,025		8/25/2035
CWMBS Incorporated Mortgage Pass Thru Certificate 2005-24 Dated 9/1/2005 - MBIA Insured - 5.25%	4,600		11/25/2035
<b>Total Asset and Mortgage Backed Securities</b>	<u>\$128,410</u>	<u>\$107,399</u>	

The Industries' investment policy does not address any restriction on investments relating to interest rate, credit, or custodial credit risks.

The Federal Home Loan Mortgage Corporation and Federal National Mortgage Association Notes carry a rating of AAA by both Moody's and Fitch. There is no rating assigned to the Mutual Funds or the Asset and Mortgage Backed Securities. The U. S. Government Securities, Mutual Funds, Corporate Bond and Asset and Mortgaged Backed Securities are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Industries' name.

**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**4. CASH AND INVESTMENTS (Continued)**

The following table indicates the percentage of each type investment to the Industries' total portfolio at December 31, 2005:

	<b>Market Value</b>	<b>Percentage of Portfolio</b>
U. S. Government Securities	\$ 45,770	8%
Mutual Funds	411,554	70%
Asset and Mortgage Backed Securities	128,410	22%
Total Investments	\$585,734	100%

Auglaize Industries has adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and For External Investment Pools*.

	<b>2005</b>	<b>2004</b>
Fair Value at End of Year	\$ 585,734	\$ 537,040
Add: Proceeds of investments sold	55,314	90,500
Less: Cost of investments purchased	(75,335)	( 21,707)
Fair value at beginning of year	(537,040)	( 566,903)
<b>Change in Fair Value of Investments</b>	<b>\$ 28,673</b>	<b>(\$ 38,930)</b>

Investment income consists of the following components:

Interest and dividends	\$21,464	\$16,379
Change in fair value of investments	28,673	38,930
<b>Total Investment Income</b>	<b>\$50,137</b>	<b>\$55,309</b>

**5. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2005 and 2004 are as follows:

<b>2005 Projected vs. Actual Revenues</b>		
<b>Projected Revenues</b>	<b>Actual Revenues</b>	<b>Variance</b>
<u>\$ 320,750</u>	<u>\$ 349,267</u>	<u>\$ 28,517</u>

<b>2005 Projected vs. Actual Expenses</b>		
<b>Projected Expenses</b>	<b>Actual Expenses</b>	<b>Variance</b>
<u>\$ 355,039</u>	<u>\$ 324,002</u>	<u>\$ 31,037</u>

<b>2004 Projected vs. Actual Revenues</b>		
<b>Projected Revenues</b>	<b>Actual Revenues</b>	<b>Variance</b>
<u>\$ 363,375</u>	<u>\$ 381,299</u>	<u>\$ 17,924</u>

<b>2004 Projected vs. Actual Expenses</b>		
<b>Projected Expenses</b>	<b>Actual Expenses</b>	<b>Variance</b>
<u>\$ 427,215</u>	<u>\$405,038</u>	<u>\$ 22,177</u>

**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**6. ACCOUNTS RECEIVABLE**

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

Management has elected to record 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.

**7. CAPITAL ASSETS**

Property and equipment at December 31, 2005 and 2004 consisted of the following:

	<b>2005</b>	<b>2004</b>
Leasehold Improvements	\$11,106	\$11,106
Shop and Office Equipment	125,903	124,862
Transportation Equipment	128,867	114,852
	\$265,876	\$250,820
Less Accumulated Depreciation	(210,347)	(191,578)
Net Property and Equipment	\$55,529	\$59,242

**8. FEDERAL TAXES**

**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. In addition, Auglaize Industries qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

**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.

**9. 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 2005 and 2004, Auglaize Industries contracted with the Ohio School Plan (See Note 13) and Cincinnati Insurance for coverage as follows:

<b>Company</b>	<b>Type of Coverage</b>	<b>Maximum</b>	<b>Deductible</b>
Harcum-Hyre Insurance Agency, Inc. (Ohio School Plan)	Bodily Injury and Property Damage – Each Occurrence Limit Sexual Abuse Injury – Each Sexual Abuse Offense Limit	\$1,000,000   1,000,000	None   None

**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**9. RISK MANAGEMENT (Continued)**

<b>Company</b>	<b>Type of Coverage</b>	<b>Maximum</b>	<b>Deductible</b>
	Personal and Advertising Injury – Each Offense Limit	1,000,000	None
	Fire Damage – Any One Event	500,000	None
	Medical Expense – Any One Person Limit	10,000	None
	-- Each Accidental Limit	10,000	None
	General Aggregate Limit	3,000,000	None
	Products – Completed Operations Aggregate Limit	1,000,000	None
	Employee Benefits Injury – Each Offense Limit	1,000,000	None
	Employee Benefits Injury – Aggregate Limit	3,000,000	None
	Bodily Injury by Accident – Each Accident Limit	1,000,000	None
	Bodily Injury by Disease – Endorsement Limit	1,000,000	None
	Bodily Injury by Disease – Each Employee Limit	1,000,000	None
	Errors and Omissions Injury Limit	1,000,000	\$2,500
	Errors and Omissions Injury Aggregate Limit	2,000,000	2,500
	Employment Practices Injury Limit	1,000,000	2,500
	Employment Practices Injury Aggregate Limit	2,000,000	2,500
Cincinnati Insurance	Property and General Liability:		
	Building	30,000	500
	General Liability		
	(Aggregate)	1,000,000	None
	(Each Occurrence)	1,000,000	None
	Fire Damage	100,000	None
	Medical – Auto	5,000	None
	Equipment	75,000	500
	Employee Dishonesty	20,000	None
	Faithful Performance	150,000	None
	Uninsured Motorist Auto Liability	1,000,000	
	Commercial Umbrella Liability		
	(Aggregate)	1,000,000	
	(Each Occurrence)	1,000,000	

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in insurance coverage from last fiscal year.

**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 4<sup>th</sup>. 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 year end.

**AUGLAIZE INDUSTRIES, INC.  
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**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 operating expenses paid by the ACMRDD on behalf of Auglaize Industries amounted to \$148,225 and \$141,686, for the years ended December 31, 2005 and 2004, respectively.

**12. MAJOR CUSTOMERS**

Substantially all of the production of Auglaize Industries, Inc. is purchased by two customers. Sales to these customers amounted to 59 percent in 2005, and 65 percent in 2004, of total sales with each customer individually accounting for greater than 10 percent of total sales.

**13. INSURANCE POOL**

**Ohio School Plan**

Auglaize Industries participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services.

The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the Board of Directors:

We have audited the basic financial statements of Auglaize Industries, Inc., Auglaize County, (the Industries), as of and for the years ended December 31, 2005 and 2004 and have issued our report thereon dated July 20, 2006, wherein, we noted the Industries implemented GASB Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Industries' internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Auglaize Industries' financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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Auglaize Industries, Inc.  
Auglaize County  
Independent Accountants' Report On Internal Control Over  
Financial Reporting and On Compliance and Other Matters  
Required By *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management, and the Board of Directors. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

July 20, 2006



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
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800-282-0370

Facsimile 614-466-4490

**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  
AUGUST 31, 2006**