



Dave Yost • Auditor of State

**COMMUNITY IMPROVEMENT CORPORATION
MORGAN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Community Improvement Corporation
Morgan County
155 East Main Street
McConnelsville, Ohio 43756

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statement and related notes of the Community Improvement Corporation, Morgan County, Ohio (the Corporation), as of and for the years ended December 31, 2012 and 2011.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting this financial statement in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the designing, implementing and maintaining internal control relevant to preparing and fairly presenting the financial statement free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statement is free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Corporation's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Corporation's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Corporation prepared this financial statement using the cash accounting basis. However, Ohio Revised Code Section 1724.05 requires the statement to follow accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Opinion

In our opinion, because of the matter described in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement does not present fairly the financial position, results of operation and cash flows, where applicable, of the Corporation as of and for the years ended December 31, 2012 and 2011 in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2013, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

May 20, 2013

**COMMUNITY IMPROVEMENT CORPORATION
MORGAN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Cash Receipts:		
Grants	\$250,000	\$2,375
Intergovernmental Grants		2,697
Reimbursed Expenses		12,444
Rent	422,899	422,888
Interest	1,045	2,489
Miscellaneous	12	34
	<hr/>	<hr/>
Total Cash Receipts	673,956	442,927
	<hr/>	<hr/>
Cash Disbursements:		
Current:		
Advertising	259	
Bank Service Charges	86	
Audit Costs		2,493
Contract Labor	40,000	54,625
Donation	5,984	
Dues and Subscriptions	50	50
Insurance	3,260	3,260
Lock Box Rental		80
Miscellaneous	314	
Office Supplies		148
Pass Thru Grant	250,000	2,696
Printing and Reproduction		43
Professional Fees	200	500
Real Estate Taxes	2,103	13,070
Other Expenses	260	
Debt Service:		
Redemption of Principal	345,384	341,949
Interest and Other Fiscal Charges	56,956	60,581
	<hr/>	<hr/>
Total Cash Disbursements	704,856	479,495
	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	(30,900)	(36,568)
Fund Cash Balance, January 1	388,429	424,997
	<hr/>	<hr/>
Fund Cash Balance, December 31	<u><u>\$357,529</u></u>	<u><u>\$388,429</u></u>

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**COMMUNITY IMPROVEMENT CORPORATION
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2012 AND 2011**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The Morgan County Community Improvement Corporation (the Corporation), is a not-for-profit corporation and was incorporated in 1967 under authority of Ohio Rev. Code Section 1702.01 and Chapter 1724. The Corporation is governed by 11 trustees, comprised of business, professional, government and community leaders. The Corporation was formed to advance, encourage, and promote industrial, economic, commercial and civic development in Morgan County.

The Corporation's management believes this financial statement presents all activities for which the Corporation is financially accountable.

B. Accounting Basis

Although required by Ohio Rev. Code Section 1724.05 to file its annual financial report pursuant to accounting principles generally accepted in the United States of America, the Corporation chooses to prepare its financial statement on a cash basis of accounting. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

This statement includes adequate disclosure of material matters.

C. Tax Status

The Corporation has not filed as an exempt organization under Section 501c(4) of the Internal Revenue Code. Accordingly, the federal tax status is unknown at this time. By virtue of Ohio law, the Corporation is not subject to Ohio income taxes.

D. Property, Plant, and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. Deposits

The Corporation maintains a checking account and several certificates of deposits. The carrying amount of deposits and investments at December 31 was as follows:

	<u>2012</u>	<u>2011</u>
Demand deposits	\$218,587	\$41,279
Certificates of deposit	138,942	347,150
Total deposits	<u>\$357,529</u>	<u>\$388,429</u>

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation.

**COMMUNITY IMPROVEMENT CORPORATION
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2012 AND 2011
(Continued)**

3. Debt

Debt outstanding at December 31, 2012 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Department of Development Loan 148-01-01	\$1,000,918	1-3%
Ohio Department of Development Loan 148-02-01	3,650,129	1-3%
Total	<u>\$4,651,047</u>	

On January 21, 2005, a loan agreement was issued by the Department of Development to enable the Corporation to purchase the former Gould Electronics facility for economic development. During years 1 through 5 of the note, a one percent interest rate applies. From year 6 to termination, a 3% interest rate applies, plus a service fee equal to one-quarter of one percent (0.25%) per annum on the amount of the principal from time to time outstanding from the disbursement date until paid. If the building and land are sold or transferred, then immediate pay-off of the note is required. The note is secured by the building and lands purchased by the Corporation, and the revenues of the Corporation are pledged to repay this debt.

On December 1, 2008, a loan agreement was entered into with the Department of Development to enable the Corporation to upgrade the Gould Electronics facility that was purchased in 2005 for economic development. The original loan amount was \$3,500,000, with an additional \$1,000,000 that was added in 2009. During years 1 through 5 of the note, a one percent interest rate applies. From year 6 to termination, a 3% interest rate applies. If the building and land are sold or transferred, then immediate pay-off of the note is required. The note is secured by the building and lands purchased by the Corporation, and the revenues of the Corporation are pledged to repay this debt.

Amortization of the above debt, including interest, is scheduled as follows:

<u>Year ending December 31:</u>	<u>ODOD Loan 148-01-01</u>	<u>ODOD Loan 148-02-01</u>
2013	\$89,259	\$312,889
2014	91,398	312,889
2015	98,212	340,354
2016	98,030	345,846
2017	97,843	345,846
2018-2022	486,199	1,729,230
2023-2027	217,009	922,256
Total	<u>\$1,177,950</u>	<u>\$4,309,310</u>

4. Land and Buildings

The Corporation purchased the former Malta Windows manufacturing facility from Philips Industries in 2002 for \$800,000. This included both the various buildings on the site and approximately 226 acres of related land. On November 8, 2006, the Ohio Department of Development executed a partial release of mortgage for 17.93 acres of land that the Corporation sold to the Villages of Malta and McConnelsville. On October 9, 2007, the Corporation sold the manufacturing facility and 18.98 acres to ABC Incorporated. The Corporation still owns the remaining 189.22 acres.

**COMMUNITY IMPROVEMENT CORPORATION
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2012 AND 2011
(Continued)**

4. Land and Buildings (Continued)

The Corporation purchased the former Gould Electronics facility from Nikko Materials USA, Incorporated in 2005 for \$3,100,000. This included all buildings equipment and approximately 23 acres of land. The Corporation currently leases this facility to Nikko Materials USA, Incorporated.

5. Risk Management

Commercial Insurance

The Corporation has obtained commercial insurance for the following risks:

- Comprehensive property and general liability; and
- Wrongful acts and dishonesty bond

6. Contingent Liabilities

The Corporation received financial assistance from state agencies in the form of grants. The expenditures of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Corporation. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Corporation at December 31, 2012.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Community Improvement Corporation
Morgan County
155 East Main Street
McConnelsville, Ohio 43756

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statement of the Community Improvement Corporation, Morgan County, Ohio (the Corporation), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statement, which collectively comprise the Corporation's basic financial statement and have issued our report thereon dated May 20, 2013, wherein we noted the Corporation uses a special purpose framework other than generally accepted accounting principles. Also, we issued an adverse opinion on the 2012 and 2011 financial statement due to the Corporation failing to prepare a financial statement that followed accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Corporation's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Corporation's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Corporation's financial statement is 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, opining 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2012-001.

Entity's Response to Findings

The Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Corporation's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

May 20, 2013

**COMMUNITY IMPROVEMENT CORPORATION
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-001

Noncompliance Citation

Ohio Rev. Code 1724.05 requires community improvement corporations established under Ohio Rev. Code Chapter 1724 to report annually in accordance with generally accepted accounting principles. Also, Auditor of State Bulletin 2005-002 describes the accounting and financial statement presentation requirements for GAAP-mandated entities.

The Corporation prepared its financial statement and notes on the accounting basis not in accordance with these generally accepted accounting principles. The accompanying financial statement and notes omit the financial position of the Corporation at December 31, 2012 and 2011, or changes in financial position or cash flows, and disclosures that, while material, cannot be determined at this time. The Corporation can be fined and various other legal administrative remedies may be taken against the Corporation.

We recommend the Corporation take the necessary steps to ensure that the annual financial report is prepared and filed in accordance with generally accepted accounting principles.

Officials' Response: The Morgan County CIC chooses to file on a "cash basis" because it is allowable under State Auditor's acceptable accounting practices and it is a cost effective method for our CIC.

**COMMUNITY IMPROVEMENT CORPORATION
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	A material noncompliance citation was issued under Ohio Revised Code Section 1724.05 for failure to file the annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected; this item is repeated in the current audit Schedule of Findings as Finding Number 2012-001.



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MORGAN COMMUNITY IMPROVEMENT CORPORATION

MORGAN 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
JUNE 4, 2013**