

**CANTON COMMUNITY IMPROVEMENT
CORPORATION**

AUDIT REPORT

For the year ended December 31, 2005

Charles E. Harris & Associates, Inc.
Certified Public Accountants and Government Consultants



**Auditor of State
Betty Montgomery**

Board of Directors
Canton Community Improvement Corporation
218 Cleveland Avenue, 5th Floor
Canton, Ohio 44702

We have reviewed the *Report of Independent Accountants* of the Canton Community Improvement Corporation, Stark County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Canton Community Improvement Corporation is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 6, 2006

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CANTON COMMUNITY IMPROVEMENT CORPORATION
AUDIT REPORT
For the Year Ended December 31, 2005

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REPORT OF INDEPENDENT ACCOUNTANTS

**Board of Directors
Canton Community Improvement Corporation
Canton, Ohio**

We have audited the financial statements of the Canton Community Improvement Corporation (the CIC), a component unit of the City of Canton, Ohio as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Corporation's 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 *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.

As discussed in Note 1, the financial statements of the CIC are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the City of Canton that is attributable to the transactions of the CIC. They do not purport to, and do not present fairly the financial position of the City of Canton as of December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Canton Community Improvement Corporation, Canton, Ohio, as of December 31, 2005, and its results of operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 7, 2006, on our consideration of the Canton Community Improvement Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements of the Canton Community Improvement Corporation, Canton, Ohio taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Charles E. Harris & Associates, Inc.
June 7, 2006

CANTON COMMUNITY IMPROVEMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2005

ASSETS

<u>Current Assets</u>	
Cash and Cash Equivalents	\$ 63,590
Receivables:	
Accounts Receivable	3,600
	<hr/>
Total Current Assets	67,190
 <u>Capital Assets</u>	
Land	21,000
Real Estate	366,478
Less Accumulated Depreciation	(54,514)
	<hr/>
Total Capital Assets	332,964
	<hr/>
TOTAL ASSETS	\$ 400,154
	<hr/> <hr/>

LIABILITIES

Accounts Payable	\$ 296,155
Accrued Wages and Payroll Taxes	6,391
	<hr/>
TOTAL LIABILITIES	\$ 302,546
	<hr/> <hr/>

NET ASSETS

Invested in Capital Assets	\$ 332,964
Unrestricted	(235,356)
	<hr/>
TOTAL NET ASSETS	\$ 97,608
	<hr/> <hr/>

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

**CANTON COMMUNITY IMPROVEMENT CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

SUPPORT AND REVENUES:

Grant Funds	\$ 1,799,088
Rental Income	21,150
	21,150

TOTAL OPERATING REVENUES 1,820,238

EXPENSES:

Program Services

Economic Development Grants	2,031,857
Depreciation	6,328
	6,328

Total Program Services 2,038,185

Support Services

Administrative Wages and Fees	29,423
Payroll Taxes	29,194
Worker's Compensation Insurance	199
Legal and Accounting Fees	6,738
Office Expense	10,049
Miscellaneous	5,299
	5,299

Total Support Services 80,902

TOTAL OPERATING EXPENSES 2,119,087

OPERATING INCOME (298,849)

OTHER REVENUE(EXPENSES):

Transfer of Property to the City of Canton	(47,000)
	(47,000)

TOTAL OTHER REVENUE(EXPENSES): (47,000)

Changes in Net Assets (345,849)

Net Assets (Deficit) Beginning of Year 443,457

Net Assets (Deficit) End of Year \$ 97,608

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

CANTON COMMUNITY IMPROVEMENT CORPORATION

STATEMENT OF CASH FLOWS For the Year Ended December 31, 2005

Cash flows from operating activities:

Cash Received from Grants	\$ 1,799,088
Cash Received from Customers	17,550
Cash Paid for Goods and Services	(1,762,788)
Cash Paid to Employees	<u>(58,105)</u>
<i>Net cash provided/(used) for operating activities</i>	<u>(4,255)</u>
Net increase/(decrease) in cash and cash equivalents	(4,255)
<i>Cash and cash equivalents, January 1, 2005</i>	<u>67,845</u>
<i>Cash and cash equivalents, December 31, 2005</i>	<u><u>\$ 63,590</u></u>

Reconciliation of Operating Income (loss) to Net Cash Provided By (Used For) Operating Activities

Net operating income/(loss)	\$ (298,849)
Adjustments:	
Depreciation expense	6,328
(Increase)/decrease in assets:	
Accounts receivable	(3,600)
Increase/(decrease) in liabilities:	
Accounts Payable	291,155
Accrued Wages and Payroll Taxes	<u>711</u>
Total Adjustments	<u>294,594</u>
<i>Net cash provided/(used) for operating activities</i>	<u><u>\$ (4,255)</u></u>

Non-Cash Transactions

Transfer of Property to the City of Canton	<u><u>\$ (47,000)</u></u>
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The notes to the financial statements are an integral part of these statements.

CANTON COMMUNITY IMPROVEMENT CORPORATION
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

Canton Community Improvement Corporation (the CIC), a component unit of the City of Canton, is a non-profit corporation organized under Chapter 1724 of the Ohio Revised Code for the purpose of promoting industrial, economic, commercial and civic development. The CIC has been designated as the City of Canton's agent for industrial and commercial distributions and research development. As agent the CIC disburses loan and grant funds to recipients for economic development projects approved by the Board of Directors. Because the CIC is only acting as agent, the City of Canton retains the loans and collects payments on the loans.

The City of Canton (the City) is a municipal corporation incorporated under the laws of the State of Ohio. In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the City's financial statements include all organizations, activities and functions, which comprise the primary government and those legally separate entities for which the City is financially accountable. Financial accountability is defined as the appointment of a voting majority of the unit's board and either 1) the City's ability to impose its will over the unit, or 2) the possibility that the unit will provide a financial benefit or impose a financial burden to the City. The CIC is legally separate entity and is reported by the City as a discretely presented component unit in its basic financial statements. The CIC does not include any other units in its presentation.

B. BASIS OF ACCOUNTING

The financial statements of the CIC are prepared using the accrual basis of accounting.

C. CAPITAL ASSETS

Capital assets represent land and building donated or transferred to the CIC by the City of Canton to be used in future economic development projects as well as land currently being utilized for an economic development project. The land and buildings have been recorded at their fair value as of the date of the contribution, or at cost if purchased. Capital assets also include buildings being utilized for an economic development project. These buildings are stated at their fair value as of the date of the contribution, or at cost if purchased. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

CANTON COMMUNITY IMPROVEMENT CORPORATION
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

D. PROGRAM REVENUE

Program revenue is derived from a grant passed through from the City of Canton. The grant funds received provide economic development loans and façade improvement grants, as well as administrative expenses of the CIC. Grant revenue is recognized to the extent that expenses eligible for reimbursement under the grant agreement have been incurred during the period.

E. FEDERAL INCOME TAX

Canton Community Improvement Corporation is exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code.

F. ESTIMATES

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 is as follows:

Description	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital assets not being depreciated:				
Land	\$ 21,000	-	-	\$ 21,000
Land held for future use	142,477	-	\$ (47,000)	95,477
Capital assets being depreciated:				
Buildings	271,001	-	-	271,001
Total capital assets being depreciated	271,001	-	-	271,001
Less accumulated depreciation Buildings	(48,186)	\$ (6,328)	-	(54,514)
Total accumulated depreciation	(48,186)	(6,328)	-	(54,514)
Total capital assets being depreciated, net	222,815	(6,328)	-	216,487
Total capital asset, net	<u>\$ 386,292</u>	<u>\$ (6,328)</u>	<u>\$ (47,000)</u>	<u>\$ 332,964</u>

CANTON COMMUNITY IMPROVEMENT CORPORATION

Notes to the Basic Financial Statements

For the Year Ended December 31, 2005

3. COMMITMENTS

The Board of Directors of the CIC has approved various loans and grants that the CIC yet to disburse. The borrowers must meet certain criteria documented in the loan agreements before they can receive these funds. The CIC was committed to eight loans and grants totaling \$659,979 at December 31, 2005.

4. CONCENTRATIONS

The CIC received 99% of revenue from the U.S. Department of Housing and Urban Development passed through from the City of Canton, which is an increase from the previous year.

The CIC maintains its cash in a bank. This balance is insured by the Federal Deposit Insurance Corporation for up to \$100,000. At times throughout the year, the balance in this account may exceed federally insured limits. The CIC has not experienced any losses in this account, and management of the CIC believes it is not exposed to any significant credit risk on its cash. The CIC's cash balance at December 31, 2005 was \$63,590.

5. DONATED FACILITIES AND SERVICES

The City of Canton provides the CIC with office space and various office services without charge. The value of the donated facilities is not recognized in the accompanying financial statements because no objective basis is available to measure the value of the donated facilities.

The CIC transferred land in the amount of \$47,000 to the City of Canton during the year. This non-monetary transaction is reflected as an Other Revenue.

6. OPERATING LEASE

The CIC leases property with a book value of \$1 to a local Canton business. The lease is for a five year term ending June 30, 2009, with the option to be renewed by the lessee for another five year term. Future minimum rental payments to be received over the next five years are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2006	\$ 21,900
2007	22,500
2008	23,100
2009	11,700
	<u>\$ 79,200</u>

CANTON COMMUNITY IMPROVEMENT CORPORATION

Schedule of Federal Awards Expenditures

For the Year Ended December 31, 2005

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Program Expenditures</u>
<u><i>U.S. Department of Housing and Urban Development</i></u>		
Pass-through from the City of Canton		
Community Development Block Grant	14.218	\$ 1,820,893
		<hr/>
Total U.S. Department of Housing and Urban Development		<u>1,820,893</u>
Total Federal Expenditures		<u><u>\$ 1,820,893</u></u>

See accompanying Notes to the Schedule of Federal Awards Expenditures

CANTON COMMUNITY IMPROVEMENT CORPORATION
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2005

1. **General**

The accompanying schedule of federal awards expenditures is a summary of the activity of the Corporation's federal awards programs. The schedule has been prepared on the cash basis of accounting.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Board of Directors
Canton Community Improvement Corporation
Canton, Ohio**

We have audited the financial statements of the Canton Community Improvement Corporation (Corporation), a component unit of the City of Canton, Ohio as of and for the year ended December 31, 2005, and have issued our report thereon dated June 7, 2006. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's 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 an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Corporation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2004-01.

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 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 believe the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with provisions of law, regulations, contracts, grant agreements and other matters, 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 are 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
June 7, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Canton Community Improvement Corporation
Canton, Ohio

Compliance

We have audited the compliance of the Canton Community Improvement Corporation (Corporation), a component unit of the City of Canton, Ohio with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. The Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Corporation's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-01.

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 noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

This report is intended for the information of the Board, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
June 7, 2006

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505**

**CANTON COMMUNITY IMPROVEMENT CORPORATION
STARK COUNTY
DECEMBER 31, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	Yes
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	CDBG Entitlement Program CFDA # 14.218
(d)(1)(viii)	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
OMB CIRCULAR A-133 SECTION .505

CANTON COMMUNITY IMPROVEMENT CORPORATION
STARK COUNTY
DECEMBER 31, 2005

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Material Weakness

FINDING NUMBER 2005-01

Condition:

Certain properties previously reported on the books of the CIC were discovered to be owned by the City of Canton, not the CIC, during previous audits. Management does not have in place adequate internal controls over the identification and ownership of land.

Criteria:

The CIC should have internal controls in place to assure that all properties acquired or sold on behalf of and owned by the CIC are accurately documented and recorded in the financial statements.

Effect:

The CIC's property could materially misstated, resulting in incorrect reporting of the value of properties on the CIC's financial statements

Recommendation:

The CIC needs to be in direct communication with the City of Canton's Department of Community Economic Development and Planning, regarding all property acquired or sold on behalf of the CIC. In order to achieve this communication goal, we recommend that the City's Department of Community Economic Development and planning to provide quarterly schedules of property and transactions to the CIC and its board members. This will enable the CIC to accurately report property in the financial statements. Also, all property transactions need to be discussed by the Board of Directors and appropriately recorded in the minutes of the meetings of the Board of Directors.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

See finding 2005-01 above.

CANTON COMMUNITY IMPROVEMENT CORPORATION
Audit Report
For the Year Ending December 31, 2005

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-002	Improper reporting of properties.	No	Not Corrected, see Finding #2005-01



**Auditor of State
Betty Montgomery**

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CANTON COMMUNITY IMPROVEMENT CORPORATION

STARK 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
JULY 18, 2006**