



Dave Yost • Auditor of State



VILLAGE OF CADIZ COMMUNITY IMPROVEMENT CORPORATION  
HARRISON COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Village of Cadiz Community Improvement Corporation  
Harrison County  
128 Court Street  
Cadiz, Ohio 43907

To the Board of Trustees:

### ***Report on the Financial Statements***

We have audited the accompanying financial statement of the Village of Cadiz Community Improvement Corporation, Harrison County, Ohio (the Corporation), as of and for the years ended December 31, 2012, 2011, and 2010, and the related notes to the financial statement.

### ***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 a financial statement that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on this financial statement 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

***Basis for Adverse Opinion***

As described in Note 1 of the financial statement, the Corporation prepared this financial statement using cash accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) which is an accounting basis other than accounting principles generally accepted in the United States of America. However, Ohio Revised Code Section 1724.05 requires the Corporation to follow accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory 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.

***Adverse Opinion***

In our opinion, because of the significance of the matter described in the *Basis for Adverse Opinion* paragraph, the financial statement referred to above does not present fairly the financial position of the Village of Cadiz Community Improvement Corporation as of and for the years ended December 31, 2012, 2011 and 2010, or the changes in financial position or cash flows thereof for the years then ended 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 April 15, 2014, 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

April 15, 2014

**CADIZ COMMUNITY IMPROVEMENT CORPORATION  
HARRISON COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCE  
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Cash Disbursements:</b>			
Current:			
Contractual Services	\$ 90,809	\$ 64,584	\$ 71,108
Supplies and Materials	2,491	48,160	
Other	15,113		29,617
Total Cash Disbursements	108,413	112,744	100,725
Total Cash Receipts Over/(Under) Cash Disbursements	(108,413)	(112,744)	(100,725)
<b>Other Financing Receipts/(Disbursements):</b>			
Capital Outlay	(67,235)	(263,019)	(27,800)
Leases and Loan Receipts	330,041	189,323	184,673
Miscellaneous Receipts	2,500		
Other Financing Sources			5,005
Total Other Financing Receipts/(Disbursements)	265,306	(73,696)	161,878
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	156,893	(186,440)	61,153
Fund Cash Balance, January 1	129,851	316,291	255,138
<b>Fund Cash Balance, December 31</b>	<b>\$286,744</b>	<b>\$129,851</b>	<b>\$316,291</b>

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

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**VILLAGE OF CADIZ COMMUNITY IMPROVEMENT CORPORATION  
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2012, 2011 AND 2010**

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The Cadiz Community Improvement Corporation (the Corporation), is a not-for-profit corporation and was incorporated in 1998 under authority of Ohio Rev. Code Section 1702.01 and 1724. The Corporation is governed by 9 trustees, consisting of the mayor and two council members of the Village of Cadiz and six members comprised of business, professional, government and community leaders. The Corporation was formed to advance, encourage, and promote industrial, economic, commercial and civic development of the community and area of the Village of Cadiz.

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 has entered into an agency agreement with the Village of Cadiz to be custodian of the Corporation's deposits and accounting system. The Village's deposit and investment pool holds the Corporation's assets, valued at the Village's reported carrying amount.

**VILLAGE OF CADIZ COMMUNITY IMPROVEMENT CORPORATION  
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2012, 2011 AND 2010  
(Continued)**

**3. 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

**4. Loans**

The Corporation has entered into various loans. The following schedule lists the outstanding loans at December 31, 2012 and any delinquent amount, if applicable.

<b>Borrower</b>	<b>Outstanding 12/31/2012</b>	<b>Delinquent 12/31/2012</b>
The Good Guys, Inc., D.B.A. Modern Auto Parts	\$103,923	
James A. Pollock	37,947	36,790
David G. Schloss	160,000	160,000
David G. Schloss & Schloss Media, Inc.	85,000	85,000
David G. Schloss & Schloss Media, Inc.	15,000	15,000
Shurfast Food Mart	9,122	264
Board of Commissioners of Harrison County	89,273	
Village of Cadiz	162,850	
Heavistar, Inc.	31,552	31,552
Lee J. Ledger & Wanda S. Ledger	11,359	8,052
total	<b>\$706,026</b>	<b>\$336,658</b>

In 2008, the Corporation received a Judgment Entry and Decree of Foreclosure for James A. Pollock. The Corporation does not expect to collect this remaining balance on the James A. Pollock loan.

**5. Lease/Rent Agreements**

The Corporation has entered into operating lease/rent agreements with Tappan Holdings, Inc., American Electric Power Service Corporation, and J-W Power Company.

On March 29, 2012, the Corporation entered into a capital lease with Harrison Hills City School District for the construction of a new bus garage. The School District made a payment of \$200,845 to the Corporation on June 25, 2012. After the project is completed, the final cost minus the prepaid \$200,845 will be divided into 14 semi-annual payments at 0% interest. At final payoff, the District will have the option to purchase the bus garage from the Corporation for \$1.

**VILLAGE OF CADIZ COMMUNITY IMPROVEMENT CORPORATION  
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2012, 2011 AND 2010  
(Continued)**

**6. Related Parties**

As disclosed in Note 4, the Corporation has outstanding loans receivable from the Village of Cadiz. During 2011 and 2010, the Corporation provided loan proceeds of \$5,866 and \$35,051, respectively. The Corporation received \$8,000 from the Village of Cadiz in both 2011 and 2010 for payments on a Street Loan, which was paid off in 2011. The Corporation received \$25,000 from the Village of Cadiz in 2012, 2011, and 2010 for payments on the Industrial Park Water Tower Loan / Jamison Avenue Restoration Project Loan. The loan balance presented in Note 4 of \$162,850 was the balance of this loan at December 31, 2012.

**7. Subsequent Events**

The Corporation entered into a rent agreement with MarkWest Liberty Midstream & Resources, L.L.C. on August 1, 2013.

The Corporation entered into a loan agreement, in the amounts of \$155,000 and \$80,000, with David G. Schloss & Schloss Media, Inc. on May 23, 2013.

Legal proceedings have taken place in an effort to recover unpaid loan amounts from Lee & Wanda Ledger and from Heavistar, Inc.. As of the date of this report, the Corporation will not receive anything from Lee & Wanda Ledger, per the latest hearing. Also, the Corporation will receive approximately \$3,000 from the sale of securities from the Heavistar, Inc. loan.

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# Dave Yost • Auditor of State

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

Village of Cadiz Community Improvement Corporation  
Harrison County  
128 Court Street  
Cadiz, Ohio 43907

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 Village of Cadiz Community Improvement Corporation, Harrison County, Ohio (the Corporation), as of and for the years ended December 31, 2012, 2011, and 2010, and the related notes to the financial statement, which collectively comprise the Corporation's financial statement and have issued our report thereon dated April 15, 2014, 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, 2011, and 2010 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 statement, 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 Society's financial statement. 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. We did identify a certain deficiencies in internal control, described in the accompanying schedule of findings that we consider significant deficiencies in internal control. We consider findings 2012-002 and 2012-003 to be significant deficiencies.

***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.

***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

April 15, 2014

**VILLAGE OF CADIZ COMMUNITY IMPROVEMENT CORPORATION  
HARRISON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012, 2011 AND 2010**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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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, 2011 and 2010, or changes in financial position or cash flows, and disclosures that, while material, cannot be determined at this time. The Corporation could 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.

**FINDING NUMBER 2012-002**

**Significant Deficiency**

The Corporation should maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The corporation contracted with the Village of Cadiz to process its accounting transactions. The Village posted loan payments, lease payments and rentals to other financing sources and miscellaneous revenue instead of to the proper source of the revenue. As a result, financial information, as it related to revenue, could be misleading.

We recommend that revenue transactions be posted to properly reflect the type of revenue generated and received. The financial statements have been reclassified to properly reflect the revenue streams during the audit period.

**FINDING NUMBER 2012-003**

**Significant Deficiency**

Code of Regulations of Cadiz Community Improvement Corporation, Inc. Article VIII, Miscellaneous, states in part, that the Corporation shall keep correct and complete books and records of account. During the audit period, the Corporation leased land and buildings and provided business loans to various entities.

**VILLAGE OF CADIZ COMMUNITY IMPROVEMENT CORPORATION  
HARRISON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012, 2011 AND 2010  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2012-003 (Continued)**

**Significant Deficiency (Continued)**

The Corporation did not maintain complete records of loans outstanding, including signed loan agreements, amended terms of each loan, an accurate loan amortization schedule and a subsidiary ledger to account for all payments made and the outstanding principal of each loan. Some of the loan agreements stated that the interest rate would be prime rate adjusted annually by a certain percentage; however, there was no evidence that adjustments were properly made to the interest rates. Loan payments were recorded and were posted to the proper fund, but the amount of principal paid and the amount of interest paid was not determinable for some loans and amounts were not properly classified as leases and loan receipts. Some loans were in default and there was no evidence that attempts were being made to collect on the loans. When late fees were stipulated in loan agreements, the Corporation did not enforce such fees nor did it approve waiver of the fees. The most notable issues were:

- The Corporation entered into a loan agreement with Class Act Hair Design in 2000. The agreement appeared to have been updated in 2007 and 2008 to provide a lower interest rate. An amortization schedule provided documented that the new principal balance was \$13,337 at 4% to be payable over 119 months in monthly installments of \$241. However, the amortization of the monthly payments would have Class Act Hair Design completing payments on the loan in 62 months. Additionally, the Corporation was unable to provide the updated agreement that would document authorization for a change in the terms or agreement. While Class Act Hair Design completed payments on the loan amount documented on the amortization schedule, without a properly approved loan agreement, we were unable to determine if the amounts and terms of the updated loan were accurate;
- The Corporation entered into a loan agreement with Modern Auto in 2000 for \$200,000. The original terms of the agreement required amortizing the principal over 240 months; though, payments would be made over 120 months with a final balloon payment for the remaining principal. Payments were to be completed in September 2010. However, per review of an updated amortization schedule, the terms of the agreement were changed in September 2008. This schedule documented a principal balance of \$147,305 to be paid over 120 months with monthly payments of \$1,225. The new interest rate was 4%. While Modern Auto made payments in agreement with the new amortization schedule during the audit period, the Corporation was unable to provide an updated loan agreement authorizing the change in terms. Without a properly approved loan agreement, were unable to determine if the amounts and terms of the updated loan were accurate;
- The Corporation entered into an agreement with Harrison Hills City School District (the District) where the District paid the Corporation \$500 a month for a building rental. However, the Corporation was unable to provide us with the agreement. As a result, we were unable to determine if the amount paid on the lease was accurate and in accordance with a lease agreement;
- During 2008 and 2009, the Corporation entered into loans with Schloss Media for \$160,000, \$85,000 and \$15,000, respectively. The three loans were to be completely paid by the end of 2009. However, interest only payments have only been received by the Corporation. The outstanding principal balance on these loans was \$260,000 at December 31, 2012. At the end of 2012, the Corporation agreed to loan Schloss Media additional loans totaling \$235,000 in 2013 despite not receiving principal payments on the three outstanding loans.



VILLAGE OF CADIZ COMMUNITY IMPROVEMENT CORPORATION  
HARRISON COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2012, 2011 AND 2010  
(Continued)

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p>
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FINDING NUMBER 2012-003 (Continued)

**Significant Deficiency (Continued)**

As a result, we made repeated requests for loan agreement, updated loan agreements, amortization schedules and payment registers for each loan. For loan payments made from Class Act Hair Design and Modern Auto, we were able to verify payments to the most recent loan agreements.

The Corporation should ensure that all loan agreements are maintained and that payments are calculated within the terms of the loan. The Corporation should continue tracking all activity, loans made and repaid, and that all debtors are paying in accordance with the agreement. This will help to ensure that all loan activity is properly authorized and accounted for on the proper terms.

**Officials Response:** The Officials did not respond to anything in the Schedule of Findings.

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# Dave Yost • Auditor of State

**VILLAGE OF CADIZ COMMUNITY IMPROVEMENT CORPORATION**

**HARRISON 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 8, 2014**