



**DOWNTOWN LANCASTER SPECIAL IMPROVEMENT DISTRICT
FAIRFIELD COUNTY**

INITIAL AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012



Dave Yost • Auditor of State

**DOWNTOWN LANCASTER SPECIAL IMPROVEMENT DISTRICT
FAIRFIELD COUNTY**

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INDEPENDENT AUDITOR'S REPORT

Downtown Lancaster Special Improvement District
Fairfield County
109 North Broad Street
Lancaster, Ohio 43130

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Downtown Lancaster Special Improvement District, Fairfield County, Ohio (the District), a not-for-profit corporation, which comprise the statements of assets, liabilities, and net position – modified cash basis, and the related statements of support, revenue, expenses, and change in net position – modified cash basis, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the modified cash accounting basis Note 2 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are 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 statements are 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 District's preparation and fair presentation of the financial statements 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 District'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 obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the Downtown Lancaster Special Improvement District, Fairfield County, Ohio, as of December 31, 2013 and 2012, and the respective changes in modified cash financial position thereof for the years then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

We draw attention to Note 2 of the financial statements, which describes the accounting basis, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2015, on our consideration of the District'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 District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

May 6, 2015

**DOWNTOWN LANCASTER SPECIAL IMPROVEMENT DISTRICT
 STATEMENTS OF ASSETS, LIABILITIES, AND
 NET POSITION – MODIFIED CASH BASIS
 December 31, 2013 and 2012**

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 52,944	\$ 57,250
PROPERTY AND EQUIPMENT, NET	8,070	10,584
TOTAL ASSETS	\$ 61,014	\$ 67,834
 NET POSITION - Unrestricted	 \$ 61,014	 \$ 67,834

See accompanying notes to the financial statements.

**DOWNTOWN LANCASTER SPECIAL IMPROVEMENT DISTRICT
STATEMENTS OF SUPPORT, REVENUE, EXPENSES, AND
CHANGES IN NET POSITION – MODIFIED CASH BASIS
Years Ended December 31, 2013 and 2012**

	2013	2012
UNRESTRICTED SUPPORT AND REVENUE		
Property assessments	\$ 60,978	\$ 81,499
Storm water credit	4,864	5,230
MSL Reimbursement	14,097	10,457
Performing Arts Center donations	21,750	-
Interest income	20	53
TOTAL SUPPORT AND REVENUE	101,709	97,239
 EXPENSES		
Depreciation	2,514	3,003
Dues and subscriptions	835	170
Insurance	1,545	11,141
Maintenance	22,117	12,696
Meetings/trainings	1,004	664
Miscellaneous	398	535
Office expenses	2,719	2,440
Payroll and payroll taxes	51,889	44,682
Phone	413	748
Professional fees	1,345	1,342
Rent	1,950	1,650
State filing fee	50	50
Performing Arts Center passthrough donations	21,750	-
TOTAL EXPENSES	108,529	79,121
CHANGES IN NET POSITION	(6,820)	18,118
 NET POSITION - BEGINNING OF YEAR	67,834	49,716
NET POSITION - END OF YEAR	\$ 61,014	\$ 67,834

See accompanying notes to the financial statements.

DOWNTOWN LANCASTER SPECIAL IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

1. NATURE OF ACTIVITIES

Downtown Lancaster Special Improvement District (the District) is a nonprofit corporation formed in 2004 under the laws of the State of Ohio for the purpose of governing a special improvement district created pursuant to Ohio Revised Code Chapter 1710.

The District was organized to assist the City of Lancaster, Fairfield County in providing programming which will preserve the economic well-being and opportunities in the downtown area of the City of Lancaster and preserve the aesthetic, architectural and historic character.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the District have been prepared on the modified cash basis of accounting in accordance with an other comprehensive basis of accounting. Under this method of accounting, revenues and expenses are recorded when received or expended.

Basis of Presentation

Under Statement of Financial Accounting Standards (FASB ASC 958-205-05-6), *Financial Statements of Not-for-Profit Districts*, the District is required to report information regarding its financial position and activities according to three classes of net position (unrestricted, temporarily restricted, and permanently restricted) based upon the existence or absence of donor-imposed restriction:

- **Unrestricted net position** - Net position that is not subject to donor-imposed stipulations.
- **Temporarily restricted net position** - Net position subject to donor-imposed restrictions, subject to specific restriction as to their use and are satisfied either by actions of the District and/or the passage of time. As of December 31, 2013 and 2012, the District did not have a temporarily restricted net position.
- **Permanently restricted net position** - Net position subject to donor-imposed restrictions that will be maintained permanently by the District. Generally, the donors of these assets permit the District to use all or part of the income earned on related investments for general or specific purposes. As of December 31, 2013 and 2012, the District did not have a permanently restricted net position.

Concentration of Credit Risk

Financial instruments which subject the District to concentration of credit risk, consist principally of cash and cash equivalents. To minimize risks, the District places its funds with highly rated financial institutions. The cash balances held at financial institutions might exceed insured limits from time to time; however, at December 31, 2013 and 2012 the cash balances were fully insured.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

Property and Equipment

Property and equipment are recorded at cost if purchased or at estimated fair market value at the date of donation. All asset purchases with a value of \$1,000 or more will be capitalized and classified as a fixed asset. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation of the related assets is provided using the straight-line method over estimated economic, useful lives ranging from 3 to 15 years and was \$2,514 and \$3,003 for 2013 and 2012, respectively.

DOWNTOWN LANCASTER SPECIAL IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Taxes

The District has been classified as an other than private foundation and is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The District is subject to a tax on income from any unrelated business.

The District has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The District believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the District's financial condition, results of operations or cash flows. Accordingly, the District has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2013 and 2012.

The District is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The District believes it is no longer subject to income tax examinations for years prior to 2010.

Advertising

The District expenses advertising as incurred and was \$0 for years ending December 31, 2013 and 2012.

Use of Estimates

The preparation of modified cash basis financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. PROPERTY AND EQUIPMENT

Changes to property and equipment are as follows:

	<u>Balance</u> <u>12/31/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/13</u>
Building improvements	\$ 3,200	\$ -	\$ -	\$ 3,200
Machinery and equipment	13,117	-	-	13,117
Office furniture and equipment	<u>1,713</u>	<u>-</u>	<u>-</u>	<u>1,713</u>
Total property and equipment	<u>18,030</u>	<u>-</u>	<u>-</u>	<u>18,030</u>
Accumulated depreciation	<u>(7,446)</u>	<u>(2,514)</u>	<u>-</u>	<u>(9,960)</u>
Net property and equipment	<u>\$ 10,584</u>	<u>\$ (2,514)</u>	<u>\$ -</u>	<u>\$ 8,070</u>
	<u>Balance</u> <u>12/31/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/12</u>
Building improvements	\$ 3,200	\$ -	\$ -	\$ 3,200
Machinery and equipment	13,804	4,200	(4,887)	13,117
Furniture and equipment	<u>1,713</u>	<u>-</u>	<u>-</u>	<u>1,713</u>
Total property and equipment	<u>18,717</u>	<u>4,200</u>	<u>(4,887)</u>	<u>18,030</u>
Accumulated depreciation	<u>(9,330)</u>	<u>(3,003)</u>	<u>4,887</u>	<u>(7,446)</u>
Net property and equipment	<u>\$ 9,387</u>	<u>\$ 1,197</u>	<u>\$ -</u>	<u>\$ 10,584</u>

**DOWNTOWN LANCASTER SPECIAL IMPROVEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012**

4. SPECIAL ASSESSMENT TAX LEVY

The major source of revenue for the District is funded by special assessments on the property taxes of owners of downtown business property at \$10.50 per lineal foot of frontage within the district. The special assessment levy was renewed in 2013 for a five-year period. The City of Lancaster sends the District the tax collections twice a year.

5. RELATED PARTIES

The District partners with Destination Downtown Lancaster, a 501(c)(3) organization, and shares a common executive director.

6. FISCAL AGENT RELATIONSHIP

In 2013 the District took on a fiscal agency role with the Performing Arts & Conference Center of Fairfield County (Center) to collect donations. All of these monies were passed on to the Center. The Center has since obtained their own 501(c)(3) status.

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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

Downtown Lancaster Special Improvement District
Fairfield County
109 North Broad Street
Lancaster, Ohio 43130

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 statements of the Downtown Lancaster Special Improvement District, Fairfield County, Ohio, (the District), a not-for-profit corporation, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's financial statements and have issued our report thereon dated May 6, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District'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 District's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 District'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. We consider finding 2013-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the District's 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, 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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 District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

May 6, 2015

**DOWNTOWN LANCASTER SPECIAL IMPROVEMENT DISTRICT
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013**

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

FINDING NUMBER 2013-001

Financial Statement Presentation

Sound financial reporting is the responsibility of the Executive Director and the Board of Directors, and is essential to help ensure information provided to the readers of the financial statements is complete and accurate.

The District had the following audit adjustments to the December 31, 2012 financial statements:

- Unrestricted Net Position was understated by \$4,771 as a result of the overstatement of a maintenance expense, and
- Capital assets and accumulated depreciation were overstated by \$4,887 due to the disposal of assets.

Not presenting financial information accurately resulted in the financial statements requiring the above audit adjustment entries, including additional time and effort to identify the variances and discrepancies.

We recommend the District's Executive Director take steps to help ensure the accurate presentation of the financial statements. By exercising accuracy in recording financial activity, the District can reduce posting errors and increase the reliability of the financial data throughout the year and at year end.

The District's financial statements and, where applicable, the accounting records have been adjusted to accurately reflect these adjustments.

Officials' Response

We did not receive a response from Officials to this finding.

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DOWNTOWN LANCASTER SPECIAL IMPROVEMENT DISTRICT

FAIRFIELD 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 9, 2015**