# DEFIANCE METROPOLITAN PARK DISTRICT
# DEFIANCE COUNTY

## REGULAR AUDIT

## FOR THE YEARS ENDED DECEMBER 31, 2006 & 2007

Mary Taylor, CPA
Auditor of State

**DEFIANCE METROPOLITAN PARK DISTRICT**
**DEFIANCE COUNTY**

**TABLE OF CONTENTS**


| TITLE | PAGE |
| --- | --- |
| Cover Letter | 1 |
| Independent Accountants' Report | 3 |
| Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – General Fund - For the Years Ended December 31, 2007 and 2006 | 5 |
| Notes to the Financial Statements | 6 |
| Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards* | 9 |
| Schedule of Findings | 11 |
| Schedule of Prior Audit Findings | 14 |

Mary Taylor, CPA
Auditor of State

Defiance Metropolitan Park District
Defiance County
500 Court Street, Suite E
Defiance, Ohio 43512-2171

To the Board of Park Commissioners:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

February 27, 2008

One Government Center / Suite 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

This page intentionally left blank.

Mary Taylor, CPA
Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Defiance Metropolitan Park District
Defiance County
500 Court Street, Suite E
Defiance, Ohio 43512-2171

To the Board of Park Commissioners:

We have audited the accompanying financial statements of Defiance Metropolitan Park District, Defiance County, (the District) as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the District'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 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.

As described more fully in Note 1, the District has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP require presenting entity wide statements and also presenting the District's fund separately. While the District does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require districts to reformat their statements. The District has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

One Government Center / Suite 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2007 and 2006, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances and reserves for encumbrances of Defiance Metropolitan Park District, Defiance County, as of December 31, 2007 and 2006, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2008, 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. 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.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

February 27, 2008

**DEFIANCE METROPOLITAN PARK DISTRICT**
**DEFIANCE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES**
**GENERAL FUND**
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

| | 2007 | 2006 |
|---|---|---|
| **Cash Receipts:** | | |
| General Property Tax - Real Estate | $26,186 | $23,307 |
| Tangible Personal Property Tax | 4,461 | 3,971 |
| Intergovernmental | 41,719 | 13,501 |
| Earnings on Investments | 7,340 | 5,821 |
| Total Cash Receipts | 79,706 | 46,600 |
| **Cash Disbursements:** | | |
| Contracts - Services | 56,000 | 1,220 |
| Settlement Deductions | 744 | 643 |
| Other | 3,169 | 1,896 |
| Total Cash Disbursements | 59,913 | 3,759 |
| Total Cash Receipts Over Cash Disbursements | 19,793 | 42,841 |
| Fund Cash Balances, January 1 | 145,429 | 102,588 |
| **Fund Cash Balances, December 31** | **$165,222** | **$145,429** |
| Reserve for Encumbrances, December 31 | | $44,586 |

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Defiance Metropolitan Park District, Defiance County, (the District) as a body corporate and politic. The probate judge of Defiance County appoints a five-member Board of Commissioners to govern the District. The Commissioners are authorized to acquire, develop, protect, maintain, and improve park lands and facilities. The Commissioners may convert acquired land into forest reserves. The Commissioners are also responsible for activities related to conserving natural resources, including streams, lakes, submerged lands, and swamp lands. The Board may also create parks, parkways, and other reservations and may afforest, develop, improve and protect and promote the use of these assets conducive to the general welfare.

The District's management believes these financial statements present all activities for which the District is financially accountable.

### B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The District recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

### C. Cash and Investments

As the Ohio Revised Code permits, the Defiance County Treasurer holds the District's cash as the District's custodian. The County holds the District's assets in its investment pool, valued at the Treasurer's reported carrying amount.

### D. Fund Accounting

The District uses fund accounting to segregate cash and investments that are restricted as to use.

The District uses only one fund classification, a General Fund. The General Fund is the general operating fund. It is used to account for all financial resources.

### E. Budgetary Process

The Ohio Revised Code requires that the Board of Commissioners to budget its fund annually.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

### 1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function level of control, and appropriations may not exceed estimated resources. The District Board must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

### 2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

### 3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The District did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2007 and 2006 budgetary activity appears in Note 3.

### F. Property, Plant, and Equipment

The District records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

## 2. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|---|---|---|---|
| General | $45,000 | $79,706 | $34,706 |

2007 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|---|---|---|---|
| General | $90,800 | $59,913 | $30,887 |

## 2. BUDGETARY ACTIVITY – (CONTINUED)

2006 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|---|---|---|---|
| General | | $46,600 | $46,600 |

2006 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|---|---|---|---|
| General | | $48,345 | ($48,345) |

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority by $48,345 for the year ended December 31, 2006. Also contrary to Ohio law, the District did not properly certify expenditures for the years ended December 31, 2007 and 2006.

## 3. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the District.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the District.

## 4. RISK MANAGEMENT

### Commercial Insurance

The District has obtained commercial insurance for general liability.

Mary Taylor, CPA
Auditor of State

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

Defiance Metropolitan Park District
Defiance County
500 Court Street, Suite E
Defiance, Ohio 43512-2171

To the District Board of Park Commissioners:

We have audited the financial statements of Defiance Metropolitan Park District, Defiance County, (the District) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated February 27, 2008, wherein we noted the District followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. However, we believe the finding described above is also a material weakness.

We also noted certain matters that we reported to the District's management in a separate letter dated February 27, 2008.

**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, 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 instances of noncompliance we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-002 and 2007-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 27, 2008.

We intend this report solely for the information and use of management and the District Board of Park Commissioners. We intend it for no one other than these specified parties.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

February 27, 2008

**DEFIANCE METROPOLITAN PARK DISTRICT**
**DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS**
**DECEMBER 31, 2007 AND 2006**

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

**FINDING NUMBER 2007-001**

**Material Weakness – Monitoring Controls**

The small size of the District's fiscal operations does not allow for an adequate segregation of duties. The Secretary performs most accounting functions. It is therefore important that the Board of Park Commissioners (the Commissioners) monitor financial activity closely.

There was no evidence that the Commissioners reviewed monthly detail revenue, disbursement ledgers, budgetary activity, invoices, or fund balance reports on a regular basis. As a body the Commissioners did not meet at all in 2006, but did meet quarterly in 2007. Minutes from those 2007 meetings did not always show approval of the prior meeting minutes and were not signed by a member of the Board or the Secretary.

The lack of monitoring controls over the District's financial activity may have contributed to several service agreements with area municipalities going unpaid in 2006. The unpaid balances include $18,000 due the City of Defiance, $15,000 due the Village of Hicksville and $9,000 due the Village of Ney. These balances were paid in full during 2007.

The lack of monitoring by the Commissioners resulted in the inaccurate posting of transactions to the financial statements. Examples include mispostings such as:

- Incorrect classification of local government, rollback and homestead, and utility deregulation monies as sales revenue or other revenue, instead of intergovernmental revenue classification, in the amounts of $10,996 and $13,719 in 2007 and 2006, respectively.

- Understatement of reserve for encumbrances at year end 2006 by $44,586.

In order to ensure that the financial activity of the District is being properly accounted for and bills are being paid on time, we recommend the Commissioners review invoices, detail revenue and disbursement ledgers, budgetary activity, and fund balance reports on a frequent, perhaps monthly basis. The documents should be reviewed, initialed and approved in the minutes. The minutes should also be signed by a Commissioner and the Secretary, and show approval of the prior meeting minutes. The Commissioners should also review the annual financial statement prepared by the Secretary for accuracy and completeness.

**FINDING NUMBER 2007-002**

**Noncompliance Citation**

Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and order for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**1. "Then and Now" certificate –** If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than $3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

**2. Blanket Certificate –** Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**3. Super Blanket Certificate –** The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Eighty-six percent of the transactions tested during the audit period were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2007-002**
**(Continued)**

Also, the District had $44,586 in outstanding purchase commitments at December 31, 2006 which were not encumbered or certified at year end. The accompanying financial statement and budgetary presentation footnote has been adjusted to reflect this amount as an outstanding encumbrance at December 31, 2006.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**FINDING NUMBER 2007-003**

**Noncompliance Citation**

Ohio Revised Code § 5705.41 (B) states in part that no subdivision is to expend money unless it has been appropriated as provided in this chapter.

Expenditures in 2006 exceeded appropriations by $48,345. This was a result of the Board not passing any appropriations for 2006 and an audit adjustment to post unrecorded encumbrances.

We recommend the District pass appropriations annually and properly encumber all transactions.

**Official's Response:**

We did not receive a response from Officials to the findings reported above.

**DEFIANCE METROPOLITAN PARK DISTRICT**
**DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS**
**DECEMBER 31, 2007 AND 2006**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain*** |
|---|---|---|---|
| 2005-001 | Ohio Revised Code § 5705.41(D) for improper certification of funds | No | Not Corrected. Repeated as Finding 2007-002 |
| 2005-002 | Recommendation for improved Monitoring Controls | No | Not Corrected. Repeated as Finding 2007-001 |

Mary Taylor, CPA
Auditor of State

**DEFIANCE METROPOLITAN PARK DISTRICT**

**DEFIANCE 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**
**MARCH 25, 2008**

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us