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**STATE OF OHIO**

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## **Introduction**

Agricultural societies are among the oldest bodies corporate and public in Ohio. For example, the Preble County Fair has been operated continuously since 1851 by the Preble County Agricultural Society. Despite the many similarities among agricultural societies, over the years, differences in mission and interpretation of laws and regulations have developed.

Fortunately, since 1988, agricultural societies have used a standard way of classifying revenues and expenditures, developed by the Auditor of State, and have reported their financial activity in same way. Each year since 1994, the Ohio Agriculture Department has summarized the financial reports of all agricultural societies. This rich source of financial information was extremely useful in conducting the peer group analysis and contiguous county analysis seen later in this report. The ease of access and analysis of this financial data allowed larger peer groups to be examined than might traditionally be feasible. Non-financial data or financial data not deducible from the Agriculture Department's spreadsheets, such as that associated with the relationships between agricultural societies and their junior fairs or information regarding county funding, required personal contact with individual society personnel or county officials. A smaller peer group was chosen for obtaining this information.

This report contains two commendations and 36 recommendations. Of the recommendations five result in expense reductions over the five-year forecast period of \$147,140, and eight result in revenue increases of \$222,850 for a total positive budgetary impact over the forecast period of \$369,990. One recommendation results in a reservation of available cash balance of \$20,000 over the forecast period.

This report also contains a five-year financial forecast (financial recovery plan) which reveals that, with effective management and fiscal discipline, the Preble County Agricultural Society will be out of debt, funding its capital improvement needs without resorting to fundraising, generating an annual operating profit, and have a cash reserve of nearly \$100,000 by 2006. The cash balance equates to about 45 days of expenses of the Society. The financial recovery plan was, in part, based on a three-day intensive

budgeting effort undertaken by the Treasurer and Fair Manager, and facilitated by the Office of the Auditor of State.

This management audit of the Preble County Agricultural Society was conducted in coordination with a financial statements audit of the Society which was released on June 18, 2002. Additional recommendations can be found in the report on compliance and internal controls and the management letter issued in connection with that audit.

### **Background**

The Preble County Agricultural Society (the Society) was beset by cash flow problems in 2001. It was behind in paying its electric bill to Dayton Power & Light and received service termination notices in December 2001 and February 2002. It is facing large increases in its scheduled debt service and landfill disposal costs in 2002. Its Board of Directors approached the Preble County Commissioners requesting the Commissioners to provide additional discretionary funding designed to help them maintain electric service. The Commissioners responded by advancing the Society over \$50,000 in two installments, enough to pay the past due balance of the Dayton Power & Light bill, and funding a management audit of the Preble County Agricultural Society and its initial financial statements audit.

### **Preble County**

Preble County is located in the southwestern portion of Ohio, bordering on Indiana. Interstate Highway 70, U. S. Routes 35 and 40 cross the county east and west. U. S. Route 127 runs north and south.

Preble County is primarily a rural area, with 73% of its land devoted to farming. It is adjacent to Montgomery County, including the City of Dayton, Butler County, including the City of Hamilton, and Darke County in Ohio and Union and Wayne counties in Indiana.

Preble County's largest municipality is the City of Eaton, the county seat, with a population of 8,133 (2000 Census). It is also home of several smaller villages, including Camden, Lewisburg and New Paris. At 94.4 people per square mile, it is more densely

populated than similarly situated Ohio counties with the exception of Ottawa County which is adjacent to the Toledo metropolitan area.

### **Preble County Agricultural Society**

Agricultural societies in Ohio are organizations authorized by statute. Ohio Rev. Code Section 1711 describes their organization and governance.

The Preble County Agricultural Society has operates the Preble County Fairgrounds and has staged the “ Preble County Fair” every year since 1851. It is governed by 13 Directors and a Fair Manager. The directors are elected by the membership for three year terms. Terms are staggered so that approximately one-third of the directors’ terms expire each October. Annual elections are held in August, during fair week, each year to fill directors’ terms expiring later that year.

## **Comparables**

### **Determining Comparables**

Determining which other agricultural societies to compare to the Preble County Agricultural Society is an exercise in prioritizing various physical and demographic factors. The two objectives of the comparable analysis were to optimize the combination of those factors in a way that identifies agricultural societies which can provide comparisons that are meaningful to Preble County Agricultural Society, and to include societies in other parts of Ohio which have developed independently from Preble County Agricultural Society.

We chose county location, size, proximity to urban centers and its internal urban population as key physical characteristics to examine. Selection of non-contiguous counties and counties from different parts of the State were emphasized to help achieve the objective of diversity. Measures of urban influence, such as proximity to urban areas and internal urban population were used to develop a measure of “rurality” which could be compared across counties throughout Ohio.

We chose population density and per capita income as key demographic characteristics to examine. We chose these characteristics because they influence fair program choices, attendance and prices.

**Measuring “Rurality”**

How rural is rural? We are accustomed to think of populations in mutually exclusive terms of urban and rural. In reality, populations exist on a continuum from densely populated urban communities like Cleveland or Cincinnati to sparsely populated rural communities like Vinton County. Population density is one way to place a community on this continuum, but it does not account for the influence of nearby urban centers.

The Economic Research Service (ERS) of the U. S. Department of Agriculture publishes statistics which attempt to account for the proximity of urban centers. ERS publishes two models which use counties as the data unit and measure each county’s “rurality” in relation to its own urban population or its proximity to urban areas in other counties. These two models are called the Rural-Urban Continuum and Urban Influence models. We used these two models to further refine our search for counties to compare with Preble County. In the Rural Urban Continuum model, each county is assigned a code which describes its location on the continuum.

Rural Urban Continuum Codes	
Code	Description
<b>Metro counties:</b>	
0	Central Counties of Metro Areas of 1 Million Population or More
1	Fringe Counties of Metro Areas of 1 Million Population or More
2	Counties in Metro Areas of 250,000 to 1 Million Population
3	Counties in Metro Areas of Fewer Than 250,000 Population
<b>Non-metro counties:</b>	
4	Urban Population of 20,000 or More, Adjacent to a Metro Area
5	Urban Population of 20,000 or More, not Adjacent to a Metro Area
6	Urban Population of 2,500 to 19,999, Adjacent to a Metro Area
7	Urban Population of 2,500 to 19,999, not Adjacent to a Metro Area
8	Completely Rural or Less Than 2,500 Urban Population, Adjacent to a Metro Area
9	Completely Rural or Less Than 2,500 Urban Population, not Adjacent to a Metro Area

In this classification system, Preble County is assigned code number 6.

The Urban Influence model assigns each county a code which describes its own urban population and its proximity to adjacent urban populations.

Urban Influence Codes	
Code	Description
Metro counties:	
1	Large Metro County
2	Small Metro County
Non-metro counties:	
3	Non-metro county; adjacent to large metro county; city of 10,000 or more
4	Non-metro county; adjacent to large metro county; no city of 10,000 or more
5	Non-metro county; adjacent to small metro county; city of 10,000 or more
6	Non-metro county; adjacent to small metro county; no city of 10,000 or more
7	Non-metro county; not adjacent to metro area; city of 10,000 or more
8	Non-metro county; not adjacent to metro area; town of 2,500 to 9,999
9	Non-metro county; not adjacent to metro area; contains no part of a city with at least 2,500

In this classification system, Preble County is assigned code number 6.

**Potential Comparable Agricultural Societies**

Using these measures of “rurality,” we considered all Ohio counties with Rural-Urban Continuum and Urban Influence Codes similar to Preble County for further analysis, obtained other descriptive demographic and physical characteristics for each, and listed each counties’ agricultural society’s gross cash receipts for 2001.

Potential Comparables (Sorted in Descending Order by Cash Receipts)						
County	Rural-Urban Continuum Code	Urban Influence Code	County Size (sq. mi.)	Population Density (population per sq. mi.)	Per Capita Income	2001 Ag Society Total Cash Receipts
Preble	6	6	424.83	94.4	\$22,272	\$683,564
Putnam	6	6	483.91	69.9	24,643	572,924
Hardin	6	6	470.31	66.2	19,950	571,110
Gallia	6	6	468.80	66.0	19,438	532,638
Morrow	6	6	405.54	68.4	17,776	478,529
Ottawa	6	6	255.10	156.9	27,370	440,899
Henry	6	6	416.53	69.9	23,833	347,080
Meigs	6	6	429.45	53.5	16,426	326,725
Paulding	6	6	416.28	49.2	19,961	256,696
Monroe	6	6	455.56	34.0	17,702	201,371
Harrison	6	6	403.57	39.9	18,669	192,589

First, we note that Preble County Agricultural Society has the highest gross receipts in this stratum of counties with similar “rurality.” From an examination of these potential comparables, one can conclude that larger agricultural society operations (measured by gross cash receipts) tend to come from more densely populated counties within this

stratum. Another way to say this is that county population density is positively correlated to the size of an agricultural society's operations. Whether larger agricultural society operations come from counties with higher per capita income is less clear. While potential comparable counties with higher per capita income tend to have larger agricultural society operations, this relationship is not as clear as population density. Another way to say this is that county per capita income, while positively correlated, is less highly correlated with the size of agricultural societies' operations than is population density.

### **Agricultural Societies Chosen for Comparison**

We used the group of potential comparables, above, for certain financial comparisons. These comparisons were facilitated by the Ohio Department of Agriculture's summary of annual financial reports from all county and independent agricultural societies operating in the State. Additional, information was obtained for a smaller group of comparables. A smaller group was necessary due to the more intensive effort required to obtain data. For this group, we conducted interviews with each fair manager, confirmed fairground acreage with each county auditor, and read each society's annual fair program. For these in depth comparisons, we chose Hardin, Gallia and Ottawa counties. Each provides a unique opportunity for comparison. Ottawa provides an opportunity to examine operations of an agricultural society in a much more densely populated county, Gallia has a more typical population density for this stratum and Hardin is the potential comparable nearest to Preble County. Ottawa and Gallia also satisfy the desire to obtain data for comparison from diverse areas of Ohio. All comparables are among the larger agricultural society operations in the stratum.

Although not considered as rural as Preble County, Darke County Agricultural Society was chosen as a comparable. Darke County has similar characteristics to Preble County, and, but for just over 10,000 people living in Greenville, would be considered in the same rural stratum as Preble County. Additionally, the Darke County Fair is one of the larger fairs in the Ohio and is considered a successful operation. Finally, Darke County is a neighboring county to Preble County and its County Fair attendees include people from Preble County. It's size, stability and location make it a good choice for comparison to Preble County Agricultural Society.



## **Commendations**

### **Rentals**

The Preble County Agricultural Society's 2001 gross revenue of \$683,000 ranked it 36<sup>th</sup> out of the 94 Ohio agricultural societies. However, its 2001 rental activity ranked it 12<sup>th</sup> largest. During the year, the fairgrounds hosts a variety of major events, such as the Ohio Dorset Show and the Preble County Pork Festival, and other events, such as regular flea markets, auctions and dog shows. The Board of Directors and Fair Manager continue to consider additional events designed to maximize the revenue generated from the fairgrounds. That Preble County Agricultural Society head its peer group in total cash receipts is, in part, due to its aggressive rental activity.

The Board of Directors and Fair Manager are commended on their efforts to keep the fairgrounds busy at all times during the year.

### **Fair Book Advertising**

Preble County Agricultural Society maintains an aggressive fair book advertising program. In fact, the Preble County Agricultural Society ranks second in Ohio in the amount of Restricted Promotion Revenue which is the account to which all fair book ad revenue is posted.<sup>1</sup>

Below is a comparison of fair ads sold by Preble and each of its peers. Darke County is included in this analysis for reasons previously discussed, and because it produces a similar fair book.

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<sup>1</sup> According to a Detailed Description of Receipt and Disbursement Codes produced by the Ohio Agriculture Department, restricted promotion revenue also accounts for the recovery of costs associated with the purchase of horse blankets provided to race winners. These recovered costs are minor in relation to fair book ad revenue and this account total is used for peer comparisons. The inclusion of these recovered costs accounts for the revenue in Ottawa County when no fair book ads were sold.

### 2001 Fair Book Ads

Number of Advertisements	Preble	Gallia	Darke	Hardin
Full Page	26	31	19	0
Three-Quarter Page	0	0	0	2
One-Half Page	49	39	24	0
One-Third Page	4	0	0	0
One-Quarter Page	74	98	18	14
One-Eighth Page	3	0	0	65
One-Sixteenth Page	1	0	0	0

From this analysis, it is clear that Preble and Gallia maintain the most aggressive fair book advertising programs, and that the Preble County Agriculture Society is able to sell large amounts of fair book ad space at higher average rates than Gallia County. Also, Preble County Agricultural Society uses differential rates for the back page and front inside page.

We commend the Board of Directors and Fair Manager on their aggressive and successful fair book advertising policy and on their management of the fair book sales process.

## Recommendations

### Junior Fair

The junior fair has, over time, become an important focus of county fairs in Ohio. Junior fairs run concurrently with the county fair and their activities are integrated within the daily schedule of the county fair. In some counties, such as in Gallia County, the Junior Fair is the source of all agricultural programs. However, most counties, including Preble County, sponsor agricultural programs for adults and youths. Junior fairs are comprised of youth groups such as 4-H clubs, chapters of Future Farmers of America and Future Homemakers of America, and Boy and Girl Scout organizations. Representatives of these organizations meet as a junior fair board. Adults, typically agricultural education teachers, county agricultural extension office agents, and a member or members of the county agricultural society meet with and provide guidance to the junior fair board. Major activities of the junior fair boards consist of fund raising (sometimes called fair-raising), fair week program development, and social and fairgrounds improvement activities.

The Preble County Junior Fair Board (Junior Fair Board) is organized pursuant to its constitution for the sole purpose of coordinating the activities of all Preble County youth organizations at the Preble County Fair. The coordinating activities are further defined in

a document entitled Junior Fair Board Member Responsibilities on which each Junior Fair Board member is asked to acknowledge their understanding and agreement to abide by its terms. These additional coordinating activities are:

1. To conduct judging and exhibition activities which educate the exhibitors and audience alike in ethical, safe, and efficient management practices.
2. To provide an opportunity for youth to demonstrate skills learned through their organization's project work.
3. To provide an opportunity for the public to see and be aware of the organization's and individual member's achievement.
4. To conduct fair, equitable and safe competition for exhibitors and their projects.
5. To provide appropriate recognition for exhibitors who have demonstrated respective levels of knowledge and skills developed.
6. To provide opportunities for member organizations to promote the purposes, methods, and values of their respective organizations.
7. To promote youth involvement in cooperating organizations.

The Junior Fair Board may consist of up to 53 members composed of representatives of the following youth organizations:

1. 4-H organizations,
2. Future Farmers of America (FFA), and
3. Future Homemakers of America (FHA)

The Junior Fair Board is supported by an Adult Advisory Council consisting of up to 13 members composed of agricultural education and vocational home economics teachers, 4-H Advisory Council members, Extension Agents of the Preble County Agriculture Extension Office, and one Senior Fair Board member. While the purpose of the Adult Advisory Council is not explicit in the Junior Fair Board Constitution, it is reasonable to assume that the Council provides guidance to the adolescents and young adults who compose the Junior Fair Board.

Over the years, the Junior Fair has assisted the Agricultural Society by funding certain fairground projects and has made unrestricted donations to the Fairgrounds. The

projects chosen most often benefit the participants in the Junior Fair. However, the Fairground has need for operating funds that can be used to maintain its existing inventory of buildings and grounds. Providing capital money for specific projects carries with it an implied obligation for the fairground to operate and maintain the improvement. The fairgrounds need operating funds to maintain its current structures.

The Junior Fair Board maintains a checking account and certificates of deposit in its name, separate from the Preble County Agricultural Society. As of December 9, 2001, the checking account contained \$11,163 and an additional \$10,000 was invested in two certificates of deposit with local banks. During the 12 month period from December 10, 2000 through December 9, 2001, the Junior Fair Board bank account accounted for \$9,865 in cash receipts, \$5,759 in cash disbursements, and an investment of \$5,000 in a second certificate of deposit. The financial records are maintained year round in the custody of the 4-H Extension Agent in Preble County with the exception of the checks themselves which are maintained by the President of the Junior Fair Board. In the case of a Junior Fair Board member who departs for college or is otherwise unable to complete his or her term prior to its expiration, the checks are turned over to the 4-H Extension Agent until new elections are held (usually in October) and a new President is installed (usually in December). For that reason, both the President of the Junior Fair Board and the 4-H Extension Agent are listed as authorized signatories on the checking account. Only one signature is required on a check.

We question why the Junior Fair Board, a not-for-profit organization that exists solely to coordinate youth activities at the Preble County Fair, and with an annual budget of under \$6,000 needs to raise nearly \$10,000 per year and maintain a \$21,000 cash balance. The current cash balance equals three and one-half times its annual budget.

The lines of responsibility and authority between the Preble County Agricultural Society and the Junior Fair board are not well defined. Over the years the Junior Fair Board has operated as a largely autonomous body. It engages in its own fundraising activities. The Agricultural Society's role vis-à-vis the Junior Fair, over time, has evolved into that of a funding source for premiums, ribbons, banners, and judges.

Other agricultural societies have established closer relationships with their junior fair boards. For example, in Gallia County, the fair is organized solely around the organization, management and presentation of the junior programs. In fact, the fair bills itself as the Gallia County Junior Fair. No agricultural programs for adults are maintained. A retired member of the Agricultural Society Board of Directors attends the Junior Fair Board meetings along with the County agricultural extension office agent for 4-H. Two Junior Fair Board members report highlights of the meetings to the Agricultural Society Board of Directors and attend the meetings of the Agricultural Society. The Agricultural Society is responsible for all Junior Fair Board expenses such as judge costs and premiums. The Agricultural Society handles the proceeds from the Junior Fair Livestock Sale. The Junior Fair Board has one separate bank account that the Agricultural Society does not include in their books. The Junior Fair Board discloses the amounts held in the account to the Agricultural Society.

Hardin and Ottawa County Agricultural Societies sponsor both adult and junior fair events and exert somewhat less authority over their Junior Fair Board than does Gallia County. In Hardin County, The Junior Fair Board is comprised of representatives from each of the schools in the County, 4-H, the Grange, the Girl Scouts, two members of the Agricultural Society Board of Directors, and the members' spouses. The Agricultural Society works with the Extension Office to obtain, and pay for, judges of the junior fair programs. The Agricultural Society pays for premiums to winners of junior fair programs. The Junior Fair Board has a separate bank account that the Agricultural Society does not include in their books. The Junior Fair Board reports to the Agricultural Society annually its fair-raising activities and how the money is spent. Most of expenditures consist of improvements to the fairgrounds and social activities of the Junior Fair Board. The account balance is not disclosed to the Agricultural Society.

In Ottawa County, the Junior Fair Board submits a budget for next year's expenses to the Agricultural Society for its approval at the end of each year, and the Agricultural Society pays the expenses of the Junior Fair Board based on the submitted budget. The Junior Fair Board Livestock Committee submits an end of year fiscal report to the Agricultural Society for the yearly audit. The Junior Fair Board keeps a separate bank account to pay for plaques. Records of the account are turned over to the Agricultural Society for review. The Junior Fair Board Livestock Committee has a separate account

for livestock sale transactions and submits the activity to the Agricultural Society for review.

Each comparable county presents a different model of control, from the tight control exercised by Gallia County to the general monitoring model presented by Hardin County. The Preble County Agriculture Society has allowed the Junior Fair to exercise a great deal of autonomy, and it has not insisted on formalizing the relationship between them. The Junior Fair conducts its own fund raising and pays certain of its own expenses. The Agricultural Society subsidizes other expenses of the Junior Fair including the costs of ribbons, judges and premiums.

Junior fairs exist to teach youth about agricultural science and also about organizational behavior and governance. Adult advisors, including representatives of the county agricultural society, play a key role in modeling effective practices in these areas and counseling the junior boards to learn and adopt them. Among effective governance practices are budgeting and financial reporting.

Without effective role models for good organizational behavior and governance, the youth organization may not develop these traits and rather develop less desirable organizational traits which they will carry on to their involvement in adult organizations.

To reinforce effective organizational practices, we recommend the following:

***The Board of Directors of the Preble County Agricultural Society, in cooperation with its Junior Fair Board, should more clearly delineate the lines of authority, accountability and responsibility between the two Boards and between them and the Preble County Junior Fair Livestock Sale Committee. Lines of authority should be explicit in each organization's constitution and by-laws.***

***The Preble County Agricultural Society should increase its participation on the Adult Advisory Council by the addition of a second member.***

***At least one member of the Agricultural Society should attend each meeting of the Junior Fair Board, and provide to the Agricultural Society with each meeting's agenda and minutes.***

***The Agricultural Society should encourage an officer of the Junior Fair Board to attend each meeting of the Agricultural Society.***

***The Agricultural Society and its Junior Fair Board should annually engage in a joint budgeting exercise from which annual budgets for each organization are prepared.***

***The Agricultural Society should require its Junior Fair to annually report its adopted budget and its financial activity, including bank balances of all accounts under Junior Fair Board authority, at a meeting of the Agricultural Society's Board of Directors.***

We conclude that the Junior Fair Board has accumulated excessive cash reserves, and that its future fundraising efforts are likely to add to those cash reserves. These cash reserves have been built up at the same time as the Agricultural Society has been subsidizing the Junior Fair's expenses for judges, ribbons, trophies and rosettes. In 2001 that subsidy was about \$14,000. These subsidies continue to put pressure on the Agricultural Society budget at a time when the Junior Fair is maintaining cash reserves in excess of three times its annual budget.

***The Agricultural Society should reduce its funding of Junior Fair expenses by \$10,000 in 2003, and, after considering the budget adopted by the Junior Fair Board in subsequent years, reduce its subsidy of Junior Fair expenses to such an extent that the Junior Fair maintains a cash balance of no more than two times its annual budget.***

The financial implications of reducing Junior Fair Subsidy will be to reduce Junior Fair Expense in 2003 by \$10,000. For purposes of the Five Year Cash Forecast, we projected conservative future reductions of \$2,000 each year for 2004-2006. Given

current fund raising activity of the Junior Fair, future subsidy reductions may reach \$3,000 per year.

### **Society Budget**

Upon our arrival at Preble County Agricultural Society, we noted that the Society did not have an approved annual budget, nor was a budget integrated into its accounting system. During our field work we engaged in an intensive, three-day budgeting effort with the Fair Manager and Treasurer of the Board of Directors designed to budget revenue and expenses of the Society for the remainder of fiscal year 2002. Revenue and expenses were distributed to individual months of the year to more accurately reflect expected financial activity. At the conclusion of this exercise, we presented the Fair Manager and Treasurer with documentation of the budget assumptions we made. We guided the Fair Manager through the process of entering amounts budgeted for each month into the accounting system and showed him how to prepare a monthly report to the Board of Directors comparing actual, year-to-date financial activity to the year-to-date budget.

The 2002 operating budget encompasses all projected financial activity of the Agricultural Society except the repayment of its past due accounts with Tobias Electric and the Preble County Landfill, and its loans from the Preble County Commissioners made to bring current the Agricultural Society's account with Dayton Power & Light. These payments are considered as part of the five-year financial forecast. The operating budget does contain provisions to make its payment on the bonded indebtedness issued by the County on the Agricultural Society's behalf. It also includes provisions for the payment of current electricity charges, landfill charges and electrician charges based on 2001 actual amounts billed. In other words, the Agricultural Society is budgeted to remain current on its ongoing obligations to these lenders and service providers.

The five-year cash forecast on page 36 does contain provisions for the repayment of Tobias Electric, the Preble County Landfill and the Preble County Commissioners. Providing that the Preble County Agricultural Society implements the recommendations of this management audit, cash balances will grow sufficient to repay Tobias Electric in 2002, Preble County Landfill in 2003, and the Preble County Commissioners in 2005.



Effective budgeting is a basic financial control that should be insisted and relied upon by governing boards in the exercise of their fiduciary responsibilities. Effective questioning of budgets and budget-actual comparisons can provide boards with assurances that operations are going smoothly or advance warning of impending cash shortages.

Lack of effective budgeting and budget reporting practices can result in unexpected cash flow problems, and the inability to fund major capital improvement projects through operations or fund raising activities.

In order to exercise appropriate governance, we recommend that the Board of Directors adopt the following budgeting practices:

***The Board of Directors should immediately review, revise (if necessary), and approve the operating budget for fiscal year 2002 prepared by the Fair Manager. The Fair Manager should immediately integrate the approved 2002 operating budget into the accounting system.***

The Board of Directors approved the fiscal year 2002 budget at its meeting on April 4, 2002.

***The Board of Directors of the Preble County Agricultural Society should direct the Fair Manager to develop an annual operating budget. The Fair Manager should develop an annual operating budget for the subsequent year and submit it to the Board of Directors for review and approval no later than at its November meeting. The Board of Directors should approve the operating budget and the Fair Manager should integrate it into the accounting system by December 1<sup>st</sup>, the start of the Society's fiscal year.***

***Before adopting any new program, the Board of Directors should direct the Fair Manager to develop a program budget which includes expected revenues to be derived from and costs of providing for the program. The Fair Manager should develop the program budget and present its effects on the Society's operating***

**budget. The Board of Directors should consider each program budget and its effects on the operating budget in determining whether to adopt the new program.**

**The Board of Directors should direct the Fair Manager to produce monthly statements comparing actual activity to budgeted activity. Such monthly statements should accumulate budget and actual activity since the beginning of the fiscal year. The Fair Manager should produce these statements and provide them to the Board each month in advance of the Board’s regular monthly meeting. Consideration of these statements should be a regular item for consideration on the Board’s agenda. The Board should obtain explanations for significant variances between actual and budgeted activity and, if necessary, direct the Fair Manager to adjust subsequent months’ budgets to reflect current conditions.**

**The Board of Directors should direct the Fair Manager to maintain a rolling five-year cash forecast such as the one presented at page 36. The rolling five-year cash forecast should include provisions for:**

- **Operating Revenues**
- **Operating Expenses**
- **Financing Activity (such as debt issuance and repayment)**
- **Capital Improvements**
- **Fund Raising Goals (if necessary)**

**Capital Budget**

After completing the operating budget for 2002, we solicited feedback from the Fair Manager and President of the Board of Directors regarding large non-recurring expenditures necessary in the foreseeable future. We considered these expenditures part of a capital budget. Below is an estimated capital budget and example fund raising plan.

<b>Preble County Agricultural Society</b>				
<b>2002 Capital Budget</b>				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Paint Grandstand				\$50,000
Lawn Mower			\$8,000	
Ditch Work		\$60,000		

Budgeting for capital improvements is an important part of the annual budgeting process. Sufficient time should be invested in inventorying the condition of the physical plant, prioritizing improvements and obtaining estimates of costs.

***We recommend that the Board of Directors direct the Fair Manager to annually inventory the condition of the physical plant, and obtain estimates of the costs of such improvements.***

***We recommend that the Board of Directors set the priorities for improvement projects consistent with budgetary constraints.***

***Prioritized capital improvement projects should be incorporated into future updates to the five year financial forecast.***

### **Payroll**

Ohio agricultural societies spent about 9.6 cents of every dollar received in 2001 to pay salaries and wages of those managing and maintaining the agricultural societies. The Preble County Agricultural Society paid about 18 cents of every dollar received in 2001 to pay its salary and wages expenses. Preble County Agricultural Society spent more of its income in 2001 on salaries and wages expense than all but six other Ohio agricultural societies, while its income ranked it 36<sup>th</sup> among Ohio agricultural societies in 2001.

### **Grounds Maintenance**

Ohio agricultural societies spent about 1.6 cents of every dollar received in 2001 to pay salaries and wages of its grounds maintenance personnel. The Preble County Agricultural Society spent about 7.5 cents of every dollar received in 2001 for the salaries and wages of its grounds maintenance personnel, nearly five times the State average. It spent more of its income in 2001 on grounds maintenance salaries and wages than all but eight other Ohio agricultural societies.

Management attributes this relatively high expenditure level to catching up on deferred maintenance since the appointment of the current fair secretary, the size of the fairgrounds, and a practice in some counties of maintenance expenditures made on behalf of the fairgrounds by county commissioners.

Preble County Agricultural Society controls a fairground of nearly 102 acres which makes it the 12<sup>th</sup> largest fairground in Ohio. The average revenue of the top 12 fairgrounds in 2001 was \$1.484 million. Excluding Preble County, the average revenue of the top 11 fairgrounds in 2001 was \$1.556 million. Preble County Agricultural Society's 2001 annual revenue was \$0.683 million. The size of the Preble County Fairgrounds is sufficient to support twice the revenue currently being generated by the Preble County Agricultural Society. Considering that Preble County Agricultural Society has, by far the highest revenue in its peer group, the likelihood of doubling that revenue is remote, and the best strategy for the Agricultural Society to follow is to efficiently maintain the fairground until such time as it is able to grow revenue substantially or Preble County finds alternative uses for the land.

The average grounds maintenance expense of the 15 fairgrounds reporting total cash receipts between \$600,000 and \$800,000 in 2001 was \$32,518.<sup>2</sup> During 2001, Preble County Agricultural Society employed a total of 15 people and paid them \$59,600 for over 7,000 hours of work in grounds maintenance. This group included two people, regularly referred to as part-timers, who worked over 1,900 hours each. Many other grounds maintenance personnel are employed during fair week and periods immediately preceding and following it.

The expenses of these part-timers are variable and significant savings can be achieved by closely managing this pool. During fair week, the pool of part-time employees should be managed daily. Lower than expected fair attendance should result in a reduction of the need for part-time help. The Fair should also investigate the possibility of utilizing community volunteers to assist in grounds maintenance fair week to further reduce the need for paid part-time help.

***We recommend the Board of Directors direct its Fair Manager to closely monitor grounds maintenance help during fair season and throughout the year with the goal of reducing hours paid for grounds maintenance by 1,000 and achieving an***

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<sup>2</sup> Butler County Agricultural Society reported cash receipts of \$726,000 and grounds maintenance expense of \$0 in 2001, and was not included in this analysis.

**expense reduction of \$8,000. Volunteer labor should be used during fair week whenever possible.**

The tangible benefits of more closely managing part-time grounds maintenance personnel are substantial for Preble County Agricultural Society. For example, cutting the time worked in the pool of part-timers by one-third (approximately 1,000 hours or .56 FTE) could result in payroll savings over 13%, or \$8,000, per year in grounds maintenance payroll expense.

Fair Manager

Ohio agricultural societies spent about 1.7 cents of every dollar received in 2001 to pay the salaries and wages of its fair manager (sometimes called fair secretary). The Preble County Agricultural Society spent about 4.3 cents of every dollar received in 2001 to pay the salaries and wages of its fair manager, over double the State average.

Many factors influence the amount of wages and salaries paid by an individual agricultural society and they cannot all be controlled for in a study of this scope. For example, unlike many other agricultural societies, Preble County Agricultural Society maintains a lunchroom and the lunchroom revenue and wages are incorporated into total cash receipts and wages and salaries, respectively. However, it is useful to compare Preble County Agricultural Societies wages and salaries expenses to members of its peer group and to its contiguous counties.

Peer Group Analysis (Payroll)				
County	Cash Receipts	Total Wages	%	Secretary Wages
Preble	\$683,564	\$123,407	18.05%	\$29,547
Putnam	572,924	16,068	2.80%	6,616
Hardin	571,110	54,399	9.53%	12,069
Gallia	532,638	37,809	7.10%	0
Morrow	478,529	45,026	9.41%	10,006
Ottawa	440,899	17,250	3.91%	5,742
Henry	347,080	15,916	4.59%	4,800
Meigs	326,725	14,228	4.35%	5,650
Paulding	256,696	1,100	0.43%	0
Monroe	202,372	2,493	1.23%	2,200
Harrison	192,589	2,875	1.49%	1,900
Total	<u>\$4,605,124</u>	<u>\$330,570</u>	7.18%	<u>\$78,530</u>
Average	\$418,648	\$30,052		\$7,139

Source: Department of Agriculture 2001 Summary of Annual Financial Reports (Unaudited)

The peer group pays a slightly larger percentage of its income to its secretary and a smaller percentage to all wage and salary categories than is indicated in the State-wide averages.

**Contiguous Counties Analysis (Payroll)**

	<b>Cash Receipts</b>	<b>Total Wages</b>	<b>%</b>	<b>Secretary Wages</b>	<b>%</b>
Darke	\$1,727,019	\$180,917	10.48%	\$27,654	1.60%
Montgomery	770,746	154,114	20.00%	58,400	7.58%
Butler	726,319	64,037	8.82%	42,644	5.87%
Preble	683,564	123,407	18.05%	29,547	4.32%
Total	\$3,907,648	\$522,476	13.37%	\$158,246	4.05%
Average	\$976,912	\$130,619		\$39,561	

Source: Department of Agriculture 2001 Summary of Annual Financial Reports (Unaudited)

When compared to contiguous counties', Preble County Agricultural Society has lower total wages than all but Butler County and lower secretary wages than all but Darke County. However, it ranks second in the percentage of cash receipts spent on wages.

We consider the fair manager's salary to be reasonable. While the Preble County Agricultural Society pays its Fair Manager a salary which is among the higher salaries in the State, it represents the complete compensation package for the Fair Manager. The Fair Manager receives no housing allowance, benefits or other perks and works full-time, year round for the Board of Directors. Considering the annual calendar of events which take place at the fairground and the excellent fairbook advertising program, for which we have previously commended the Agricultural Society we consider the salary paid to be reasonable.

Over the last five years, average compound annual rate of growth in total cash receipts for all Ohio Agricultural Societies has been 5.26%. Over that same period, average compound annual rate of growth in salaries and wages has been 4.73%; that represents reasonable restraint in payroll growth industry-wide. However, the story with in the peer group and contiguous counties shows a different story.

**Peer Group Analysis (Revenue and Payroll Growth)**

	Total Cash Receipts			Total Wages and Salaries		
	2001	1996	Growth Rate	2001	1996	Growth Rate
Preble	\$683,563.96	\$675,080.16	0.25%	\$123,407.15	\$76,124.43	10.14%
Gallia	532,637.53	415,125.10	5.11%	37,808.65	19,140.67	14.58%
Ottawa	440,898.87	346,963.68	4.91%	17,250.15	9,964.00	11.60%
Paulding	256,695.55	184,063.25	6.88%	1,100.00	600.00	12.89%
Hardin	571,109.69	449,401.47	4.91%	54,398.94	34,252.02	9.69%
Morrow	478,529.35	382,834.43	4.56%	45,026.46	31,802.70	7.20%
Meigs	326,724.81	251,015.93	5.41%	14,227.53	11,311.76	4.69%
Henry	347,079.53	296,680.60	3.19%	15,915.92	15,016.20	1.17%
Harrison	192,588.83	264,660.09	-6.16%	2,875.00	6,926.37	-16.13%
Monroe	202,371.82	224,183.92	-2.03%	2,492.50	5,947.06	-15.96%
Putnam	572,924.04	441,328.85	5.36%	16,068.16	26,159.72	-9.29%
<b>Total</b>	<b>\$4,605,123.98</b>	<b>\$3,931,337.48</b>	<b>3.21%</b>	<b>\$330,570.46</b>	<b>\$237,244.93</b>	<b>6.86%</b>

Average \$418,647.63 \$357,394.32 \$30,051.86 \$21,567.72

Source: Department of Agriculture 2001 and 1996 summaries of annual financial reports (Unaudited).

Note: Growth rate is the average compound annual growth rate for the period 1996 through 2001

Over the past five years, compound annual rate of growth in wages and salaries has been more than double that of revenue (6.86% vs. 3.21%). In the Preble County Agricultural Society, the rate of growth in payroll has exceeded revenue by 9.89%, the largest difference among its peers. A similar story is told by the contiguous counties.

**Contiguous County Analysis (Revenue and Payroll Growth)**

	Total Cash Receipts			Total Salaries and Wages		
	2001	1996	Growth Rate	2001	1996	Growth Rate
Preble	\$683,564	\$675,080	0.25%	\$123,407	\$76,124	10.14%
Butler	726,319	576,451	4.73%	64,037	35,182	12.73%
Darke	1,727,019	1,175,392	8.00%	180,917	111,959	10.07%
Montgomery	770,746	675,542	2.67%	154,114	137,447	2.32%
<b>Total</b>	<b>\$3,907,648</b>	<b>\$3,102,465</b>	<b>4.72%</b>	<b>\$522,476</b>	<b>\$360,712</b>	<b>7.69%</b>
Average	\$976,912	\$775,616		\$130,619	\$90,178	1.92%

Source: Department of Agriculture 2001 and 1996 summaries of annual financial reports (Unaudited).

Note: Growth rate is the average compound annual growth rate for the period 1996 through 2001

Growth in payroll expenses has been more restrained, but still exceeds growth in revenue, for this group as compared to the peer group. Preble County Agricultural Society's difference between payroll growth and revenue growth rates is, again, highest among the contiguous county group.

**We recommend the Board of Directors restrain the rate of growth in payroll to no more than 2% in 2002 and no more than 80% of the projected rate of growth in revenues for 2003-2006.**

Assuming recent growth in salaries and wages were to be repeated in 2002, salaries and wages would have amounted to almost \$136,000. By restraining payroll growth to 2% in 2002, salaries and wages will only approach \$125,000 a potential savings of \$11,000. However, since more restrained payroll growth is already budgeted, we will not include this potential savings in our Financial Implications Schedule.

**Security Expenses**

Preble County Agricultural Society paid 2.6 cents of every dollar it received in 2001 for security services during fair week to the Preble County Sheriff’s Deputies, ranking the Society 21<sup>st</sup> out of Ohio’s 94 agricultural societies. The Society’s total cash receipts ranked 36th out of Ohio’s 94 agricultural societies.

Further analysis revealed that Preble County Agricultural Society paid the largest amount and highest percentage of total cash receipts for security services among its peer group.

Peer Group Analysis (Security Services)			
County	Cash Receipts	Security Services	%
Preble	\$ 683,563.96	\$ 17,847.00	2.61%
Putnam	572,924.04	6,000.00	1.05%
Hardin	571,109.69	638.00	0.11%
Gallia	532,637.53	11,049.50	2.07%
Morrow	478,529.35	7,812.00	1.63%
Ottawa	440,898.87	6,304.00	1.43%
Henry	347,079.53	1,250.00	0.36%
Meigs	326,724.81	3,567.00	1.09%
Paulding	256,695.55	398.12	0.16%
Monroe	202,371.82	4,088.50	2.02%
Harrison	192,588.83	4,137.00	2.15%
Total	\$ 4,605,123.98	\$ 63,091.12	1.37%
Average	\$ 418,647.63	\$ 5,735.56	

Source: Department of Agriculture 2001 summary of annual financial reports (Unaudited).

Preble County Agricultural Society paid over three times the average payment for security services in the peer group. After adjusting for size of operations, Preble County



Agricultural Society paid 90% more than the average of the peer group and 26% more than Gallia County Agricultural Society, its next closest peer.

In addition, Darke County paid only 1.26 cents of every dollar received for security services. Butler and Montgomery Counties paid more for than Preble County for security services, but they have significantly larger urban populations than Preble County and do not make a good peer for comparison of these charges.

Among contiguous county agricultural societies, Preble County Agricultural Society paid the least amount for security services. It is notable that two contiguous counties, Montgomery and Butler contain significant urban populations including Dayton, Hamilton and Middletown. In addition, Butler County borders on densely-populated northern Hamilton County. Darke County, considered a largely rural county, actually has a slightly larger internal urban population than Preble County and its agricultural society's percentage of income devoted to security services in 2001 was less than half that devoted by Preble County Agricultural Society. The Preble County Sheriff has commented that fairgoers have not posed serious security threats in the past.

**We recommend that the Board of Directors direct its Fair Manager to negotiate a 2003 security agreement with the Preble County Sheriff's Deputies that is more in line with similarly situated counties.**

A target range for negotiation should be \$6,000 (peer group average) and \$9,000 (same percentage paid as Darke County). Negotiating a security fee within this range would yield savings of at least \$9,000 annually beginning in 2003 and continuing in 2004 through 2006.

### **County Land Purchase**

Several years ago, the County purchased an additional 9.8 acres of land adjacent to the fairground, thereby expanding the fairground acreage to 102 acres. At 102 acres, the Preble County Fairground is the 12<sup>th</sup> largest fairground in Ohio. Here is the list of the largest 15 fairgrounds.

County	Acreage
Mahoning	353
Columbiana	188
Trumbull	171
Morrow	139
Geauga	136
Cuyahoga	126
Allen	121
Clark	119
Lorain	118
Delaware	110
Richland	103
Preble	102
Wood	96
Gallia	94
Miami	91

Source: Agriculture Department

With \$683,000 in 2001 revenues, Preble County Agricultural Society was the 36<sup>th</sup> largest fair. In revenue per acre, it ranked 76<sup>th</sup> out of 91 agricultural societies reporting acreage to the Agriculture Department.

Several years ago, Preble County issued \$200,000 in debt to purchase an additional 9.8 acres of land adjacent to the fairground, conduct various capital improvement projects on the fairground, and consolidate previous fairground debt. The purchase price of the 9.8 acres as reported by the County Recorder was \$40,000. The debt service for the entire bond issue is being paid by the Preble County Agricultural Society.

The Agricultural Society has no immediate plans for developing the additional 9.8 acres, its current operations are not sufficiently large enough to require the additional acreage, nor are its future operations likely to grow to a level to require it.

***We recommend that the Preble County Commissioners subsidize the debt service on the General Obligation Bonds, beginning in 2002, to the extent that the amount of the bonds reflects the purchase price of the land. If the Commissioners decide to sell the land, we recommend the proceeds be used to pay down the debt incurred for its purchase.***

Since the land cost was \$40,000 and the bond issue was for \$200,000, twenty percent of the bond issue was devoted to the land purchase. Should the Commissioners agree to subsidize the debt service at this rate, the amount of such subsidy would be:

Year	Subsidy
2002	\$4,099
2003	\$3,982
2004	\$3,872
2005	\$3,760
2006	\$3,646

The subsidy is 20% of the debt service for each year as reported in the 2001 Preble County audited financial statements.

### **Ticket Prices**

Much of the annual revenue of the Preble County Agricultural Society is derived from ticket sales to events held during fair week and throughout the year. In order to keep revenues ahead of rising expenses, the Agricultural Society needs to engage in a regular review of ticket prices and consider modest increases.

Early in the management audit, we provided peer information to the Agricultural Society that supported an increase in the general admission ticket prices. The Board of Directors increased its 2002 general admission ticket price by 25% (from \$4 to \$5). As part of our management audit, we reviewed other ticket sales and are suggesting price increases to be phased in over the next 4 years. Below is a list of our additional recommendations

***We recommend the Board of Directors engage in a regular review and adjustment in ticket prices that corresponds to expenditure increases and provides sufficient cash flow to meet all future obligations including those for capital improvements. Specifically, we recommend:***

- ***Increase season and membership ticket prices \$1 (from \$15 to \$16) in 2003 and \$0.50 annually thereafter through 2006.*** With approximately 3,000 tickets sold in 2002, the increase in revenues expected from these actions will be \$3,000 in 2003 and \$1500 per year from 2004 through 2006.

- **Increase general admission ticket prices by \$0.25 each year from 2003 through 2006.** This will eventually bring the general admission ticket price to \$6 in 2006 which is the current price for general admission to the Gallia County Fair. With approximately 23,000 tickets expected to be sold for the 2002 County Fair, the increase in revenues expected from these actions will be \$5,750 per year from 2003 through 2006.
- **Increase grandstand ticket prices for the two fair week demo derbies by \$1 (from \$6 to \$7) in 2003 and \$0.25 per year in 2005 and 2006.** With approximately 5,800 grandstand tickets expected to be sold for these events, the increase in revenue expected from these actions will be \$5,800 in 2003 and \$1,450 in 2005 and 2006.
- **Increase infield ticket prices for the two fair week demo derbies by \$1 (from \$9 to \$10) in 2005.** With approximately 2,600 tickets expected to be sold for these events, the increase in revenues expected from this action will be \$2,600 in 2005.
- **Increase ticket price for the September demo derby by \$1 (from \$8 to \$9) in 2002 and \$0.25 per year from 2004 through 2006).** With approximately 1,000 tickets expected to be sold for this event, the increase in revenues expected from these actions will be \$1,000 in 2002 and \$250 per year from 2004 through 2006.
- **Increase ticket price for the June demo derby by \$1 (from \$8 to \$9) in 2003 and \$0.25 per year from 2004 through 2006.** With approximately 1,000 tickets expected to be sold for this event, the increase in revenues expected from these actions will be \$1,000 in 2003 and \$250 per year from 2004 through 2006.
- **Increase ticket prices for the monster truck event by \$1 (from \$10 to \$11) in 2004.** With approximately 2,400 tickets expected to be sold for this event, the increase in revenues expected from this action will be \$2,400 in 2003.

### **Charges for Electricity**

The Preble County Agricultural Society's account with its electric service provider, Dayton Power & Light (DPL) was seriously in arrears and remained so until two loans totaling \$50,000 from Preble County caught them up as of February 4, 2002. DPL sent notices of service termination to the Fairground in December 2001 and February 2002.

We reviewed Preble County Agricultural Society’s electricity bills and compared the prices charged to the official rate tariffs submitted by DPL and approved by the Public Utilities Commission of Ohio. It became apparent that DPL applied two of its tariffs to the bill calculation for Preble County Agricultural Society in a manner not authorized in the tariff, resulting in overcharging the Agricultural Society for electricity services since January 2001. The amount of the overcharge applied to Preble County Agricultural Society’s bills the inception of the customer and regulatory transition charges through the May 2002 bill is estimated to be \$17,568. Absent adjustment of Dayton Power & Lights billing mechanism, we expect additional overcharges to be billed through the November 2002 bill of \$5,207 for an overcharge through the end of the 2002 fiscal year of \$22,775.

Electric utility rates are comprised of the costs of generation, transmission, and distribution of the electricity, taxes or regulatory costs that are passed through to consumers, and charges to consumers, allowed by the Public Utilities Commission of Ohio, to compensate the utilities for investments which became uneconomical when the electric utility industry was deregulated last decade. It is in this last category that the overcharging occurred.

Tariffs for the Regulatory Transition Charge Rider and the Customer Transition Charge Rider provide a mechanism under which the certain utility investments made under strict regulation that are not economical in the current deregulated environment can be recouped by the utility. These tariffs provide specific authority for DPL to recover these costs. These riders became effective January 1, 2001 and will expire December 31, 2003. The applicable portion of these tariffs is reproduced below.

	kWh Consumed		Transition Charge Rider	
	At least	Not more than	Regulatory	Customer
Energy Charge	0	1,500	\$0.008830	\$0.034200 per kWh
Energy Charge	1,501	125,000	\$0.002210	\$0.006560 per kWh
Energy Charge	125,000		\$0.001680	\$0.004590 per kWh
Max Charge			\$0.019240	\$0.047020 per kWh

DP&L Distribution Tariffs D30 and D31 effective January 1, 2001

These transition charge rider tariffs contain no provision for the application of the maximum charge. Since January 2001, DP&L applied the maximum charge for these

riders in most billing months resulting in amounts billed which cannot be supported by approved tariff schedules.

Dayton Power & Light proposed an explanation for this apparent overcharge by referring to the operation of a maximum charge in another tariff. We evaluated the Company's explanation and noted that it is convoluted and relies on assumptions that should not be made. Additionally, another tariff written the same way as transition charge tariffs was charged in accordance with the plain language of the tariff and thus was inconsistent with the explanation provided by Dayton Power and Light.

After evaluating the language of the tariffs and the explanation proposed by Dayton Power & Light, we conclude that Dayton Power & Light has overcharged Preble County Agricultural Society \$17,568 from January 2001 through May 2002 and is likely to continue to overcharge the Agricultural Society through December 31, 2003.

***We recommend the Board of Directors immediately approach DP&L for a refund of previous overcharges under these rate tariffs (estimated to be \$17,568) and assurances that their future bills be correctly calculated based on approved tariffs. Should negotiations with Dayton Power & Light not result in a refund of unauthorized charges, the Agricultural Society should file a complaint with the Public Utilities Commission of Ohio designed to recoup the unauthorized charges that have been billed and to require Dayton Power & Light to apply the tariffs as approved.***

The estimated financial implications of the overcharge is expense reduction in 2002 associated with a refund of past overcharges (through May 2002) of \$17,568, an estimated expense reduction for the remainder of the 2002 fiscal year of \$5,207 (total \$22,775 for fiscal year 2002), an estimated expense reduction for fiscal year 2003 of \$12,076, and an estimated expense reduction in December 2003 of \$939. Total impact of the refund of the overcharges and correct application of future transition charge riders through December 31, 2003 is \$35,790.

***We recommend that the Agricultural Society and the Preble County Commissioners carefully review all future tariff requests made by Dayton Power &***

**Light carefully and for its effect on their electric bills. Concerns about the tariffs should be raised in the rate setting administrative proceedings before the Public Utilities Commission of Ohio.**

**Big Entertainment**

Each year during Fair Week, the Preble County Agricultural Society offers an evening of entertainment from a nationally touring act. This program is often called “big entertainment.” Last year’s big entertainment act was John Michael Montgomery. Since 1996, the following big entertainment acts performed at the Preble County Fair:

Year	Act	Genre
2001	John Michael Montgomery	Country
2000	Lynyrd Synyrd	Country Rock
1999	Trace Adkins and Terri Clark	Country
1998	Sandy Patty, Point of Grace, Mark Lowry	Gospel, Country
1997	Clay Walker, Deana Carter & Crystal Bernard	Country
1996	Neal McCoy and Blackhawk	Country

Contiguous counties also offer one or more evenings of big entertainment. Below is a table showing the music genre chosen by the contiguous counties over the last six years.

	Preble	Darke	Butler	Montgomery
2001	Country	Country	Country	Country
2000	Country Rock	Country	Country	Country
1999	Country	Gospel	Country	Country
1998	Gospel	Country	Country	Country
1997	Country	Country	Country	Country
1996	Country	Country	Country	Country

Country and western performing groups clearly dominate the county fair circuit in and around Preble County. Disappointing attendance at the John Michael Montgomery implies that the area may be saturated with country music acts and that, by differentiating itself in this market, Preble County Agricultural Society may experience a renewed interest

Providing big entertainment acts for the community as part of the county fair is among an agricultural societies more risky endeavors. Weather and shifting popular taste are key risk factors. Oppressive heat and rain are known to affect attendance. A popular act in February may be yesterday's news in August. However, in order to secure acts, agricultural societies must contact with their agents months before the event. Once booked, the agricultural society must do what it can to assure success of the event or risk a large, unplanned use of operating funds to cover the losses. Aggressive advance sales promotion is an excellent way to reduce the Agricultural Society's big entertainment risk.

Last year the Agricultural Society sold 2,100 tickets to the John Michael Montgomery show. At \$22 per ticket, the revenue generated didn't even cover John Michael Montgomery's cost (\$50,000). In addition to his cost, the Agricultural Society incurred expenses for stage, lights, and sound set up (over \$10,000), the cost of the opening act (Mustang Sally, \$5,000), catering, limousine services, electrician services, and electricity. In fact, Dayton Power & Light has provided evidence that each year the Agricultural Society sets its annual peak electricity usage on the night of the big entertainment concert.

This year, a less expensive act (Charlie Daniels Band) with wider name recognition has been booked. While Charlie Daniels appears to be a safer bet, we believe the Agricultural Society should investigate other music genres. Other genres offer a significant opportunity for Preble County Agricultural Society to differentiate itself from surrounding counties and connect with a larger potential market of concertgoers.

***We recommend that the Board of Directors direct its Fair Manager to investigate other music genres for booking big entertainment in 2003.***

***We recommend that the Board of Directors direct its Fair Manager to engage in an aggressive advance ticket sales program with the goal of achieving the break even point with advance sales.***

***We recommend the Board of Directors direct its Fair Manager to engage in a more aggressive promotion effort for its big entertainment acts. These efforts should***



***coincide with the advance sales period and be designed to encourage purchase of advance tickets.***

Booking big name entertainment for an outdoor concert is subject to conditions beyond the control of the Agricultural Society. Weather and shifting popular tastes are two such conditions. The Agricultural Society should take steps to minimize this risk by establishing a big entertainment reserve to be funded by concert profits and to be used for covering concert losses.

***We recommend that the Board of Directors direct its Fair Manager to establish a big entertainment fund which should be used to accumulate profits from big entertainment events.***

***We recommend that the Board of Directors earmark the 2002 profits budgeted from big entertainment for the establishment of this fund. Our five year cash forecast has assumed approximately \$8,000 would be used to establish the reserve in 2002.***

***Beginning in 2003, we recommend that the Board of Directors direct its Fair Manager to budget for big entertainment to break even. While no profit is budgeted in 2003 and beyond, if approximately \$3,000 in concert profits were added to the reserve each year, by 2006 a reserve of \$20,000 would be established.***

The financial implications of establishing this reserve is a decrease in unreserved cash of approximately \$8,000 in 2002. While no profits are budgeted for big entertainment in 2003 and beyond, we think that the Agricultural Society should budget for additions to this reserve at a rate of \$3,000 per year for 2003 through 2006. Such reserve additions would only be made in the event of a concert profit. Should concert profits support these reserve additions, by 2006 a reserve of \$20,000 would be built up to cushion potential concert losses. No more than \$20,000 should be maintained in this reserve.

**Preble County Pork Festival**

Every year, the Fairground hosts the Preble County Pork Festival. The Pork Festival is organized by the Preble County Pork Festival, Inc., a non-profit corporation founded in 1971 to showcase the pork industry in Preble County. The Preble County Pork Festival, which is held the third weekend of every September, is its major revenue generating activity.

Since its beginnings, the Pork Festival has grown steadily, from selling less than 5,000 pounds of pork products in 1971 to more than 76,000 pounds in 2001. The festival attracts visitors from all over the United States and has attracted visitors from Europe. The Festival operates a substantial craft show. In 2001, approximately 700 spaces were sold to crafters at about \$100 per space. The festival also rents out the campground to accommodate vendors and the general public.

The Pork Festival obtains the exclusive use of the Fairgrounds for the Pork Festival and the weeks immediately preceding and following the Festival weekend. It pays certain expenses incurred by the Fairground in hosting the Festival. Such expenses include:

- Fairground salaries for the two week period
- Utility expenses, including electric, water, sewer and refuse expense
- Restroom supplies used by the Festival
- Flea market rental lost by the Fairground
- Security expenses incurred as a result of the Festival activity
- Truckloads of gravel to repair the ground after the Festival

Over the years, the Pork Festival has contributed to Fairground repairs and improvements. In 2001, it contributed over \$20,000 to the repair of Fairground roads and buildings. The contributions vary and are the subject of negotiations between the Festival and the Fairgrounds. Often, these contributions are made to improve buildings used by the Festival or to erect structures whose primary purposes are to support the Pork Festival.

Just as in our discussion of the Junior Fair, contributions to build buildings carry with them the obligation to maintain the structures and operating funds are currently in short supply. To illustrate, lets consider the case of a rich uncle wants to show his affection for his favorite nephew who has worked on the uncle's farm for years and assisted the

uncle to grow his farm into a profitable business. To show his gratitude, the uncle constructs an addition to the nephew's home each year. The nephew, having few funds, is unable to use the additions because he is unable to pay for the cost of heating, cooling, lighting or maintaining them. What the nephew really would like is for his uncle to provide the cash to his family to be used as they see fit.

The relationship between the Fairgrounds and the Festival is fundamentally different than that between the Fairgrounds and other groups seeking to use the Fairgrounds for their economic benefit. The relationship between the Fairground, as landlord, and any group seeking to use the fairground for their economic benefit should be expressed in contractual language similar to a lease or rental agreement. The agreement should specify the costs of the rental (e.g., management, utilities, maintenance, and supplies) to be borne by the renter and, in addition, should specify a rent to be paid by the renter to the landlord. Normally, the rent should be set by the market. However, in the case of the Preble County Agricultural Society and the Preble County Pork Festival, we believe the rent should be based on an agreement to equitably share the economic benefits of the Festival's activity and should not be predicated on capital improvements.

***We recommend that the Board of Directors of the Preble County Agricultural Society should formalize an agreement controlling the use of its fairgrounds by the Preble County Pork Festival during the annual Preble County Pork Festival each September. In addition to specifying operating costs to be borne by the Festival, the agreement should establish a rental value, and not be based on a negotiated contribution. A rental value should be established that fairly distributes the economic benefits of the Pork Festival between the Festival organizers and the Society. The rental value should be updated annually. We suggest an initial rent of \$25,000 in 2002 and annual increase of \$1,000 in 2003 through 2006.***

***On July 18, 2002, the Preble County Pork Festival filed suit against the Preble County Commissioners claiming that they received a permanent right to use the fairgrounds at no cost. The Festival cites 1975 and 1976 agreements to finance the construction of certain swine facilities as the basis for their position. Based on our reading of these documents, we believe that these rights were related only***

***to the period of time that the Preble County Pork Festival was responsible for paying the debt service on outstanding bond anticipation notes related to these facilities. In fact, for many years thereafter the Preble County Pork Festival has made substantial payments to reimburse the Fair Board for operating expenses and has regularly made contributions which the Festival designated for certain capital improvements on the fairgrounds. This is evidence that the Preble County Pork Festival recognizes its responsibility to make a fair contribution to the support of the Preble County fairgrounds and pay its fair share. Our recommendation merely suggests that this relationship be made in writing and the Preble County Pork Festival continue to meet its fiscal responsibility to pay an equitable share of fairground expenses.***

If a rental agreement of \$25,000 is agreed upon, the effect on 2002 revenue would be approximately \$16,000 because the rent would replace certain unrestricted donations made by the Pork Festival which are already budgeted in 2002. Subsequent year revenues would be increased by the amount of the rent increase. Annual increase of \$1,000 in 2003 through 2006 would increase revenues in those years by \$1,000 each year.

## **County Funding**

The Ohio Revised Code establishes a requirement that Ohio counties fund agricultural societies. Ohio Rev. Code Sections 1711.02 (regular class premiums), 1711.03 (junior club work), and 1711.22 (encouragement of agricultural fairs) establish mandatory annual funding levels of \$800, \$500 and between \$1,500 and \$2,000, respectively. Preble County met these non-discretionary funding requirements in 2001.

Over time, counties and their agricultural societies have developed discretionary funding arrangements. We contacted the county auditors' and commissioners' offices in Gallia, Hardin, Ottawa and Darke Counties and inquired as to the level of discretionary funding for their agricultural societies.

Gallia County made no discretionary payments to its Agricultural Society in 2001. In fact, Gallia County made no non-discretionary payments either. County officials indicated this funding deficiency was due to lack of general funds sufficient to support the Agricultural Society during 2001. Upon receiving the vendor history, it appears that

Gallia paid the Agricultural Society \$70 in the beginning of 2001. This was likely the rental of a booth at the County Fair.

Hardin County made discretionary payments to its Agricultural Society in 2001. Payments, both discretionary and non-discretionary, totaled \$34,381 in 2001.

Ottawa County loaned money to the Agricultural Society in 2001 in addition to meeting its non-discretionary funding requirement. The County paid out \$62,894 to the Agricultural Society during 2001.

Darke County made no discretionary payments to its Agricultural Society. Only non-discretionary payments were made.

Peer group analysis confirms that a variety of funding relationships between counties and their agricultural societies have developed over the years. County financial conditions apparently play a role in the decision on funding levels. Preble County's decision to make all non-discretionary payments and provide loans for additional funding requirements is more generous than the decision reached in Gallia County, and is similar to the decision reached in Ottawa County. The question of whether County funding vehicles (i.e., direct payment or loans) and levels are adequate for the operation of the Agricultural Society in Preble County is for the County and Agricultural Society to decide.

### **Five-Year Cash Flow Forecast (Financial Recovery Plan)**

Upon completion of the operating budget for 2002, we prepared a five year financial forecast for the Preble County Agricultural Society. The five year financial forecast starts with the audited cash balance at November 30, 2001. For 2002, the operating budget prepared with our assistance and adopted by the Board of Directors is used. Projections of financial activity are always subject to intervening events which were not foreseen by those compiling the projection. Consequently, detailed projections beyond the current year are not common. However, constraints can and should be placed on the outlying years' projections and are used to establish benchmarks against which subsequent years' detailed projections are compared. In subsequent years, revenues items which

are not specifically addressed by management audit recommendations are projected to grow by 2.5% and expense items by 2.0%.

<b>Preble County Agricultural Society</b>					
<b>Five year cash forecast</b>					
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Opening Cash Balance	\$14,800	\$25,722	\$24,613	\$56,067	\$55,244
Operating Revenue	720,730	712,730	712,730	712,730	712,730
Operating Expenses	698,084	712,046	726,287	740,812	755,629
<b>Net</b>	<b>22,646</b>	<b>684</b>	<b>(13,557)</b>	<b>(28,082)</b>	<b>(42,899)</b>
Cash Available from Operations	37,446	26,406	11,056	27,984	12,345
<b>Repay Past Due Accounts and Loans</b>					
Tobias Electric	24,010				
Landfill	9,579				
Preble County	22,000	17,801	12,500		
	(18,143)	8,605	(1,444)	27,984	12,345
<b>Capital Budget</b>					
Paint Grandstand				50,000	
Lawn Mower			8,000		
Ditch Work		60,000			
Cash Balance before effect of Audit Recommendations	(18,143)	(51,395)	(9,444)	(22,016)	12,345
<b>Management Audit Recommendations</b>					
Reduce Junior Fair subsidy		10,000	2,000	2,000	2,000
Replace 1,000 hours of paid workers with volunteers	8,000	8,000	8,000	8,000	8,000
Reduce security services expense		9,000	9,000	9,000	9,000
Obtain refund from DP&L and correct future rates	22,775	12,076	939		
Increase season and membership ticket prices		3,000	4,500	6,000	7,500
Increase general admission prices		5,750	11,500	17,250	23,000
Raise Fair Week Demo Derby Ticket Price (Grandstand)		5,800	5,800	7,250	8,700
Raise Fair Week Demo Derby Ticket Price (Infield)				2,600	2,600
Raise Monster Truck Ticket Prices		2,400	2,400	2,400	2,400
Raise June Demo Derby Prices		1,000	1,250	1,500	1,750
Raise September Demo Derby Prices	1,000	1,000	1,250	1,500	1,750
Commission pick up debt service on 9.8 acres	4,090	3,982	3,872	3,760	3,646
Establish big entertainment reserve	(8,000)	(3,000)	(3,000)	(3,000)	(3,000)
Increase in Revenue Expected from Pork Festival	16,000	17,000	18,000	19,000	20,000
<b>Ending Cash Balance</b>	<b>\$25,722</b>	<b>\$24,613</b>	<b>\$56,067</b>	<b>\$55,244</b>	<b>\$99,691</b>

The forecast provides that the Agricultural Society will retain at least \$25,000 in its bank account at the end of the year after paying any past due accounts and loans. This amount should be sufficient to meet payroll and pay vendors during winter, when Agricultural Society activity is at its slowest. The Agricultural Society should resist the temptation to accelerate its repayment of past due accounts and loans if such repayment would bring its carryover cash balance below \$25,000.

The forecast includes provisions to repay in full all past due accounts and loans from the Preble County Commissioners. The forecast calls for repaying Tobias Electric in full this year, the Preble County Landfill in full, next year and the Preble County Commissioners in full in 2004. The forecast contemplates the limited capital improvements budget provided by the Agricultural Society and allows that, going forward, the Preble County

Agricultural Society will continue to generate an operating profit of between \$40,000 and \$50,000 per year. This amount should be sufficient to fund ongoing capital needs without resorting to community fundraising or further taxpayer support.

This forecast incorporates the budget developed for fiscal year 2002. In 2002, budgeted revenues are expected to increase by 5.4% over 2001 actual revenues. This increase is justified by the Board's decision to raise general admission prices by 25% (from \$4 to \$5) and by a projected projecting a small profit on big entertainment. Throughout the five year projection period, revenues are expected to increase by 2.25%.

Expenses in 2002 are projected to increase by 1.9% over 2001 actual expenses. Budgeted expenses include allowances for electricity and electrician services, and waste disposal costs based on actual expenses billed by these service providers in 2001. In 2003 through 2006, these expenses are projected to increase at an average annual rate of 2.0%, but, if the suggested expense savings recommended in this management audit are achieved, expenses over the period will increase by an average annual rate of 1.5%.