

DEFIANCE COUNTY AGRICULTURAL SOCIETY

DEFIANCE COUNTY, OHIO

AUDIT REPORT

For the Years Ended November 30, 2017 and 2016





Dave Yost • Auditor of State

Board of Directors
Defiance County Agricultural Society
P.O. Box 184
Hicksville, OH 43526

We have reviewed the *Independent Auditor's Report* of the Defiance County Agricultural Society prepared by Charles E. Harris & Associates, Inc., for the audit period December 1, 2015 through November 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

September 26, 2018

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**DEFIANCE COUNTY AGRICULTURAL SOCIETY
DEFIANCE COUNTY
Audit Report
For the years ended November 30, 2017 and 2016**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor’s Report.....	1 - 3
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) - For the Year Ended November 30, 2017	4
Notes to the Financial Statements – For the Year Ended November 30, 2017.....	5 – 9
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) - For the Year Ended November 30, 2016	10
Notes to the Financial Statements – For the Year Ended November 30, 2016.....	11 – 15
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16 – 17
Schedule of Findings.....	18 – 20
Prepared by Management:	
Summary Schedule of Prior Audit Findings	21
Corrective Action Plan.....	22

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INDEPENDENT AUDITOR'S REPORT

Defiance County Agricultural Society
Defiance County
P.O. Box 184
Hicksville, Ohio 43526-0184

To the Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Defiance County Agricultural Society, Defiance County, Ohio (the Society), as of and for the years ended November 30, 2017 and 2016.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Society's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as our evaluation of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the financial statements, the Society prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Society does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Society as of November 30, 2017 and 2016, and the respective changes in financial position thereof for the years then ended.

Basis for Additional Opinion Qualification

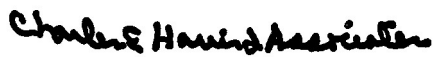
Admission receipts are reported at \$116,315 for the year ended November 30, 2016, which are 16 percent of total receipts for the year ended November 30, 2016. We were unable to obtain sufficient appropriate audit evidence supporting 54 percent of admission receipts tested for the year ended November 30, 2016. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Additional Opinion Qualification

In our opinion, except for the possible effects of the matter described in the *Basis for Additional Opinion Qualification* paragraph, the financial statement referred to above presents fairly, in all material respects, the cash balance of Defiance County Agricultural Society, Defiance County, Ohio as of November 30, 2017 and 2016, and its cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2018, on our consideration of the Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Society's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
July 12, 2018

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Defiance County Agricultural Society
Defiance County
Statement of Cash Receipts, Cash Disbursements, and
Changes in Fund Balances - (Regulatory Cash Basis)
For the Year Ended November 30, 2017

	2017
Operating Receipts:	
Admissions	\$ 128,750
Privilege Fees	24,190
Rentals	52,591
Sustaining and Entry Fees	18,033
Pari-mutuel Wagering Commission	2,814
Other Fair Related Fees	5,602
Other Operating Receipts	3,846
<i>Total Operating Receipts</i>	235,826
Operating Disbursements:	
Administrative	1,315
Supplies	6,803
Utilities	42,862
Professional Services	55,180
Property Services	24,894
Race Purse	97,319
Advertising	9,772
Repairs	8,252
Insurance	19,292
Rent and Leases	9,406
Senior Fair	40,885
Junior Fair	14,578
Capital Outlay	4,033
Other Operating Disbursements	6,854
<i>Total Operating Disbursements</i>	341,445
<i>Excess (Deficiency) of Operating Receipts</i>	
<i>Over (Under) Operating Disbursements</i>	(105,619)
Non-Operating Receipts (Disbursements):	
State Support	34,913
Restricted Support	106,851
Unrestricted Support	288
Investment Income	43
Livestock Sale Income	296,357
Livestock Sale Expenses	(309,412)
<i>Net Non-Operating Receipts (Disbursements)</i>	129,040
<i>Excess (Deficiency) of Receipts Over (Under) Disbursements</i>	23,421
Cash Balance, Beginning of Year	64,433
Cash Balance, End of Year	\$87,854

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

Defiance County Agricultural Society
Defiance County
Notes to the Financial Statements
For the Year Ended November 30, 2017

Note 1 – Reporting Entity

The Defiance County Agricultural Society (the Society), Defiance County, Ohio, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Society is a county agricultural society corporation formed under Chapter 1711 of the Ohio Revised Code. The Society was founded in 1877 to operate an annual agricultural fair. The Society sponsors the week – long Defiance County Fair during August. During the fair, harness races are held, including the running of the Gene L. Vance Memorial Race and the Kermit Peter Trot Race. Defiance County is not financially accountable for the Society. The Board of Directors manages the Society. The Board is made up of 30 directors serving staggered three-year terms. Society members elect Board members from its membership. Members of the Society must be residents of Defiance County and pay an annual membership fee to the Society.

The reporting entity includes all activity occurring on the fairgrounds. This includes the annual fair and harness racing during fair week. Other year round activities at the fairgrounds including facility rental, stall rental, and community events including the Horsepower Holiday Weekend and the Christmas Cruise Thru. The reporting entity does not include any other activities or entities of Defiance County, Ohio.

Note 7 summarizes the Junior Fair Board’s financial activity. The Junior Livestock Sale Committee’s financial activity are reported in the Society’s financial statements.

Public Entity Risk Pool

The Society participates in a public entity risk pool (PEP Ohio). Note 5 to the financial statements provides additional information for this entity.

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Society’s financial statements consist of a statement of receipts, disbursements and changes in fund balances (regulatory cash basis).

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Defiance County Agricultural Society
Defiance County
Notes to the Financial Statements
For the Year Ended November 30, 2017

Note 2 – Summary of Significant Accounting Policies – (continued)

Deposits and Investments

The Society's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Capital Assets

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

Income Tax Status

The Society is a not-for-profit organization, exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code. The Society is not a private foundation within the meaning of Section 509 (a). Contributions to the Society are deductible per Section 170(b) (1) (A) (v1). Management is unaware of any actions or events that would jeopardize the Society's tax status.

Race Purse

Northwest Ohio Colt stake races are held during the Defiance County Fair. The Society pays all Sustaining and Entry fees and the required portion of the cash received from the Ohio Fairs Fund as Race Purse to winning horses.

Sustaining and Entry Fees Horse owners and the Defiance Area Horseman's Association pay fees to the Society to qualify horses for entry into stake races. They must make payment before a horse can participate in a stake race. The accompanying financial statement report these fees as Sustaining and Entry Fees.

Ohio Fairs Fund The State of Ohio contributes money to the Society from the Ohio Fairs Fund to supplement the race purse. See Note 4 for additional information.

Pari-mutuel Wagering

A wagering system totals the amounts wagered and adjusts the payoff to reflect the relative amount bet on different horses and various odds. The total amount bet (also known as the "handle"), less commission, is paid to bettors in accordance with the payoffs, as the pari-mutuel wagering system determines. The Society contracts with a totalizer service to collect bets and provide the pari-mutuel wagering system.

Pari-mutuel wagering commission (the commission) is the Society's share of total pari-mutuel wagers after payment of amounts to winning bettors. The commission is determined by applying a statutory percentage to the total amount bet and is reflected in the accompanying financial statement as Pari-mutuel Wagering Commission. See Note 4 for additional information.

Defiance County Agricultural Society
Defiance County
Notes to the Financial Statements
For the Year Ended November 30, 2017

Note 3 – Deposits and Investments

The Society maintains a deposit and investment pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments at November 30 was as follows:

	2017
Demand deposits	\$14,336
Other time deposits (savings and NOW accounts)	73,518
Total deposits	\$87,854

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation.

Note 4 – Horse Racing

State Support Portion of Purse

The financial statements report Ohio Fairs Fund money, received to supplement purse for the year ended November 30, 2017, was \$10,002, as State Support.

Pari-mutuel Wagering

The Society does not record the Total Amount Bet or the Payoff to Bettors in the accompany financial statement, rather, it records the Pari-mutuel Wagering Commission (commission) which is the Society's share of total pari-mutuel wagers after paying winning bettors. The expenses of providing the pari-mutuel wagering system are called Tote Services, and these expenses are included in Professional Service Disbursements, State taxes, which are also paid from Pari-mutuel Wagering Commission, are reflected in Other Operating Disbursements, and the amount remaining is the Society's net portion.

	2017
Total Amount Bet (Handle)	\$ 12,458
Less: Payoff to Bettors	(9,644)
Parimutuel Wagering Commission	2,814
Tote Service Set Up Fee	(1,000)
Tote Service Commission	(822)
State Tax	(320)
Society Portion	\$ 672

Defiance County Agricultural Society
Defiance County
Notes to the Financial Statements
For the Year Ended November 30, 2017

Note 5 – Risk Management

The Society is exposed to various risks of property and casualty losses.

The Defiance County Commissioners provide general insurance coverage for all the buildings pursuant to Ohio Revised Code 1711.24. The Public Entities Pool of Ohio (PEP) provides general liability and vehicle insurance.

The Society belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2017, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2017.

	<u>2017</u>
Assets	\$44,452,326
Liabilities	(13,004,011)
Net Position	\$31,448,315

At December 31, 2017 the liabilities above include approximately \$11.8 million of estimated incurred claims payable. The assets above also include approximately \$11.2 million of unpaid claims to be billed. The Pool's membership increased to 527 members in 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Society's share of these unpaid claims collectible in future years is approximately \$6,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Defiance County Agricultural Society
Defiance County
Notes to the Financial Statements
For the Year Ended November 30, 2017

Note 5 – Risk Management – (continued)

<u>2017 Contributions to PEP</u>	
\$	9,782

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year’s contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

Note 6 – Contingent Liabilities

The Society may be a defendant in lawsuits. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Society’s financial condition.

Note 7 – Junior Fair Board

The Junior Fair Board, which is comprised of 4-H, FFA, Boy Scout, Girl Scout, and Farm Bureau Youth organization representatives, is responsible for the Junior Fair Division activities of the Defiance County Fair. The Society disbursed \$14,758 directly to vendors to support Junior Fair activities. These expenses are reflected as a disbursement in the accompanying financial statement as Junior Fair Disbursement. The Junior Fair Board accounts for its activities separately. These accompanying financial statements do not include this activity. The Junior Fair Board’s financial activity for the year ended November 30, 2017, follows:

	2017
Beginning Cash Balance	\$ 1,895
Receipts	9,762
Disbursements	(10,008)
Ending Cash Balance	\$ 1,649

Defiance County Agricultural Society

Defiance County

*Statement of Cash Receipts, Cash Disbursements, and
Changes in Fund Balances - (Regulatory Cash Basis)
For the Year Ended November 30, 2016*

	2016
Operating Receipts:	
Admissions	\$ 116,315
Privilege Fees	28,695
Rentals	58,417
Sustaining and Entry Fees	30,368
Pari-mutuel Wagering Commission	2,876
Other Fair Related Fees	6,261
Other Operating Receipts	2,847
<i>Total Operating Receipts</i>	<u>245,779</u>
Operating Disbursements:	
Administrative	19,950
Racing Expenses	100
Supplies	2,338
Utilities	47,325
Professional Services	57,559
Property Services	24,996
Equipment and Grounds Maintenance	85,824
Race Purse	106,372
Advertising	9,432
Insurance	10,171
Rent and Leases	4,378
Senior Fair	67,652
Junior Fair	14,303
Other Operating Disbursements	7,338
<i>Total Operating Disbursements</i>	<u>457,738</u>
<i>Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements</i>	<u>(211,959)</u>
Non-Operating Receipts (Disbursements):	
State Support	14,739
County Support	500
Restricted Support	132,032
Unrestricted Support	34,587
Investment Income	57
Livestock Sale Income	303,352
Livestock Sale Expenses	(296,150)
<i>Net Non-Operating Receipts (Disbursements)</i>	<u>189,117</u>
<i>Excess (Deficiency) of Receipts Over (Under) Disbursements</i>	<u>(22,842)</u>
Cash Balance, Beginning of Year	<u>87,275</u>
Cash Balance, End of Year	<u><u>\$64,433</u></u>

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

Defiance County Agricultural Society
Defiance County
Notes to the Financial Statements
For the Year Ended November 30, 2016

Note 1 – Reporting Entity

The Defiance County Agricultural Society (the Society), Defiance County, Ohio, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Society is a county agricultural society corporation formed under Chapter 1711 of the Ohio Revised Code. The Society was founded in 1877 to operate an annual agricultural fair. The Society sponsors the week – long Defiance County Fair during August. During the fair, harness races are held, including the running of the Gene L. Vance Memorial Race and the Kermit Peter Trot Race. Defiance County is not financially accountable for the Society. The Board of Directors manages the Society. The Board is made up of 30 directors serving staggered three-year terms. Society members elect Board members from its membership. Members of the Society must be residents of Defiance County and pay an annual membership fee to the Society.

The reporting entity includes all activity occurring on the fairgrounds. This includes the annual fair and harness racing during fair week. Other year round activities at the fairgrounds including facility rental, stall rental, and community events including the Horsepower Holiday Weekend and the Christmas Cruise Thru. The reporting entity does not include any other activities or entities of Defiance County, Ohio.

Note 7 summarizes the Junior Fair Board’s financial activity. The Junior Livestock Sale Committee’s financial activity are reported in the Society’s financial statements.

Public Entity Risk Pool

The Society participates in a public entity risk pool (PEP Ohio). Note 5 to the financial statements provides additional information for this entity.

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Society’s financial statements consist of a statement of receipts, disbursements and changes in fund balances (regulatory cash basis).

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Defiance County Agricultural Society
Defiance County
Notes to the Financial Statements
For the Year Ended November 30, 2016

Note 2 – Summary of Significant Accounting Policies – (continued)

Deposits and Investments

The Society's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Capital Assets

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

Income Tax Status

The Society is a not-for-profit organization, exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code. The Society is not a private foundation within the meaning of Section 509 (a). Contributions to the Society are deductible per Section 170(b) (1) (A) (v1). Management is unaware of any actions or events that would jeopardize the Society's tax status.

Race Purse

Northwest Ohio Colt stake races are held during the Defiance County Fair. The Society pays all Sustaining and Entry fees and the required portion of the cash received from the Ohio Fairs Fund as Race Purse to winning horses.

Sustaining and Entry Fees Horse owners and the Defiance Area Horseman's Association pay fees to the Society to qualify horses for entry into stake races. They must make payment before a horse can participate in a stake race. The accompanying financial statement report these fees as Sustaining and Entry Fees.

Ohio Fairs Fund The State of Ohio contributes money to the Society from the Ohio Fairs Fund to supplement the race purse. See Note 4 for additional information.

Pari-mutuel Wagering

A wagering system totals the amounts wagered and adjusts the payoff to reflect the relative amount bet on different horses and various odds. The total amount bet (also known as the "handle"), less commission, is paid to bettors in accordance with the payoffs, as the pari-mutuel wagering system determines. The Society contracts with a totalizer service to collect bets and provide the pari-mutuel wagering system.

Pari-mutuel wagering commission (the commission) is the Society's share of total pari-mutuel wagers after payment of amounts to winning bettors. The commission is determined by applying a statutory percentage to the total amount bet and is reflected in the accompanying financial statement as Pari-mutuel Wagering Commission. See Note 4 for additional information.

Defiance County Agricultural Society
Defiance County
Notes to the Financial Statements
For the Year Ended November 30, 2016

Note 3 – Deposits and Investments

The Society maintains a deposit and investment pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments at November 30 was as follows:

	2016
Demand deposits	\$49,467
Other time deposits (savings and NOW accounts)	14,966
Total deposits	\$64,433

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation.

Note 4 – Horse Racing

State Support Portion of Purse

The financial statements report Ohio Fairs Fund money, received to supplement purse for the year ended November 30, 2016, was \$10,463, as State Support.

Pari-mutuel Wagering

The Society does not record the Total Amount Bet or the Payoff to Bettors in the accompany financial statement, rather, it records the Pari-mutuel Wagering Commission (commission) which is the Society's share of total pari-mutuel wagers after paying winning bettors. The expenses of providing the pari-mutuel wagering system are called Tote Services, and these expenses are included in Professional Service Disbursements, State taxes, which are also paid from Pari-mutuel Wagering Commission, are reflected in Other Operating Disbursements, and the amount remaining is the Society's net portion.

	2016
Total Amount Bet (Handle)	\$ 12,564
Less: Payoff to Bettors	(9,688)
Parimutuel Wagering Commission	2,876
Tote Service Set Up Fee	(1,200)
Tote Service Commission	(698)
State Tax	(340)
Society Portion	\$ 638

Defiance County Agricultural Society
Defiance County
Notes to the Financial Statements
For the Year Ended November 30, 2016

Note 5 – Risk Management

The Society is exposed to various risks of property and casualty losses.

The Defiance County Commissioners provide general insurance coverage for all the buildings pursuant to Ohio Revised Code 1711.24. The Public Entities Pool of Ohio (PEP) provides general liability and vehicle insurance.

The Society belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2016, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2016.

	<u>2016</u>
Assets	\$42,182,281
Liabilities	<u>(13,396,700)</u>
Net Position	<u>\$28,785,581</u>

At December 31, 2016 the liabilities above include approximately \$12.0 million of estimated incurred claims payable. The assets above also include approximately \$11.5 million of unpaid claims to be billed. The Pool's membership increased to 520 members in 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Society's share of these unpaid claims collectible in future years is approximately \$6,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Defiance County Agricultural Society
Defiance County
Notes to the Financial Statements
For the Year Ended November 30, 2016

Note 5 – Risk Management – (continued)

<u>2016 Contributions to PEP</u>	
\$	9,988

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year’s contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

Note 6 – Contingent Liabilities

The Society may be a defendant in lawsuits. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Society’s financial condition.

Note 7 – Junior Fair Board

The Junior Fair Board, which is comprised of 4-H, FFA, Boy Scout, Girl Scout, and Farm Bureau Youth organization representatives, is responsible for the Junior Fair Division activities of the Defiance County Fair. The Society disbursed \$14,303 directly to vendors to support Junior Fair activities. These expenses are reflected as a disbursement in the accompanying financial statement as Junior Fair Disbursement. Defiance County paid the Society \$500 to support Junior Club work. The Junior Fair Board accounts for its activities separately. These accompanying financial statements do not include this activity. The Junior Fair Board’s financial activity for the year ended November 30, 2016, follows:

	2016
Beginning Cash Balance	\$ 1,504
Receipts	9,973
Disbursements	(9,582)
Ending Cash Balance	\$ 1,895

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

Defiance County Agricultural Society
Defiance County
P.O. Box 184
Hicksville, Ohio 43526-0184

To the Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the cash balances, receipts and disbursements by fund type of the Defiance County Agricultural Society, Defiance County, Ohio (the Society) as of and for the years ended November 30, 2017 and 2016, and the related notes to the financial statements and have issued our report thereon dated July 12, 2018, wherein we noted the Society followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We also qualified our opinion on Admission receipts for 2016 because we were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded as Admission receipts.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Society's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control. Accordingly, we do not express an opinion on the effectiveness of the Society's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Society's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings that we consider material weaknesses. We consider findings 2017-001 and 2017-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Society's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Society's management in a separate letter dated July 12, 2018.

Entity's Responses to Findings

The Society's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. We did not subject the Society's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Society's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Society's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
July 12, 2018

DEFIANCE COUNTY AGRICULTURAL SOCIETY
DEFIANCE COUNTY

Schedule of Findings
November 30, 2017 and 2016

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

Finding Number 2017-001 – Material Weakness

Monitoring of Financial Statements/Audit Adjustments

Accurate financial reporting is the responsibility of the Society's management and is essential to ensure the information provided to the readers of the financial statement is fairly stated.

The Society lacked a policy regarding financial review, which contributed to the following material reporting discrepancies occurring without detection in the financial statements:

- In 2017 and 2016, restricted support receipts for horse racing purses, from a non-profit organization, which totaled \$73,530 and \$74,940, respectively, were incorrectly reported as state support and sustaining and entry fees receipts, respectively, instead of restricted support receipts.
- In 2017, state support in the amount of \$24,361 was reported as county support instead of state support receipts.
- In 2017, the creation of \$10,700 of change funds were reported on the financial statement as other operating disbursements and the return of the change funds were reported as \$10,700 in petty cash receipts. Similarly, in 2016, the creation of \$14,600 of change funds were reported on the financial statement as other operating disbursements and the return of these change funds were reported as \$13,332 in petty cash receipts and \$1,268 in admissions receipts. This activity should have been eliminated from the financial statements.
- During 2017 and 2016, adjustments were necessary to correct various items in the footnotes.

As a result, the financial statements did not correctly reflect the financial activity of the Society. The Society's financial statements have been adjusted to correct these errors for both 2017 and 2016. We recommend the Board develop policies and procedures, including a final review of the financial statements, by the Board (or other oversight committee or individual) to identify and correct errors and omissions. In addition, the Board should refer to guidance provided by the United States Department of Agriculture and the Auditor of State to assist in the proper presentation of the Society's financial statements.

Managements' Response:

See Corrective Action Plan

DEFIANCE COUNTY AGRICULTURAL SOCIETY
DEFIANCE COUNTY

Schedule of Findings - Continued
November 30, 2017 and 2016

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - Continued
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Finding Number 2017-002 – Material Weakness

Gate Admission and Grandstand Event Collections

Complete and accurate supporting documentation should be maintained for its fair gate admissions, season passes, and grandstand events.

The Society lacked a policy regarding procedures and internal controls regarding the collection, ticket sales, and reconciliation of gate admission and grandstand event revenues which resulted in the following deficiencies in fiscal years 2017 and 2016:

- Although summary ticket records, e.g. gate sheets, were maintained, ticket reconciliations for admission and season passes did not always include beginning and ending ticket numbers to compute the total number of tickets sold at each gate.
- No master listing of season passes was maintained and reconciled to the number of season passes sold.
- Although a summary ticket record was maintained which documented tickets used for significant grandstand events, ticket reconciliations of collections did not include sufficient information.
- Additionally, ticket sales were not compared and reconciled to the total number of tickets printed for use for each grandstand event, i.e. there was no reconciliation of unsold, donated, and/or other unused tickets for the event.
- Also, during 2016, there was no separate documentation of sales and records of collections in instances where wristbands are used at the grandstand event (e.g. demo derby, truck pulls, and truck drags for pit passes).

In addition, during 2016, similar deficiencies were noted for gate sales and collections for special events, such as the Holiday Horsepower Weekend (mini truck pulls), which are held at the fairgrounds at other times during the year.

Lack of adequate supporting documentation could result in a material amount of receipts being received, but not being recorded. It also increases the likelihood of theft or fraud occurring.

The Society should maintain complete and accurate supporting documentation for gate admissions, season passes, and grandstand events. In order to help ensure admission and grandstand collections are properly accounted for we recommend:

- Financial records should include documentation for the receipts received such as ticket stubs, ticket reconciliations, items ordered and/or printed for use, items sold, donated, etc.

DEFIANCE COUNTY AGRICULTURAL SOCIETY
DEFIANCE COUNTY

Schedule of Findings - Continued
November 30, 2017 and 2016

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - Continued
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Finding Number 2017-002 – Material Weakness – (Continued)

- Ticket reconciliations should be completed for daily gate admission tickets and season passes and for each event held at the grandstand, including special events such as the Holiday Horsepower Weekend event held at the fairgrounds. The ticket reconciliations should indicate beginning and ending ticket numbers which compute to the total tickets sold.
- Data on completed daily ticket reconciliations should be accurate and complete based on documented ticket sales and matched to the total receipts actually collected.
- Records of tickets sold/unsold should be available for inspection, such as for public records requests and for audit.
- A master listing of season passes should be maintained should be complete and accurate based on documented season passes sold and matched to the amounts actually collected for passes sold.
- These records should be reconciled to the amounts collected and turned over to the Accountant for receipt and deposit to the Society's depository (in turn, receipts reported in the Society's accounting system and financial statements).

In particular, to strengthen controls and improve accountability over ticketed receipts, we recommend:

- Gate ticket sales (ticket sequences reported on the gate ticket reconciliation report) be compared and reconciled to the total number of tickets sold (i.e. ticket stubs). Any discrepancies should be documented and explained on the reconciliations.
- Amounts collected for season passes should be reconciled to the amounts actually collected for passes sold, e.g. presale season passes sold at area businesses, including banks, gas stations, etc., and turned into over to the Society for receipt and deposit.
- Ticket reconciliations be completed for each event held at the grandstand, including special events held at the fairgrounds (similar to ticket reconciliation reports completed for gate admission activity).
- Ticket reconciliations be signed off by the individual in charge of the gate and reviewed and signed by the Accountant to ensure accuracy.
- The total number of grandstand ticket sales (the number of sold/unsold tickets) be compared and reconciled to the total number of tickets purchased/printed for each event. Any discrepancies should be documented and explained on the reconciliations.

DEFIANCE COUNTY AGRICULTURAL SOCIETY
 DEFIANCE COUNTY, OHIO
 SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – Prepared by Management
 November 30, 2017 and 2016

FINDING NUMBER	FUNDING SUMMARY	STATUS	ADDITIONAL INFORMATION
2015-001	Finding for Recovery Repaid Under Audit – Wine Tasting/Alcohol	Corrective Action Taken and Finding is Fully Corrected	
2015-002	Material Weakness – Cash Reconciliations	Partially Corrected	Moved to management letter
2015-003	Material Weakness – Monitoring of Financial Statements	Not Corrected	Repeated as Finding 2017-001
2015-004	Material Weakness – Gate Admission and Grandstand Event Collections	Not Corrected	Repeated as Finding 2017-002
2015-005	Noncompliance Citation and Material Weakness – Maintaining accounting system and accounting records	Partially Corrected	Moved to management letter

DEFIANCE COUNTY AGRICULTURAL SOCIETY
DEFIANCE COUNTY

CORRECTIVE ACTION PLAN – Prepared by Management
November 30, 2017 and 2016

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	In 2017, the Society employed a different bookkeeping service to help eliminate the errors, which occurred under the bookkeeper in 2016.	Immediately	Julie Wiles, Fiscal Officer
2017-002	In 2017, the Society employed a different bookkeeping service to help eliminate the errors, which occurred under the bookkeeper in 2016.	Immediately	Julie Wiles, Fiscal Officer

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Dave Yost • Auditor of State

DEFIANCE COUNTY AGRICULTURAL SOCIETY

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
OCTOBER 9, 2018**