

SUBJECT: Audits of Agricultural Societies

This memo provides audit and accounting guidance for the following issues specific to agricultural societies:

- Parimutuel Wagering
- Race Purse
- Junior Fair Board and Junior Fair Livestock Sale Committee

Parimutuel Wagering

Seventy-three of the 94 agricultural societies conduct some form of horse racing. In addition, many of these societies allow **parimutuel** wagering related to their race program. In parimutuel wagering, bets are pooled and odds are calculated which allow the redistribution of bets on losing horses to bets on winning horses. This system totals the amounts wagered and adjusts the payoffs to reflect the relative amounts bet on different horses and various possible outcomes. The system calculations are based, in part, on published morning line odds associated with each horse and race. The pooled wagers are paid to bettors as winnings in accordance with the payoffs determined by the parimutuel wagering system. The aggregate amount of placed bets is referred to as **handle**. Total payoffs are determined by subtracting **commission** from handle. The system calculates commission by applying a statutory percentage (18% or 22%) to handle. Commission is calculated separately by type of wager (exotic and straight).

Societies conducting parimutuel wagering will contract with a **tote service** to accept bets, calculate odds, pay out winnings, and produce regulatory reports. These operations are controlled by software programs. The tote service implements and maintains the software and hardware on which it runs. Tote service operations at each race are monitored by an inspector from the Ohio Racing Commission, and the tote service submits regulatory reports produced by its software program to Ohio Racing Commission for review.

From the commission amount the agricultural society must pay for its contracted tote services and a tax to the State of Ohio. The tax rate is applied to the commission amount. In practice, the tote service provides the society with its commission, less tote service fees. From these receipts, the society must pay the State tax and retains the remainder.

The tote service software program produces a document known as a liability report for each day's racing program identifying for each race the handle, total commission by type of wager (straight and exotic), and the breaks for each race. Breaks represent an amount of wagers by race that are either retained by the tote service or added by the tote service to the handle to assure statutory payout requirements. If, in the rare case breaks are material to the transaction cycle or account balance being audited, please contact CFAE support for a full explanation of this arcane topic. From this liability report, the tote service manually prepares a document called the tax report which calculates the distribution of commission among the tote service, State of Ohio and the agricultural society.

Accounting for Parimutuel Wagering Activity

Each agricultural society sponsoring a racing program must account for the parimutuel wagering activity associated with it. Following horse racing industry accounting practice, societies' financial statements should only reflect total commission as receipts and disclose total handle and payoffs in the harness racing footnote. The commission should be reported as Parimutuel Wagering Commission in the operating section of the financial statements.

The expenses of providing the parimutuel wagering system (i.e., the fee paid to the tote service) and the taxes associated with this activity should be included in the operating section of the financial statements as Professional Service Disbursements and Other Operating Services, respectively.

The agricultural society report shells include the appropriate note disclosure.

Auditing Parimutuel Wagering Activities

A Society's financial information system is affected by the use of a tote service, and SOC-1, as amended, does apply. However, we will normally not need to obtain a Type I or Type II SOC-1 report for totalizer services.

Inherent and control risk assessments will normally be such that substantive procedures over completeness and occurrence can be primarily limited to substantive analytics, and tests of daily tote service reports.

Racing Purse

Racing Purse is the amount paid to the owner of the horse that wins a particular race. Purse does not include any amounts collected as parimutuel wagers. Purse is comprised of a) nominating and sustaining fees paid by the horse owners to one of several horsemen associations and turned over by the horsemen associations to the agricultural society prior the beginning of its race program, and b) entry fees collected by the society from owners of participating horses, and c) state funds received for the purpose of supplementing horse racing purses.

The fees collected by the sponsoring horsemen's organization are generally remitted to the society near the day of each race. On or about the day of each race, the society also collects an amount (predetermined by the horseman's organization) from each horse entrant. Total entrant fees (plus state funds) are then distributed by the society as purse to the owners of the winning horses.

This is a generalized description of purse; auditors should gain and document a basic understanding of purse for the specific Society. If a Society's involvement in collecting or disbursing entry, sustaining or other fees is substantially different than that described here, auditors should contact the Center for Audit Excellence (CFAE).

Accounting for Purse Activity

Nominating, sustaining and entry fees (sometimes called speed fees) collected by the society from the horsemen organizations or directly from entrants, should be reported as Sustaining and Entry Fee receipts in the operating section of the financial statements. State funds used for purse should be reported as State Support in the non-operating section of the financial statements. Purse distributions (including the state funded portion) should be reported as Race Purse disbursements in the operating section of the financial statements.

Auditing Purse Activity

Purse receipts should consist of a relatively few transactions received prior to the annual fair from the horsemen's society, and a predictable amount of entry fees based on the number of participating horses. Based on these factors, you should be able to assess your control risk at the maximum level over nominating, sustaining and entry fees. Nominating, sustaining and entry fees and the state funds collected for purse are disbursed out to winning horses as race purse. Therefore, you should be able to assess control risk over race purse at the maximum level.

Junior Fair Board and Junior Fair Livestock Sale Committee

The Junior Fair Board (JFB) and the Junior Fair Livestock Sale Committee (JLC) play significant roles at most fairs. From our preliminary review, it appears societies are not accounting for the activity of these organizations uniformly. Some societies include JFB and/or JLC activity on their financial statements, whereas others exclude JFB and/or JLC activity on their financial statements, still others partially include JFB and/or JLC activity on their financial statements. In order to be consistent, we have decided that Society financial statements will generally exclude JFB and JLC activity, unless the JFB and JLC activities are run through the Society's books and there is no separate bank account. If you are unable to isolate the JFB and JLC activity, please consult with CFAE for guidance. We will reflect the JFB and JLC activity as footnote disclosure only.

Junior Fair Board

If the Junior Fair Board maintains a bank account separate from the agricultural society that account and its activity should be summarized in the footnotes to the financial statement. Most agricultural societies subsidize certain costs of the Junior Fair such as cost of judges, purchase of ribbons, rosettes and trophies, and payment of premiums to the exhibitors. These expenses are accounted for in the 9300 series on the societies' charts of accounts and should remain expenses of the agricultural society. If the Junior Fair Board activities other than activities discussed above are integrated within the activity of the agricultural society and these expenses can be segregated without burdensome effort, they should be removed from the operating statement of the agricultural society and reported, on a summarized basis in the footnote to the financial statement. Any amounts received by the agricultural society from the junior fair board should be recorded in the financial statements of the agricultural society as non-operating receipts, and be disclosed in the junior fair footnote. An example footnote disclosure follows:

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 (Name of County) County Fair. The Society disbursed \$(amount) directly to the Junior Fair Board and \$(amount) 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 Society was reimbursed \$(amount) by (Name of County) County for its support of Junior Club work. All Junior Fair Board activity is accounted for in a separate account by the Junior Fair Board. The accompanying financial statement does not include the activities of the Junior Fair Board. The Junior Fair Board's financial activity for the year ended November 30, 20EE follows:

Beginning Cash Balance	\$
Receipts	
Disbursements	
Ending Cash Balance	<u><u>\$0</u></u>

Junior Fair Livestock Sale Committee

As with junior fair boards, junior fair livestock committee activity is not handled uniformly among agricultural societies. We will follow the same logic in reporting activity of junior fair livestock committees that we employ in reporting junior fair board activity. An example footnote disclosure follows:

The Junior Livestock Committee is a separate committee charged with running the Junior Livestock Auction. This auction is held during fair week. Children may sell their animals directly to market or through the (Name of County) County's auction. Monies to cover the cost of the auction are generated through a X% commission **(modify for your situation) per head, per group of animals (pen), assessed on the net difference between the auction price and the market cost, assessed on the market price for those animals that are sold directly to market, assessed on the auction price)** and are retained by the Junior Livestock Committee. The accompanying financial statement does not include the activities of the Junior Livestock Committee. The Junior Livestock Committee's financial activity for the year ended November 30, 20EE follows:

Beginning Cash Balance	\$
Receipts	
Disbursements	
Ending Cash Balance	<u><u>\$0</u></u>

Auditing Junior Fair Board and Junior Fair Livestock Sale Committee Activity

Since the Junior Fair Board and Junior Livestock Committee Activity appear in the notes to the financial statements, we must gain assurance as to the reasonableness of the amounts disclosed. Therefore, you should obtain (or complete) the financial activity charts above and determine whether the amounts presented are reasonable. Since the type and condition of accounting records will vary by entity, we expect you to substantiate the footnote disclosure by reviewing (at a minimum) the following:

- Bank statements
- Bank Reconciliations
- Check book
- Any additional documentation provided

Auditors should inquire further about significant, unusual items.

If these organizations do not maintain separate bank accounts and you are unable to separate the activity from the Society's accounts, or if you are unable to obtain the information necessary to document and test (as discussed above) the note disclosure, consult with CFAE.