



Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 402 of the 128th G.A. **Date:** March 12, 2010
Status: As Reported by House Agriculture & Natural Resources **Sponsor:** Rep. Dodd

Local Impact Statement Procedure Required: No — No local cost

Contents: Revises audit procedures for county and independent agricultural societies and makes other changes

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
Auditor of State			
Public Audit Expense – Local Government Fund (Fund 4220)			
Revenues	- 0 -	Cap of \$3,000 per audit that the Auditor of State may charge for audits	Cap of \$3,000 per audit that the Auditor of State may charge for audits
Expenditures	- 0 -	Potential increase in unbilled audit expenses	Potential increase in unbilled audit expenses
		Potential decrease in auditing costs resulting from smaller scope of audits	Potential decrease in auditing costs resulting from smaller scope of audits

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- The bill limits the Auditor of State to performing audits only on income that county or independent agricultural societies receive from the state or a county.
- The bill also limits the overall audit fee that the Auditor of State may charge a county or independent agricultural society to no more than \$3,000 per audit.
- These fees are deposited into the Auditor of State's Public Audit Expense – Local Government Fund (Fund 4220).
- If the cost of an audit exceeds \$3,000, the Auditor of State would not be able to bill the agricultural society for these expenses. Instead, the Auditor of State would be required to absorb this additional expense.
- Alternatively, limiting the scope of audits to state and county funds used by agricultural societies could reduce the work involved with this process, thereby reducing expenses incurred by the Auditor of State.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2010	FY 2011	FUTURE YEARS
County and independent agricultural societies			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Caps audit expenses billed by the Auditor of State at \$3,000	Caps audit expenses billed by the Auditor of State at \$3,000	Caps audit expenses billed by the Auditor of State at \$3,000
	Potential decrease in public notice costs	Potential decrease in public notice costs	Potential decrease in public notice costs

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The bill limits the scope of audits performed by the Auditor of State to only public money received by a county or independent agricultural society. The bill also caps the amount that the Auditor of State may charge for these audits at \$3,000.
- As an alternative to publishing financial reports in newspapers, the bill allows county or independent agricultural societies to publish this financial information on their web sites. This could reduce public notice costs for these entities.

Detailed Fiscal Analysis

Agricultural society audits

The bill requires that the Auditor of State perform audits only for state and county money received by a county agricultural society or an independent agricultural society. The bill also limits the amount that the Auditor of State may charge for these audits to no more than \$3,000 per audit. Although these societies receive subsidies from the state and counties, income from admission fees, rentals, and contest entry fees account for the bulk of their operating receipts. According to the Auditor of State's most recent biennial audits of these societies, the average audit cost was \$5,195. The most expensive audit cost \$17,150. There are 94 county and independent agricultural societies statewide. In addition to changing the scope of the audit process, the bill alters public notice requirements concerning financial statements that agricultural societies must publish and alters requirements that apply to horse races held at county and independent fairs. The fiscal effects of the bill are described below.

Subsidies to county and independent fairs

On the state level, the Department of Agriculture's GRF appropriation item 700501, County Agricultural Societies, is used to reimburse county and independent agricultural fairs for a portion of the cost they incur for conducting youth activities. The amount received by each fair depends on the number of fairs which apply for assistance and the total state appropriation. Under H.B. 1, appropriations for this purpose are \$414,903 in FY 2010 and \$434,903 in FY 2011.

Another source of state support for county and independent fairs is wagering taxes distributed from the Ohio Fairs Fund (Fund 7083). The fund distributes money to each agricultural society for general operating purposes and for expenses related to horse races. Under H.B. 1, appropriations for these purposes are \$2.3 million in both FY 2010 and FY 2011. In FY 2009, the fund distributed \$1,738 to each of the 94 agricultural societies for general operating expenses. The total distributed to each of the 66 agricultural societies that host horse racing events was approximately \$18,000. In addition to these state subsidies, agricultural societies receive some support from counties based upon the availability of general fund moneys.

Effect on audit costs

Generally, the Auditor of State audits each of these agricultural societies once a biennium. The costs of these audits are recouped in the form of fees paid by agricultural societies and deposited into the Auditor of State's Public Audit Expense – Local Government Fund (Fund 4220). The cost of these audits is determined by the work that is necessary to complete the financial review of county and independent agricultural societies, including funding from state and local government and other nongovernmental sources. Nongovernmental sources of income include admission

fees, rental income, and contest entrance fees, among others. According to the Auditor of State's most recent biennial audits of these societies, the average audit cost was \$5,195.

The bill could have either of two effects on audit costs. If the cost of an audit exceeds \$3,000, the Auditor of State would not be able to bill for costs beyond that limit. Alternatively, by limiting the scope of these audits to the use of funds received from state and county governments, and assuming there are few complications arising from a review of these funds, the bill could reduce the Auditor of State's expenses for auditing county or independent agricultural societies. The hourly rate that the Auditor of State charges for financial audits for state FY 2010 is \$64.43. Given the \$3,000 audit cost limit in the bill, this would require any financial audits of an agricultural society to be completed in approximately 46 billable hours. Any hours worked beyond this amount would have to be absorbed by the Auditor of State.

Public notice of financial reports

Current law requires a county agricultural society annually to publish an abstract of its treasurer's account in a newspaper of the county and make a report of its proceedings during the year. The bill applies the requirement to an independent agricultural society. However, as an alternative, the bill allows county or independent agricultural societies to publish this financial information on their web sites. The option to post this information on the web would reduce public notice costs for county and independent agricultural societies that choose to do so.

Distributions from the Ohio Fairs Fund for horse races

Under the bill, horse races that are conducted by a county agricultural society or independent agricultural society in accordance with current law that governs distributions from the Ohio Fairs Fund must be conducted at the fairgrounds of the sponsoring agricultural society. Current law provides in part for distribution of these amounts in Fund 7083 to agricultural societies and the Ohio Expositions as purse money for horse races. The bill states that if the horse races conducted by an agricultural society cannot be contested due to unfavorable weather or another unavoidable cause, the races may be held at an alternative track subject to the approval of the Director of Agriculture. When a race cannot be conducted, the bill requires that the agricultural society allocate the remaining money in a manner established by the Director in rules adopted under the bill.