MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT
OF THE

MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY

(A Component Unit of the State of Michigan)

October 1, 2005 through September 30, 2006

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

071-0305-07

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:
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Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Michigan Exposition and Fairgrounds Authority
(A Component Unit of the State of Michigan)
Fiscal Year Ended September 30, 2006

Report Number:
071-0305-07

Released:
February 2007

A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with State compliance requirements material to the financial statements. This financial audit of the Michigan Exposition and Fairgrounds Authority (MEFA) was conducted as part of the constitutional responsibility of the Office of the Auditor General.

Financial Statements:

Auditor's Report Issued

We issued an unqualified opinion on MEFA's financial statements.

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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Noncompliance or Other Matters Material to the Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

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Background:

Act 468, P.A. 2004, created MEFA to provide for the control and management of certain State exposition centers and fairgrounds. MEFA shall incur expenses pursuant to appropriation of the Legislature in the following order of priority: (1) providing an annual State Fair; (2) maintaining the State exposition and fairgrounds; and (3) accomplishing any other purpose authorized by the Act. MEFA is governed by an 11-member board of directors that consists of the director of the Department of Management and Budget, the director of the Department of Agriculture, and 9 members appointed by the Governor with the advice and consent of the Senate. The MEFA manager is responsible for administering MEFA's financial operations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at:
http://audgen.michigan.gov

Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

February 9, 2007

Mr. Mark T. Gaffney, Chair
Board of Directors
and
Mr. Timothy G. Jenkins, Acting General Manager
Michigan Exposition and Fairgrounds Authority
1120 West State Fair Avenue
Detroit, Michigan

Ms. Lisa Webb Sharpe, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Gaffney, Mr. Jenkins, and Ms. Webb Sharpe:

This is our report on the financial audit of the Michigan Exposition and Fairgrounds Authority (MEFA), a component unit of the State of Michigan, for the period October 1, 2005 through September 30, 2006.

This report contains our report summary; our independent auditor's report on the financial statements; the MEFA management's discussion and analysis; the MEFA financial statements and notes to the financial statements; a supplemental financial schedule; and our independent auditor's report on internal control over financial reporting and on compliance and other matters. This report also contains a glossary of acronyms and terms.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

071-0305-07

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INDEPENDENT AUDITOR'S REPORT

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Statements

Mr. Mark T. Gaffney, Chair
Board of Directors
and
Mr. Timothy G. Jenkins, Acting General Manager
Michigan Exposition and Fairgrounds Authority
1120 West State Fair Avenue
Detroit, Michigan

Ms. Lisa Webb Sharpe, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Gaffney, Mr. Jenkins, and Ms. Webb Sharpe:

We have audited the accompanying financial statements of the Michigan Exposition and Fairgrounds Authority, a component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2006, as identified in the table of contents. These financial statements are the responsibility of the Michigan Exposition and Fairgrounds Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the Michigan Exposition and Fairgrounds Authority and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2006 and the changes in financial position and cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Exposition and Fairgrounds Authority as of September 30, 2006 and the changes in financial position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2006 on our consideration of the Michigan Exposition and Fairgrounds Authority'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 11 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The supplemental financial schedule, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Sincerely,

Thomas H. McTavish

Thomas H. McTavish, C.P.A.
Auditor General
November 22, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This is a discussion and analysis of the financial performance of the Michigan Exposition and Fairgrounds Authority (MEFA) for the period October 1, 2005 through September 30, 2006. MEFA was created by Act 468, P.A. 2004. Effective March 1, 2005, the management of the State exposition and fairgrounds transferred from the Department of Agriculture by type I transfer to MEFA. MEFA is a public body corporate within the Department of Management and Budget and a component unit of the financial reporting entity of the State of Michigan. MEFA's management is responsible for the financial statements, notes to the financial statements, and this discussion.

Using the Financial Report

This financial report includes the report of independent auditors, management's discussion and analysis, the financial statements, notes to the financial statements, and one supplemental financial schedule.

The reporting standards in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, require a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. These financial statements are interrelated and represent the financial status of MEFA.

The statement of net assets includes the assets, liabilities, and net assets at the end of the fiscal year.

The statement of revenues, expenses, and changes in net assets presents the revenues earned and expenses incurred during the year.

The statement of cash flows presents information related to cash in-flows and out-flows summarized by operating and investing activities.

Analysis of Financial Activities

The MEFA manager administers the business operations of MEFA and serves at the pleasure of the Governor. The MEFA manager develops and presents to the MEFA Board of Directors for its approval: a financial plan submitted annually; a rolling 5-year operations plan submitted annually; and a facility and utility construction plan, including a master plan for the use of buildings and the fairgrounds, as requested by the MEFA Board of Directors. MEFA reports to the director of the Department of Management and Budget, the Legislature, and the Governor on the operating budget, capital

improvements, programs, exhibits, and other matters relevant to the State exposition and fairgrounds.

MEFA is responsible for: 1) conducting an annual State Fair; 2) leasing the State exposition and fairgrounds and its buildings for purposes considered to be consistent with staging of the State Fair; and 3) entering into contracts to conduct the State Fair, exhibits, and other events at the State exposition and fairgrounds.

Condensed Financial Information
From the Statement of Net Assets
As of September 30

	2006	2005
Current assets	$ 1,637,912	$ 2,180,172
Capital assets	8,279,329	8,611,120
Noncurrent assets	39,031	
Total Assets	$ 9,956,272	$ 10,791,292
Current liabilities	$ 1,735,369	$ 1,969,798
Noncurrent liabilities	56,375	90,284
Total Liabilities	$ 1,791,744	$ 2,060,082
Net Assets		
Invested in capital assets	$ 8,279,329	$ 8,611,120
Unrestricted	(114,801)	120,090
Total Net Assets	$ 8,164,528	$ 8,731,210

Current assets consist primarily of equity in common cash and accounts receivable from sponsors, vendors, and non-Fair lease agreements. Current assets decreased approximately $542,000 in fiscal year 2005-06 compared with fiscal year 2004-05 primarily because of a decrease in accounts receivable for non-Fair lease agreements.

Capital assets are land, buildings, and equipment, net of accumulated depreciation. Capital assets decreased approximately $332,000 because of depreciation expense.

Noncurrent assets are the noncurrent portion of accounts receivable.

Current liabilities primarily consist of warrants outstanding and accounts payable to suppliers and contractors associated with annual State Fair operations. Current liabilities decreased approximately $234,000 in fiscal year 2005-06 primarily because of a decrease in warrants outstanding. This decrease occurred because MEFA issued payments to employees and suppliers during the last week of fiscal year 2005-06 of approximately $414,000 less than the payments issued during the last week of fiscal year 2004-05.

Noncurrent liabilities are the noncurrent portion of compensated absences.

Overall, **net assets** were reduced by approximately $567,000 during fiscal year 2005-06 as a result of the preceding activities.

Condensed Financial Information
From the Statement of Revenues, Expenses,
and Changes in Net Assets
For the Fiscal Years Ended September 30

	2006	2005
Operating Revenues		
Fair revenues	$ 3,939,670	$ 3,757,159
Non-Fair revenues	1,778,644	2,161,380
Total Operating Revenues	$ 5,718,314	$ 5,918,540
Operating expenses	$ 6,296,886	$ 6,364,705
Total Operating Expenses	$ 6,296,886	$ 6,364,705
Operating Loss	$ (578,573)	$ (446,165)
Nonoperating Revenues	11,891	10,911
Change in Net Assets	$ (566,682)	$ (435,254)
Total net assets - Beginning of fiscal year	8,731,210	9,166,464
Total net assets - End of fiscal year	$ 8,164,528	$ 8,731,210

Fair revenues were higher during fiscal year 2005-06 because of a 20% increase in attendance due to the extension of the 2006 State Fair by one day, as well as providing free admission to children for three days during the 2006 State Fair.

Non-Fair revenues decreased by approximately $383,000 during fiscal year 2005-06 because of a 33% reduction in grounds rental revenues.

Operating expenses decreased by approximately $68,000 during fiscal year 2005-06 primarily because of reductions in administration and building and grounds maintenance and security expenses, which offset an increase in entertainment expenses.

The **operating loss and change in net assets** reflect the effect of MEFA's operations for the fiscal year as a result of insufficient revenues to support expenses, including depreciation expense of $331,791 and $334,291 for fiscal years 2005-06 and 2004-05, respectively.

Condensed Financial Information
From the Statement of Cash Flows
For the Fiscal Years Ended September 30

	2006	2005
Net cash provided (used) by:		
Operating activities	$ 144,993	$ 367,061
Investing activities	11,891	10,911
Net cash provided (used) - All activities	$ 156,884	$ 377,972
Cash - Beginning of fiscal year	682,219	304,247
Cash - End of fiscal year	$ 839,103	$ 682,219

MEFA experienced a decrease in **net cash provided (used) - all activities** because of an increase in payments to suppliers of approximately $1.1 million that offset an increase in receipts from customers of approximately $859,000.

FINANCIAL STATEMENTS

MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY

Statement of Net Assets

As of September 30, 2006

ASSETS		
Current Assets:		
Cash	$	3,500
Equity in common cash		1,197,597
Accounts receivable and other current assets		436,814
Total Current Assets	$	1,637,912
Capital Assets (Notes 2 and 5):		
Land and other nondepreciable assets	$	3,360,000
Buildings, equipment, and other depreciable assets		12,345,698
Less accumulated depreciation		(7,426,369)
Total Capital Assets	$	8,279,329
Noncurrent Assets:		
Accounts receivable and other noncurrent assets	$	39,031
Total Assets	$	9,956,272
LIABILITIES		
Current Liabilities:		
Warrants outstanding	$	361,995
Accounts payable and other liabilities		1,317,462
Amounts due to primary government		16,401
Current portion of other long-term obligations (Note 3)		39,512
Total Current Liabilities	$	1,735,369
Noncurrent Liabilities:		
Noncurrent portion of other long-term obligations (Note 3)		56,375
Total Liabilities	$	1,791,744
NET ASSETS		
Invested in capital assets, net of related debt	$	8,279,329
Unrestricted		(114,801)
Total Net Assets	$	8,164,528

The accompanying notes are an integral part of the financial statements.

MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended September 30, 2006

OPERATING REVENUES		
Fair Revenues		
Gate admissions	$	1,313,209
Parking		290,682
Midway		924,220
Merchandise		41,259
Concessions		28,912
Vendor space rental		345,336
Entry fees		154,049
Sponsorship		605,150
Premiums		200,082
Miscellaneous		36,771
Total Fair Revenues	$	3,939,670
Non-Fair Revenues		
Gate admissions	$	43,195
Parking		112,946
Merchandise		1,685
Concessions		17,685
Grounds rental (Notes 4, 5, and 6)		1,109,845
Buildings rental (Notes 4, 5, and 6)		464,622
Miscellaneous		28,667
Total Non-Fair Revenues	$	1,778,644
Total Operating Revenues	$	5,718,314
OPERATING EXPENSES		
Administration	$	1,844,852
Building and grounds maintenance and security		2,178,859
Agriculture and Livestock Division		598,604
Community Arts Division		145,651
Grounds entertainment		458,847
Professional entertainment		738,282
Depreciation		331,791
Total Operating Expenses	$	6,296,886
Operating Loss	$	(578,573)
NONOPERATING REVENUES		
Interest	$	11,891
Total Nonoperating Revenues	$	11,891
Change in Net Assets	$	(566,682)
Total net assets - Beginning of fiscal year		8,731,210
Total net assets - End of fiscal year	$	8,164,528

The accompanying notes are an integral part of the financial statements.

MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	6,066,227
Payments to employees		(1,221,523)
Payments to suppliers		(4,590,233)
Claims paid		(109,479)
Net cash provided (used) by operating activities	$	144,993
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	$	11,891
Net cash provided (used) by investing activities	$	11,891
Net cash provided (used) - All activities	$	156,884
Cash and cash equivalents - Beginning of fiscal year		682,219
Cash and cash equivalents - End of fiscal year	$	839,103
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Per statement of net assets classifications:		
Cash	$	3,500
Equity in common cash		1,197,597
Warrants outstanding		(361,995)
Cash and cash equivalents - End of fiscal year	$	839,103
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$	(578,573)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense		331,791
Changes in assets and liabilities:		
Accounts receivable and other assets		301,239
Accounts payable and other liabilities		90,535
Net cash provided (used) by operating activities	$	144,993

The accompanying notes are an integral part of the financial statements.

Note 1 Summary of Significant Accounting Policies

The accounting policies of the Michigan Exposition and Fairgrounds Authority (MEFA) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies:

a. Reporting Entity

Act 468, P.A. 2004, created MEFA to provide for the control and management of certain State exposition centers and fairgrounds. The statute transferred the management of the State exposition and fairgrounds from the Department of Agriculture to MEFA, effective March 1, 2005. MEFA is a public body corporate within the Department of Management and Budget (DMB).

Pursuant to Act 468, P.A. 2004, MEFA shall incur expenses pursuant to appropriation of the Legislature in the following order of priority: (1) providing an annual State Fair; (2) maintaining the State exposition and fairgrounds; and (3) accomplishing any other purpose authorized by the Act.

MEFA is governed by an 11-member board of directors that consists of the DMB director, the director of the Department of Agriculture, and 9 members appointed by the Governor with the advice and consent of the Senate. The MEFA manager is responsible for administering MEFA's financial operations, is appointed by the Governor with the advice and consent of the Senate, and serves at the pleasure of the Governor.

MEFA is a component unit of the financial reporting entity of the State of Michigan. The decision to include a potential component unit in the reporting entity is made by applying criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The basic criteria include the appointment of a voting majority of the governing board of MEFA; the legal separation of the State and MEFA; the fiscal independence of MEFA; whether exclusion of the unit would make the *State of Michigan Comprehensive Annual Financial*

Report (*SOMCAFR*) misleading; and whether there is a potential for MEFA to provide specific financial benefits to, or impose financial burdens on, the State.

b. Measurement Focus and Basis of Accounting

MEFA is a proprietary fund. Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. Using this basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of cash flows. Operating revenues and expenses generally result from providing services to the public. All financial resources and obligations of a fund, whether current or noncurrent, are recorded in the fund. The accounting objectives are a determination of net income, financial position, and cash flow. MEFA follows all GASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

The accompanying financial statements present only MEFA. Accordingly, they do no purport to, and do not, present fairly the financial position and the changes in financial position and cash flows of the State of Michigan or its component units in conformity with accounting principles generally accepted in the United States of America.

c. Financial Data

MEFA financial statements primarily present the following:

(1) Cash Equivalents: As required by Act 468, P.A. 2004, the State Treasurer manages MEFA's investments in the State's common cash pool. The State Treasurer invests monies not needed to pay immediate obligations so that earnings on available cash are maximized. Additional information on the State Treasurer's accounting for the State's common cash pool may be found in the *SOMCAFR*.

(2) Capital Assets: Capital assets, which include the land, buildings, and equipment located at the State fairgrounds, are reported at historical

cost. MEFA added two items of equipment to its accounts during fiscal year 2005-06. MEFA recorded accumulated depreciation for the same amount because the equipment was fully depreciated.

(3) Warrants Outstanding: Warrants outstanding represent drafts issued against the State Treasurer's common cash pool that have not yet cleared. These are similar to outstanding checks; however, MEFA's balance in the common cash pool is not reduced until the warrants are redeemed.

(4) Net Assets: The difference between fund assets and liabilities is "Net Assets."

(5) Reservations: Net assets of $8,279,329 are restricted for investment in capital assets, which, by their nature, are not available for expenses.

(6) Operating Revenues: Revenues consist of State Fair revenue and revenue from the leasing of MEFA facilities.

(7) Operating Expenses: Expenses related to the administration of MEFA, including depreciation and compensated absences expenses.

(8) Nonoperating Revenues: Nonoperating revenues consist of interest earned on investment in the State Treasurer's common cash pool.

Note 2 Capital Assets

MEFA records its capital assets at cost and depreciates them over their useful lives using the straight-line depreciation method. Capital asset activities for the fiscal year ended September 30, 2006 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 3,360,000	$	$	$ 3,360,000
Buildings and improvements	12,031,912			12,031,912
Non-EDP equipment	298,786	15,000		313,786
Capital assets (cost)	$ 15,690,698	$ 15,000	$ 0	$ 15,705,698
Less accumulated depreciation for:				
Buildings and improvements	$ (6,780,792)	$ (331,791)	$	$ (7,112,583)
Non-EDP equipment	(298,786)	(15,000)		(313,786)
Total Accumulated Depreciation	$ (7,079,578)	$ (346,791)	$ 0	$ (7,426,369)
Capital assets (net)	$ 8,611,120	$ (331,791)	$ 0	$ 8,279,329

Note 3 Compensated Absences

Noncurrent liabilities are accrued when incurred in proprietary funds (using the accrual basis of accounting). The following table summarizes compensated absences liabilities of MEFA:

Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
$ 116,743	$ 7,069	$ 27,926	$ 95,886	$ 39,512

Note 4 Description of Leasing Arrangements

MEFA leases the Agriculture Building and Michigan Mall East under the terms of a 5-year operating lease effective November 26, 2004. The tenant has the right to extend the lease agreement for 3 additional option terms of 5 full lease years.

MEFA leases land for vehicle storage on the State fairgrounds. This operating lease has a cancellation clause but, for reporting purposes, such a cancellation clause is not considered because the likelihood that it will be exercised is remote. Lease rentals are contingent on the number of vehicles stored on the State fairgrounds.

Note 5 Schedule of Investment in Property on Operating Leases

The following schedule provides an analysis of MEFA's investment in property on operating leases as of September 30, 2006:

Land	$ 2,344,186
Buildings	1,018,962
Less accumulated depreciation	(718,441)
Net investment in property on operating leases	$ 2,644,707

Note 6 Rentals Under Operating Leases

The following is a schedule, by year, of minimum future rentals on noncancelable operating leases as of September 30, 2006:

Year ending September 30:	
2007	$ 100,000
2008	100,000
2009	100,000
2010	100,000
2011*	100,000
2012 and later*	1,465,342
Total minimum future rentals**	$ 1,965,342

* Minimum future rentals are subject to extension of the lease agreement by the tenant.

** Total minimum future rentals do not include contingent rentals received under a lease of MEFA land on the basis of tenant use. Contingent rentals amounted to $1,109,845 during fiscal year 2005-06.

Note 7 Employee Benefits

The employer's share of life, health, optical, dental, and long-term disability insurance premiums are charged by the State of Michigan to MEFA biweekly for each State employee's selected coverage.

Note 8 Pension Plans

MEFA employees who meet certain eligibility requirements are enrolled in a noncontributory defined benefit system or a defined contribution plan through the State Employees' Retirement System. Detail and data regarding the plan descriptions, accounting policies, vesting and eligibility requirements, actuarial cost methods and assumptions, funding status and requirements, and 10-year historical trend information are provided in the *SOMCAFR* and the plans' detailed financial reports, issued by the DMB Office of Retirement Services.

Note 9 Major Customer Information

MEFA received revenue from a single customer of approximately $1.1 million, which represented 19% of MEFA's total revenues during fiscal year 2005-06. These revenues related to the rental of MEFA property outside of the time period for the annual State Fair.

Note 10 Risk Management

MEFA participates in the State of Michigan's (primary government) risk management program. The State is self-insured for most general liability and property losses; portions of its employee insurance benefit and bonding programs; and automobile liability, workers' compensation, and unemployment claims. The State Sponsored Group Insurance Fund and Risk Management Fund (internal service funds) have been established by the State to account for these self-insured risk management programs. As a participant, MEFA recognizes expenses for payments made to the State in a manner similar to purchasing commercial insurance. Charges to finance the self-insured programs are based on estimates of amounts needed to pay prior and current year claims as determined annually by DMB.

SUPPLEMENTAL FINANCIAL SCHEDULE

MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY
Schedule of Revenues, Expenses, and Changes in Net Assets - Budget and Actual
For the Fiscal Year Ended September 30, 2006

Statutory/Budgetary Basis	Budget	Actual	Variance
REVENUES AND OTHER SOURCES			
Miscellaneous	$ 6,512,500	$ 5,730,205	$ (782,295)
Total Revenues and Other Sources	$ 6,512,500	$ 5,730,205	$ (782,295)
EXPENSES, TRANSFERS OUT, AND ENCUMBRANCES			
Operations	$ 5,990,200	$ 5,810,575	$ (179,625)
Unclassified salary	101,500	99,499	(2,001)
Information technology	88,800	51,522	(37,278)
Depreciation	332,000	331,791	(209)
Total Expenses, Transfers Out, and Encumbrances	$ 6,512,500	$ 6,293,387	$ (219,113)
Revenues and Other Sources Over (Under) Expenses, Encumbrances, and Other Uses (Statutory/budgetary basis)	$ 0	$ (563,183)	$ (563,183)
Reconciling Items:			
Encumbrances at September 30, 2005		$ (3,499)	
Net Reconciling Items		$ (3,499)	
Excess of Revenues and Other Sources Over (Under) Expenses and Other Uses (GAAP Basis)		$ (566,682)	
NET ASSETS (GAAP BASIS)			
Beginning balance		8,731,210	
Ending balance (GAAP Basis)		$ 8,164,528	

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mr. Mark T. Gaffney, Chair
Board of Directors
and
Mr. Timothy G. Jenkins, Acting General Manager
Michigan Exposition and Fairgrounds Authority
1120 West State Fair Avenue
Detroit, Michigan

Ms. Lisa Webb Sharpe, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Gaffney, Mr. Jenkins, and Ms. Webb Sharpe:

We have audited the financial statements of the Michigan Exposition and Fairgrounds Authority, a component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2006, as identified in the table of contents, and have issued our report thereon dated November 22, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Michigan Exposition and Fairgrounds Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Michigan Exposition and Fairgrounds Authority's financial statements are free of 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*.

This report is intended solely for the information and use of the Michigan Exposition and Fairgrounds Authority's Board of Directors and management and the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General
November 22, 2006

GLOSSARY

Glossary of Acronyms and Terms

DMB	Department of Management and Budget.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
GAAP	accounting principles generally accepted in the United States of America.
GASB	Governmental Accounting Standards Board.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
MEFA	Michigan Exposition and Fairgrounds Authority.

reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements.
SOMCAFR	*State of Michigan Comprehensive Annual Financial Report.*
unqualified opinion	An auditor's opinion in which the auditor states that: a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL