



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



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

“...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

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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, 2005*

Report Number:  
07-305-06

Released:  
May 2006

*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 identify any material weaknesses in internal control over financial reporting. However, we did identify reportable conditions (Findings 1 and 2).

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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  
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**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

May 4, 2006

Mr. Mark T. Gaffney, Chair  
Board of Directors  
and  
Mr. John C. Hertel, Manager  
Michigan Exposition and Fairgrounds Authority  
1120 W. State Fair Avenue  
Detroit, Michigan

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

Dear Mr. Gaffney, Mr. Hertel, 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, 2004 through September 30, 2005.

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 schedule; and our independent auditor's report on internal control over financial reporting and on compliance and other matters. This report also contains our findings, recommendations, and agency preliminary responses and a glossary of acronyms and terms.

The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL



## TABLE OF CONTENTS

### MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
INDEPENDENT AUDITOR'S REPORT	
Independent Auditor's Report on the Financial Statements	8
MANAGEMENT'S DISCUSSION AND ANALYSIS	
Management's Discussion and Analysis	11
FINANCIAL STATEMENTS	
Michigan Exposition and Fairgrounds Authority Financial Statements	
Statement of Net Assets	16
Statement of Revenues, Expenses, and Changes in Net Assets	17
Statement of Cash Flows	18
Notes to the Financial Statements	19
SUPPLEMENTAL SCHEDULE	
Schedule of Revenues, Expenses, and Changes in Net Assets - Budget and Actual	29

INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL AND COMPLIANCE

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	32
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FINDINGS, RECOMMENDATIONS, AND  
AGENCY PRELIMINARY RESPONSE

1. Vendor Space Rentals	35
2. Entry Office Cash Controls	36

GLOSSARY

Glossary of Acronyms and Terms	39
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# INDEPENDENT AUDITOR'S REPORT



STATE OF MICHIGAN  
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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. John C. Hertel, Manager  
Michigan Exposition and Fairgrounds Authority  
1120 W. State Fair Avenue  
Detroit, Michigan

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

Dear Mr. Gaffney, Mr. Hertel, 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, 2005, 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, 2005 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, 2005 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.

As discussed in Notes 1 and 11 to the financial statements, the Michigan Exposition and Fairgrounds Authority changed its measurement focus and basis of accounting during fiscal year 2004-05. Act 468, P.A. 2004, created the Michigan Exposition and Fairgrounds Authority under the general supervision of the Department of Management and Budget, effective March 1, 2005. As a new reporting entity, the Michigan Exposition and Fairgrounds Authority financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2005 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 schedule of revenues, expenses, and changes in net assets - budget and actual 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.

AUDITOR GENERAL

December 2, 2005

# 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, 2004 through September 30, 2005. 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 basic financial statements, notes to the financial statements, and one supplemental 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.

As a component unit, this reporting period is the first in which GASB Statement No. 34 is applied to MEFA. Prior year data is not presented; however, comparative data will be presented in future MEFA financial reports.

**Condensed Financial Information**  
**From the Statement of Net Assets**  
As of September 30, 2005

Current assets	\$ 2,180,172
Capital assets	8,611,120
Total Assets	<u>\$10,791,292</u>
Current liabilities	\$ 1,969,798
Noncurrent liabilities	90,284
Total Liabilities	<u>\$ 2,060,082</u>
Net Assets	
Invested in capital assets	\$ 8,611,120
Unrestricted	<u>120,090</u>
Total Net Assets	<u>\$ 8,731,210</u>

**Current assets** consist primarily of equity in common cash and accounts receivable from sponsors, vendors, and non-Fair lease agreements.

**Capital assets** are land, buildings, and equipment, net of accumulated depreciation.

**Current liabilities** primarily consist of warrants outstanding and accounts payable to suppliers and contractors associated with annual State Fair operations.

**Noncurrent liabilities** are the noncurrent portion of compensated absences.

**Condensed Financial Information**  
**From the Statement of Revenues, Expenses,**  
**and Changes in Net Assets**  
For the Fiscal Year Ended September 30, 2005

Operating Revenues	
Fair revenues	\$ 3,757,159
Non-Fair revenues	2,161,380
Total Operating Revenues	<u>\$ 5,918,540</u>
Operating Expenses	
Salaries, wages, and other operating expenses	<u>\$ 6,364,705</u>
Total Operating Expenses	<u>\$ 6,364,705</u>
Operating Loss	\$ (446,165)
Nonoperating Revenues	<u>10,911</u>
Net Loss	\$ (435,254)
Change in Net Assets	
Total net assets - Beginning of fiscal year	<u>9,166,464</u>
Total net assets - End of fiscal year	<u>\$ 8,731,210</u>

**Fair revenues** were lower during fiscal year 2004-05 because of a 26% decrease in attendance at the 2005 State Fair.

**Non-Fair revenues** were lower because of a one-time sale of land in fiscal year 2003-04.

**Salaries, wages, and other operating expenses** increased primarily because MEFA recorded depreciation expenses and compensated balance expenses in fiscal year

2004-05 as a component unit but not in previous years as a subfund in the General Fund.

The **operating loss, net loss, and change in net assets** reflect the effect of MEFA's operations for the fiscal year as a result of decreasing Fair revenues and newly recorded expenses.

**Condensed Financial Information**  
**From the Statement of Cash Flows**  
For the Fiscal Year Ended September 30, 2005

Cash provided (used) by:	
Operating activities	\$ 367,061
Investing activities	10,911
Net increase in cash	<u>\$ 377,972</u>
Cash - Beginning of fiscal year	<u>304,247</u>
Cash - End of fiscal year	<u><u>\$ 682,219</u></u>

MEFA experienced a **net increase in cash** because it had increases in warrants outstanding and accounts payable that were not yet paid as of September 30, 2005.

# FINANCIAL STATEMENTS

MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY

Statement of Net Assets  
As of September 30, 2005

**ASSETS**

Current Assets:

Cash	\$ 3,500
Equity in common cash	1,399,587
Accounts receivable and other current assets	<u>777,085</u>
Total Current Assets	<u>\$ 2,180,172</u>

Capital Assets (Notes 2 and 5):

Land and other nondepreciable assets	\$ 3,360,000
Buildings, equipment, and other depreciable assets	12,330,698
Less accumulated depreciation	<u>(7,079,579)</u>
Total Capital Assets	<u>\$ 8,611,120</u>
Total Assets	<u>\$ 10,791,292</u>

**LIABILITIES**

Current Liabilities:

Warrants outstanding	\$ 720,868
Accounts payable and other liabilities	1,208,260
Amounts due to primary government	9,724
Deferred revenue	4,487
Current portion of other long-term obligations (Note 3)	<u>26,459</u>
Total Current Liabilities	<u>\$ 1,969,798</u>

Noncurrent Liabilities:

Noncurrent portion of other long-term obligations (Note 3)	<u>90,284</u>
Total Liabilities	<u>\$ 2,060,082</u>

**NET ASSETS**

Invested in capital assets, net of related debt	\$ 8,611,120
Unrestricted	<u>120,090</u>
Total Net Assets	<u><u>\$ 8,731,210</u></u>

MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the Period October 1, 2004 through September 30, 2005

**OPERATING REVENUES**

Fair Revenues	
Gate admissions	\$ 1,305,527
Parking	213,046
Midway	848,671
Merchandise	33,121
Concessions	24,773
Vendor space rental	333,675
Entry fees	124,306
Sponsorship	629,544
Premiums	200,816
Miscellaneous	43,681
Total Fair Revenues	<u>\$ 3,757,159</u>
Non-Fair Revenues	
Gate admissions	\$ 24,869
Parking	89,555
Merchandise	1,060
Concessions	17,049
Grounds rentals (Note 6)	1,662,686
Buildings rentals (Note 6)	355,261
Miscellaneous	10,900
Total Non-Fair Revenues	<u>\$ 2,161,380</u>
Total Operating Revenues	<u>\$ 5,918,540</u>

**OPERATING EXPENSES**

Administration	\$ 1,905,780
Building and grounds maintenance and security	2,285,096
Agriculture and Livestock Division	545,225
Community Arts Division	159,596
Grounds entertainment	474,913
Professional entertainment	626,254
Depreciation	334,291
Compensated Absences	33,550
Total Operating Expenses	<u>\$ 6,364,705</u>
Operating Loss	<u>\$ (446,165)</u>

**NONOPERATING REVENUES**

Interest	\$ 10,911
Total Nonoperating Revenues	<u>\$ 10,911</u>
Net Loss	\$ (435,254)

**CHANGE IN NET ASSETS**

Total net assets - Beginning of fiscal year (Note 11)	<u>9,166,464</u>
Total net assets - End of fiscal year	<u><u>\$ 8,731,210</u></u>

MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY  
Statement of Cash Flows  
For the Period October 1, 2004 through September 30, 2005

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 5,207,485
Payments to employees and suppliers	(4,728,038)
Claims paid	(116,323)
Other payments	3,937
Net cash provided (used) by operating activities	\$ 367,061

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest	\$ 10,911
Net cash provided (used) by investing activities	\$ 10,911

Net cash provided (used) - all activities	\$ 377,972
Cash and cash equivalents - Beginning of fiscal year	304,247

Cash and cash equivalents - End of fiscal year	\$ 682,219
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**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Per statement of net assets classifications:	
Cash	\$ 3,500
Equity in common cash	1,399,587
Warrants outstanding	(720,868)
Cash and cash equivalents - End of fiscal year	\$ 682,219

**RECONCILIATION OF OPERATING INCOME (LOSS) TO  
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating income (loss)	\$ (446,165)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	334,291
Changes in assets and liabilities:	
Accounts receivable and other assets	(777,085)
Accounts payable and other liabilities	1,256,021
Net cash provided (used) by operating activities	\$ 367,061

## Notes to 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 Financial Statement Presentation

- (1) Fund Accounting: The accounts of the component units of the State of Michigan are organized on the basis of funds, each of which is considered a separate accounting entity. MEFA's operations are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Government resources are allocated to and accounted for in separate funds, based upon the purposes for which they are to be spent and the means by which spending activities are controlled.
- (2) Proprietary Funds: MEFA is a proprietary fund. Proprietary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are a determination of net income, financial position, and cash flow. All assets and liabilities associated with the proprietary fund activities are included on the statement of net assets.

Proprietary funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises, i.e., where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accompanying financial statements present only MEFA. Accordingly, they do not 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 generally accepted accounting principles.

c. Basis of Accounting

Proprietary fund types use 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. 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.

d. 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 Treasurer invests money 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. For the period ended September 30, 2005, MEFA made no purchases of buildings or equipment.
- (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 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 \$8,611,120 are restricted for investment in capital assets, which, by their nature, are not available for expenses.

- (6) Operating Revenues: Revenues consist of 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 totaling \$367,841, which were recorded for the first time in fiscal year 2004-05.
- (8) Nonoperating Revenues: Nonoperating revenues consist of interest earned on investments 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, 2005 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			298,786
Capital assets (cost)	<u>\$15,690,698</u>	<u>\$</u>	<u>\$</u>	<u>\$15,690,698</u>
Less accumulated depreciation for:				
Buildings and improvements	\$(6,449,002)	\$(331,791)	\$	\$(6,780,792)
Non-EDP Equipment	(296,286)	(2,500)		(298,786)
Total Accumulated Depreciation	<u>\$(6,745,288)</u>	<u>\$(334,291)</u>	<u>\$</u>	<u>\$(7,079,578)</u>
Capital assets (net)	<u>\$ 8,945,410</u>	<u>\$(334,291)</u>	<u>\$</u>	<u>\$ 8,611,120</u>

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
Compensated absences	\$83,193	\$33,550	\$ 0	\$116,743	\$26,459

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, 2005:

Land	\$ 2,344,186
Buildings	1,018,962
Less: Accumulated depreciation	(696,180)
	<hr/>
Net investment in property on operating leases	<u>\$ 2,666,968</u>

Note 6 Rentals Under Operating Leases

The following is a schedule by years of minimum future rentals on noncancelable operating leases as of September 30, 2005:

Year ending September 30:	
2006	\$ 100,000
2007	100,000
2008	100,000
2009	100,000
2010*	100,000
2011 and later*	<u>1,565,342</u>
Total minimum future rentals**	<u>\$2,065,342</u>

\* 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 \$1,662,686 during fiscal year 2004-05.

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 \$1.7 million which represented 28% of MEFA's total revenues. 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.

Note 11 Accounting Change

In previous fiscal years, MEFA's assets, liabilities, revenues, and expenses were reported in the primary government's portion of the government-wide financial statements using the current financial resources measurement focus and the modified accrual basis of accounting. The creation of MEFA resulted in a new reporting entity, a discretely presented component unit of the State of Michigan, using proprietary fund accounting. As stated in Note 1, proprietary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting.

MEFA restated its beginning net assets balance during fiscal year 2004-05 in the amount of \$9,166,464. These net assets were reported in the primary government's statement of net assets as of September 30, 2004. The beginning balances consisted of \$304,247 of equity in common cash; \$8,945,410 of land, buildings, and equipment, net of accumulated depreciation; and \$83,193 of compensated absence liability.

Also, MEFA accounted for and reported all State exposition and fairgrounds activities during fiscal year 2004-05. To accomplish this, the primary government transferred to MEFA fiscal year 2004-05 State exposition and

fairgrounds revenues of \$284,223 and expenses of \$1,133,568 that were initially recorded in primary government accounts.



# SUPPLEMENTAL 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, 2005

<u>Statutory/Budgetary Basis</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES AND OTHER SOURCES</b>			
Miscellaneous	\$ 6,073,500	\$ 5,929,451	\$ (144,049)
Total Revenues and Other Sources	<u>\$ 6,073,500</u>	<u>\$ 5,929,451</u>	<u>\$ (144,049)</u>
<b>EXPENSES, TRANSFERS OUT, AND ENCUMBRANCES</b>			
Operations	\$ 5,949,900	\$ 5,876,778	\$ 73,123
Unclassified salary	86,600	86,586	14
Information technology	37,000	37,000	
Total Expenses, Transfers Out, and Encumbrances	<u>\$ 6,073,500</u>	<u>\$ 6,000,364</u>	<u>\$ 73,136</u>
Revenues and Other Sources Over (Under) Expenses, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ 0</u>	<u>\$ (70,912)</u>	<u>\$ (70,912)</u>
Reconciling Items:			
Encumbrances at September 30		\$ 3,499	
Funds not annually budgeted:			
Depreciation expense		(334,291)	
Compensated absences expense		<u>(33,550)</u>	
Net Reconciling Items		<u>\$ (364,342)</u>	
Excess of Revenues and Other Sources Over (Under) Expenses and Other Uses (GAAP Basis)		\$ (435,254)	
<b>NET ASSETS (GAAP BASIS)</b>			
Beginning balance		<u>9,166,464</u>	
Ending balance (GAAP Basis)		<u>\$ 8,731,210</u>	



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. John C. Hertel, Manager  
Michigan Exposition and Fairgrounds Authority  
1120 W. State Fair Avenue  
Detroit, Michigan

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

Dear Mr. Gaffney, Mr. Hertel, 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, 2005, as identified in the table of contents, and have issued our report thereon dated December 2, 2005. 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Michigan Exposition and Fairgrounds Authority's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Findings 1 and 2.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that neither of the reportable conditions identified in the previous paragraph is a material weakness.

#### 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.

AUDITOR GENERAL

December 2, 2005

# FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

## **FINDING**

### **1. Vendor Space Rentals**

The Michigan Exposition and Fairgrounds Authority (MEFA) did not sign all vendor space rental contracts and obtain required insurances for such contracts prior to the start of the annual State Fair. Without signed contracts and appropriate insurance coverage, MEFA exposed the State to potential liabilities.

MEFA regulation states that MEFA shall not admit the property of an exhibitor or concessionaire on the fairgrounds unless the exhibitor or concessionaire presents all certificates of insurance. Also, MEFA policy requires all vendors to provide the Fair with a signed contractual agreement, certificates of insurance, and a security deposit before the opening of the annual State Fair. Appropriate insurance coverage protects MEFA and the State against losses, claims, lawsuits, and other legal proceedings due to personal injury, loss of life, and/or property damage resulting from or in any way connected with the installation, operation, use, or dismantling of a vendor's exhibit or concession.

MEFA rents space to vendors based on a flat rate per square foot for indoor concessions and a flat rate per linear front foot for outside concessions. Vendor space rental revenue for fiscal year 2004-05 was \$333,675 (9% of MEFA total Fair revenues).

We obtained a listing of 108 vendors for which MEFA had collected vendor space rental revenue. We reviewed 71 MEFA vendor space rental files and records of revenue collected from each vendor. Our review disclosed the following deficiencies related to vendor space rentals:

- a. MEFA management did not sign 8 (11%) of the 71 vendor contracts prior to the start of the annual State Fair. Also, 1 contract had not been signed by the vendor.
- b. MEFA did not have evidence of liability insurance for 4 (6%) of the 71 vendors prior to the start of the annual State Fair.
- c. MEFA did not have evidence of workers' compensation insurance for 9 (13%) of the 71 vendors prior to the start of the annual State Fair.

Management review and approval of all vendor space rental contracts before the start of the annual State Fair would help ensure compliance with regulatory and policy requirements. Also, it would provide MEFA with assurance that the interests of the State were protected and that vendors who conduct business on the fairgrounds are in compliance with the contract as of the start of the Fair.

## **RECOMMENDATION**

We recommend that MEFA sign vendor space rental contracts and obtain required insurances for such contracts prior to the start of the annual State Fair.

## **AGENCY PRELIMINARY RESPONSE**

MEFA agrees and will comply by August 2006. MEFA informed us that internal controls are being reviewed and revised controls will be implemented to ensure that all vendor space rental contracts are signed and required insurance certificates are obtained from vendors prior to the start of the 2006 State Fair.

## **FINDING**

### **2. Entry Office Cash Controls**

MEFA did not have sufficient controls to properly safeguard cash receipts at its entry offices. As a result of internal control deficiencies at the entry offices, MEFA lacked assurance that cash was safeguarded against loss from errors or irregularities.

The State of Michigan Financial Management Guide (Part II, Chapter 9, Section 100) states that if a cash register or validating machine is unavailable, a pre-numbered cash receipt should be used. Also, cash receipts retained on site must be stored in a secure location, i.e., a safe or a locked file cabinet. Further, sound internal control over cash requires an audit trail for all transactions.

MEFA processes all exhibitor entries for agriculture (livestock, fruits, vegetables, flowers, and legumes) and community arts (arts and crafts, baked goods, etc.) at two locations. The processing includes collecting and receipting exhibitor fees and

ensuring that exhibitors receive premiums\* and other recognitions for outstanding entries. MEFA's two entry offices use a database system to record exhibitor entries and the related cash receipts.

During the 2005 State Fair, all 6 staff in one entry office processed entries and accepted cash while using the same cash till, which was kept in an unlocked drawer. Also, the database system used by both entry offices did not require passwords or user accounts and allowed employees to post edit records of exhibitor entries and cash receipts without leaving a post edit audit trail.

During fiscal year 2004-05, MEFA deposited \$115,028 in entry fee receipts that it received from its entry offices. However, because of the cited internal control deficiencies, MEFA could not determine whether this amount comprised all the revenue received by the entry offices.

### **RECOMMENDATION**

We recommend that MEFA implement sufficient controls to properly safeguard cash receipts at its entry offices.

### **AGENCY PRELIMINARY RESPONSE**

MEFA agrees and informed us that it is reviewing entry office cash procedures and will implement improved internal controls. MEFA also indicated that it is in the process of reviewing its existing database program to determine whether internal controls can be incorporated into the program or if a different database is needed. If a new database is needed to replace the current program, it will be operational for the 2007 State Fair.

\* See glossary at end of report for definition.

# 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.

premiums	Cash prizes awarded to winning exhibitors for their entries.
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.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
unqualified opinion	<p>An auditor's opinion in which the auditor states that:</p> <ol style="list-style-type: none"> <li>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</li> <li>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 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 taken by themselves.</li> </ol>



