MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT
OF THE

MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY

(A Discretely Presented Component Unit of the State of Michigan)

October 1, 2006 through September 30, 2007

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

071-0305-08

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:
http://audgen.michigan.gov

Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Michigan Exposition and Fairgrounds Authority
(A Discretely Presented Component Unit of the State of Michigan)
Fiscal Year Ended September 30, 2007

Report Number:
071-0305-08

Released:
March 2008

A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with 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 identified two significant deficiencies in internal control over financial reporting (Findings 1 and 2). We do not consider these significant deficiencies to be material weaknesses.

The Department of Management and Budget did not properly record accounting entries related to expenses and accounts receivable write-offs (Finding 1).

MEFA did not obtain signed contracts and required insurance certifications for all vendor space rentals prior to the start of the State Fair (Finding 2).

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Noncompliance and 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 Michigan Department of Agriculture, and 9 members appointed by the Governor with the advice and consent of the Senate. The MEFA general 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

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201 N. Washington Square
Lansing, Michigan 48913

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

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Deputy Auditor General

STATE OF MICHIGAN
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

March 26, 2008

Mr. Mark T. Gaffney, Chair
Board of Directors
and
Mr. Steven R. Jenkins, 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 discretely presented component unit of the State of Michigan, for the period October 1, 2006 through September 30, 2007.

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

071-0305-08

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TABLE OF CONTENTS

MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND COMPLIANCE

FINDINGS, RECOMMENDATIONS, AND
AGENCY PRELIMINARY RESPONSES

GLOSSARY

INDEPENDENT AUDITOR'S REPORT

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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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. Steven R. Jenkins, 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 discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2007, 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, 2007 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, 2007 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 December 21, 2007 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 Michigan Exposition and Fairgrounds Authority's 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 21, 2007

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, 2006 through September 30, 2007. MEFA's management is responsible for the financial statements, the 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 general manager administers the business operations of MEFA and serves at the pleasure of the Governor. The MEFA general 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

	2007	2006
Current assets	$1,492,295	$1,637,912
Capital assets	7,948,843	8,279,329
Noncurrent assets	39,031	39,031
Total assets	$9,480,170	$9,956,272
Current liabilities	$1,563,162	$1,735,369
Noncurrent liabilities	84,908	56,375
Total liabilities	$1,648,070	$1,791,744
Net assets		
Invested in capital assets	$7,948,843	$8,279,329
Unrestricted	(116,743)	(114,801)
Total net assets	$7,832,100	$8,164,528

Current assets consist primarily of equity in common cash and accounts receivable from sponsors, vendors, and non-Fair lease agreements. Current assets decreased approximately $146,000 in fiscal year 2006-07 primarily because of a large decrease in non-Fair revenues.

Capital assets are land, buildings, and equipment, net of accumulated depreciation. Capital assets decreased approximately $330,000 because of depreciation expense.

Current liabilities primarily consist of warrants outstanding and accounts payable to suppliers and contractors associated with annual State Fair operations. Current liabilities decreased approximately $172,000 in fiscal year 2006-07 primarily because of a decrease in Fair expenses.

Noncurrent liabilities are the noncurrent portion of compensated absences.

Overall, **net assets** were reduced by approximately $332,000 during fiscal year 2006-07 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

	2007	2006
Operating revenues		
Fair revenues	$3,995,300	$3,939,670
Non-Fair revenues	750,694	1,778,644
Total operating revenues	$4,745,995	$5,718,314
Operating expenses	$5,057,038	$6,296,886
Total operating expenses	$5,057,038	$6,296,886
Operating loss	$ (311,043)	$ (578,573)
Nonoperating revenues (expenses)	(21,385)	11,891
Change in net assets	$ (332,428)	$ (566,682)
Total net assets - Beginning of fiscal year	8,164,528	8,731,210
Total net assets - End of fiscal year	$7,832,100	$8,164,528

Fair revenues were higher during fiscal year 2006-07 because of an increase in parking and admission prices.

Non-Fair revenues decreased by approximately $1,028,000 during fiscal year 2006-07 primarily because one of MEFA's lessees, which made up a large portion of grounds rental revenue, discontinued its use of the fairgrounds for vehicle storage.

Operating expenses decreased by approximately $1,240,000 during fiscal year 2006-07 primarily because of reductions in administration and building and grounds maintenance and security expenses, as well as professional entertainment expenses.

The **operating loss and change in net assets** reflect the effect of MEFA's operations for the fiscal years as a result of insufficient revenues to support expenses, including depreciation expense of $330,486 for fiscal year 2006-07 and $331,791 for fiscal year 2005-06.

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

	2007	2006
Net cash provided (used) by:		
Operating activities	$ (75,205)	$144,993
Investing activities	(21,385)	11,891
Net cash provided (used) - All activities	$ (96,590)	$156,884
Cash - Beginning of fiscal year	839,103	682,219
Cash - End of fiscal year	$742,513	$839,103

MEFA experienced a decrease in **net cash provided (used) - all activities** because of a decrease in receipts from customers of approximately $1.3 million that offset a decrease in payments to suppliers and employees of approximately $1.1 million.

FINANCIAL STATEMENTS

MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY
Statement of Net Assets
As of September 30, 2007

ASSETS		
Current assets:		
Cash	$	3,500
Equity in common cash		932,094
Accounts receivable and other current assets		556,701
Total current assets	$	1,492,295
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		(7,756,855)
Total capital assets	$	7,948,843
Noncurrent assets:		
Accounts receivable and other noncurrent assets	$	39,031
Total assets	$	9,480,170
LIABILITIES		
Current liabilities:		
Warrants outstanding	$	193,082
Accounts payable and other liabilities		1,270,081
Amounts due to primary government		17,481
Deferred revenue		25,500
Current portion of other long-term obligations (Note 3)		57,018
Total current liabilities	$	1,563,162
Noncurrent liabilities:		
Noncurrent portion of other long-term obligations (Note 3)		84,908
Total liabilities	$	1,648,070
NET ASSETS		
Invested in capital assets, net of related debt	$	7,948,843
Unrestricted		(116,743)
Total net assets	$	7,832,100

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, 2007

OPERATING REVENUES		
Fair revenues		
Gate admissions	$	1,223,070
Parking		337,286
Midway		937,589
Merchandise		30,385
Concessions		14,100
Vendor space rental		368,742
Entry fees		156,681
Sponsorship		663,418
Premiums		217,284
Miscellaneous		46,745
Total Fair revenues	$	3,995,300
Non-Fair revenues		
Gate admissions	$	28,542
Parking		80,411
Merchandise		913
Concessions		17,011
Grounds rental (Note 4)		268,661
Buildings rental (Notes 4, 5, and 6)		350,212
Miscellaneous		4,945
Total non-Fair revenues	$	750,694
Total operating revenues	$	4,745,995
OPERATING EXPENSES		
Administration	$	778,384
Building and grounds maintenance and security		1,131,618
Agriculture and Livestock Division		546,796
Community Arts Division		136,383
Grounds entertainment		429,073
Professional entertainment		437,847
Fair expenses		1,266,451
Depreciation		330,486
Total operating expenses	$	5,057,038
Operating loss	$	(311,043)
NONOPERATING REVENUES (EXPENSES)		
Interest	$	(21,385)
Total nonoperating revenues (expenses)	$	(21,385)
Change in net assets	$	(332,428)
Total net assets - Beginning of fiscal year		8,164,528
Total net assets - End of fiscal year	$	7,832,100

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, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 4,751,691
Payments to employees	(1,030,146)
Payments to suppliers	(3,684,554)
Claims paid	(112,196)
Net cash provided (used) by operating activities	$ (75,205)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	$ (21,385)
Net cash provided (used) by investing activities	$ (21,385)
Net cash provided (used) - All activities	$ (96,590)
Cash and cash equivalents - Beginning of fiscal year	839,103
Cash and cash equivalents - End of fiscal year	$ 742,513
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Per statement of net assets classifications:	
Cash	$ 3,500
Equity in common cash	932,094
Warrants outstanding	(193,082)
Cash and cash equivalents - End of fiscal year	$ 742,513
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	$ (311,043)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	330,486
Changes in assets and liabilities:	
Accounts receivable and other assets (net)	(119,887)
Accounts payable and other liabilities	25,239
Net cash provided (used) by operating activities	$ (75,205)

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 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 Michigan 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 Michigan Department of Agriculture, and 9 members appointed by the Governor with the advice and consent of the Senate. The MEFA general 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 discretely presented 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 of accounting, 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 pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

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 accounting principles generally accepted in the United States of America.

c. Financial Data

MEFA financial statements primarily present the following:

(1) Equity in common cash: Equity in common cash represents the amount of equity that MEFA had in the State Treasurer's common cash pool as of September 30, 2007. Act 468, P.A. 2004, requires that the State Treasurer manage MEFA's investments. The pooling of cash allows the State Treasurer to invest 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. All land is capitalized regardless of cost. Equipment is capitalized when the cost of individual items exceeds $5,000, and all other capital assets are capitalized when the cost of individual items or projects exceeds $100,000. Applicable capital assets are depreciated using the straight-line method. MEFA assigned useful lives that were most suitable for the particular assets. Estimated useful lives assigned were 5 years for equipment and 10 to 40 years for buildings and building renovations.

(3) Warrants outstanding: Warrants outstanding represent drafts issued against the State'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." Net assets of $7,948,843 are restricted for investment in capital assets, which, by their nature, are not available for expenses.

(5) Operating revenues: Operating revenues primarily consist of State Fair revenue and revenue from the leasing of MEFA facilities.

(6) Operating expenses: Operating expenses include administration, maintenance and security, Fair expenses, and depreciation.

(7) Nonoperating revenues and expenses: Nonoperating revenues and expenses consist of interest earned or paid on investment in or borrowing from the State's common cash pool.

(8) Cash and cash equivalents: On the statement of cash flows, the amount reported as cash and cash equivalents is equal to the total of the amounts reported on the statement of net assets as cash and equity in common cash, less the amount of warrants outstanding.

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, 2007 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	313,786			313,786
Capital assets (cost)	$ 15,705,698	$ 0	$ 0	$ 15,705,698
Less accumulated depreciation for:				
Buildings and improvements	$ (7,112,583)	$ (330,486)	$	$ (7,443,069)
Non-EDP equipment	(313,786)			(313,786)
Total accumulated depreciation	$ (7,426,369)	$ (330,486)	$ 0	$ (7,756,855)
Capital assets (net)	$ 8,279,329	$ (330,486)	$ 0	$ 7,948,843

Note 3 Compensated Absences

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
$95,886	$67,550	$21,510	$141,926	$57,018

Note 4 Description of Leasing Arrangements

MEFA leases the Agriculture Building and Michigan Mall East to a private entity 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 leased land for vehicle storage on the State fairgrounds. Lease rentals were contingent on the number of vehicles stored on the State fairgrounds. This lease was canceled early in fiscal year 2006-07.

Note 5 Schedule of Investment in Property on Operating Leases

The following schedule provides an analysis of MEFA's property on operating leases as of September 30, 2007:

Buildings	$1,018,962
Less: Accumulated depreciation	(740,702)
Net investment in property on operating leases	$ 278,260

Note 6 Rentals Under Operating Leases

The following is a schedule, by year, of minimum future rentals on non-cancelable operating leases as of September 30, 2007:

Year ending September 30:	
2008	$ 50,000
2009	50,000
2010	50,000
2011	50,000
2012	50,000
2013 and later	600,000
Total minimum future rentals*	$ 850,000

* Minimum future rentals after September 30, 2009 are subject to extension of the lease agreement by the tenant.

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 and Other Postemployment Benefits

The Authority's employees are members of the State of Michigan State Employees' Retirement System (SERS) and are enrolled in either a defined benefit plan or a defined contribution plan and participate in the State of Michigan's postemployment benefits, as discussed below. Detailed information regarding the plans' 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* or SERS financial report. The *SOMCAFR* can be obtained by writing to the Department of Management and Budget, Office of the State Budget, 111 S. Capitol Avenue, Lansing, Michigan 48913 or by calling (517) 373-7560. The SERS and defined contribution plan reports can be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103 or 1-800-381-5111.

The Authority is responsible only for the contribution amounts charged to the Authority by the State of Michigan. The Authority is not responsible for the plans' net pension obligations as these are obligations of the State of Michigan; however, the funding status of the defined benefit plan may impact future employer required contributions.

<u>Defined Benefit Plan</u>: The Authority's employees hired prior to March 31, 1997 are enrolled in a noncontributory defined benefit plan through SERS upon meeting certain eligibility requirements. This plan provides retirement, disability, and death benefits and annual cost-of-living adjustments to plan members. The contribution requirements of plan members and the Authority and the benefit provisions for the plan are established and may be amended by the State Legislature.

The Authority's contribution requirements and the contributions actually made were $33,027 for the fiscal year ended September 30, 2007.

<u>Defined Contribution Plan</u>: The defined contribution plan was established to provide benefits at retirement to State of Michigan employees who were hired on or after March 31, 1997 and to those employees hired before that date who elected to transfer to the defined contribution plan. This plan is administered by the Department of Management and Budget.

The Authority is required to contribute 4.0%, and to match employee contributions up to 3.0%, of annual covered payroll. Plan provisions and contribution requirements are established and may be amended by the State Legislature.

For the fiscal year ended September 30, 2007, the Authority's contributions were $22,963 and the Authority's member contributions were $4,572.

Other Employee Benefits: State statutes provide retired employees who meet certain vesting and other requirements with health, prescription drug, dental, and vision benefits, as well as life insurance coverage. The cost of retiree health care benefits is funded on a pay-as-you-go basis. The Authority paid $102,544 in contributions for the fiscal year ended September 30, 2007.

Note 9 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.

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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, 2007

Statutory/Budgetary Basis	Budget	Actual	Variance
REVENUES AND OTHER SOURCES			
Miscellaneous	$ 6,525,500	$ 4,747,944	$ (1,777,556)
Total revenues and other sources	$ 6,525,500	$ 4,747,944	$ (1,777,556)
EXPENSES, TRANSFERS OUT, AND ENCUMBRANCES			
Operations	$ 5,853,700	$ 4,666,146	$ 1,187,554
Unclassified salary	101,000	54,208	46,792
Information technology	88,800	29,532	59,268
Support	150,000		150,000
Depreciation	332,000	330,486	1,514
Total expenses, transfers out, and encumbrances	$ 6,525,500	$ 5,080,372	$ 1,445,128
Revenues and other sources over (under) expenses, encumbrances, and other uses (statutory/budgetary basis)	$ 0	$ (332,428)	$ (332,428)
Excess of revenues and other sources over (under) expenses and other uses (GAAP basis)		$ (332,428)	
NET ASSETS (GAAP BASIS)			
Beginning balance		8,164,528	
Ending balance (GAAP basis)		$ 7,832,100	

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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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. Steven R. Jenkins, 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 discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2007, as identified in the table of contents, and have issued our report thereon dated December 21, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Michigan Exposition and Fairgrounds Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Michigan Exposition and Fairgrounds Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the next paragraph, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules and/or financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Findings 1 and 2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that neither of the significant deficiencies described in the third paragraph of this section 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*.

The agency preliminary responses to the findings identified in our audit are included in the body of our report. We did not audit the agency preliminary responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Michigan Exposition and Fairgrounds Authority's Board of Directors, others within the Authority, 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 21, 2007

FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

FINDING

1. Internal Control

The Department of Management and Budget (DMB) did not properly record accounting entries related to expenses and accounts receivable write-offs. As a result, expenses and revenues were understated by $125,279.

Section 2600.116 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board (GASB), requires that resource flows between the primary government and discretely presented component units be reported as external transactions, i.e., as revenues and expenses. Also, Part II, Chapter 11, Section 200 of the State of Michigan Financial Management Guide states that the reduction of an overstated receivable established in a prior fiscal year is considered a write-off and should be recorded as a current fiscal year expense.

We noted:

a. DMB improperly reduced fiscal year 2006-07 Michigan Exposition and Fairgrounds Authority (MEFA) expenses in the amount of $88,826 when it provided funding to MEFA for building repairs incurred in fiscal year 2006-07. Because MEFA is a discretely presented component unit of the financial reporting entity of the State of Michigan and a proprietary fund, DMB should have recorded the funding as miscellaneous revenue to MEFA and MEFA should have retained the building maintenance expenses within its fund.

   Because DMB received authorization for a legislative transfer to pay for these repairs, it believed it was appropriate to record these payments in DMB's accounts rather than in MEFA's accounts.

b. DMB improperly reduced fiscal year 2006-07 MEFA non-Fair revenue in the amount of $36,453 when writing off a portion of the balance of accounts receivable established in prior fiscal years. Because the accounts receivable were established in prior fiscal years, DMB should have treated the transaction as an expense and not as a reduction to current year revenue. An adjustment to current year revenue would only be allowable if the adjustment occurred in the fiscal year that the accounts receivable were established.

RECOMMENDATION

We recommend that DMB properly record accounting entries related to expenses and accounts receivable write-offs.

AGENCY PRELIMINARY RESPONSE

DMB partially agrees with the recommendation.

Regarding part a., DMB disagrees. DMB informed us that it specifically requested and was granted approval through the legislative transfer process to treat these building costs as expenditures of DMB's building occupancy charges, rent, and utilities appropriation. Thus, DMB believes that these expenditures were appropriately charged to the authorized appropriation line item.

Regarding part b., DMB agrees and will comply.

FINDING

2. Vendor Space Rentals

MEFA did not obtain signed contracts and required insurance certifications for all vendor space rentals prior to the start of the State Fair. Without signed contracts and appropriate insurance certifications, MEFA exposed itself to potential liabilities.

Michigan Administrative Code R 291.345 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 MEFA 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.

We reviewed 25 (20%) of 124 vendor space rental files for which MEFA had collected vendor space rental revenue. Our review disclosed the following deficiencies related to vendor space rentals:

a. MEFA did not obtain signed contracts for 3 (12%) of the 25 vendors.

b. MEFA did not have evidence of liability insurance for 4 (16%) of the 25 vendors.

c. MEFA did not have evidence of workers' compensation insurance for 4 (16%) of the 25 vendors.

Management's 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 its interests were protected and that vendors who conduct business on the fairgrounds are in compliance with the contract as of the start of the State Fair.

RECOMMENDATION

We recommend that MEFA obtain signed contracts and required insurance certifications for all vendor space rentals prior to the start of the State Fair.

AGENCY PRELIMINARY RESPONSE

MEFA agrees with the recommendation. MEFA informed us that it will implement controls to ensure that all necessary contracts and attendant documents are signed and received prior to the start of the 2008 and future Michigan State Fairs.

GLOSSARY

control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
DMB	Department of Management and Budget.
EDP	electronic data processing.
FASB	Financial Accounting Standards Board.
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 presented fairly in all material respects 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 those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement at the entity's objectives with regard to 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 in internal control over financial reporting	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected.
MEFA	Michigan Exposition and Fairgrounds Authority.
SERS	State Employees' Retirement System.
significant deficiency in internal control over financial reporting	A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules and/or financial statements that is more than inconsequential will not be prevented or detected.
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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