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, 2007 through September 30, 2008

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

071-0305-09

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

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:
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Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Michigan Exposition and Fairgrounds Authority

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

Fiscal Year Ended September 30, 2008

Report Number:
071-0305-09

Released:
April 2009

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 significant deficiencies in internal control over financial reporting (Findings 1 and 2). We do not consider these significant deficiencies to be material weaknesses.

MEFA did not have sufficient controls over its ticket inventory and ticket sales (Finding 1).

MEFA did not always obtain required insurance certifications for 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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Agency Response:

Our audit report contains 2 findings and 2 corresponding recommendations. MEFA's preliminary response indicated that it agrees and will comply with both of the recommendations.

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

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

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

Scott M. Strong, C.P.A., C.I.A.
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

April 30, 2009

Mr. Mark T. Gaffney, Chair
Board of Directors
and
Mr. Robert G. Porter, 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. Porter, 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, 2007 through September 30, 2008.

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

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GLOSSARY

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. Robert G. Porter, 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. Porter, 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, 2008, 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, 2008 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, 2008 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.

The accompanying financial statements have been prepared assuming that the Michigan Exposition and Fairgrounds Authority will continue as a going concern. As discussed in Note 10 to the financial statements, Executive Order No. 2009-4 abolishes the Michigan Exposition and Fairgrounds Authority effective October 1, 2009. As a result, there is substantial doubt about the Michigan Exposition and Fairgrounds Authority's ability to continue as a going concern.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2009 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 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

February 27, 2009

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, 2007 through September 30, 2008. 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 reports of the independent auditor, management's discussion and analysis, the basic 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, noncapital and related financing, 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 is administered under the supervision of the director of the Department of Management and Budget and provides reports to the director, 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

	2008	2007
Current assets	$1,516,083	$1,492,295
Capital assets	7,619,663	7,948,843
Noncurrent assets		39,031
Total assets	$9,135,746	$9,480,170
Current liabilities	$1,531,266	$1,563,162
Noncurrent liabilities	101,561	84,908
Total liabilities	$1,632,827	$1,648,070
Net assets		
Invested in capital assets	$7,619,663	$7,948,843
Unrestricted	(116,743)	(116,743)
Total net assets	$7,502,919	$7,832,100

Current assets consist primarily of equity in common cash and accounts receivable from sponsors, vendors, and non-Fair lease agreements. Current assets increased approximately $24,000 in fiscal year 2007-08 primarily because of a payment from the State of Michigan that was partially offset by an increase in the allowance for doubtful accounts.

Capital assets are land, buildings, and equipment, net of accumulated depreciation. Capital assets decreased approximately $329,000 in fiscal year 2007-08 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 $32,000 in fiscal year 2007-08 primarily because of a decrease in Fair expenses and related liabilities at year-end.

Noncurrent liabilities are the noncurrent portion of compensated absences.

Overall, **net assets** were reduced by approximately $329,000 during fiscal year 2007-08 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

	2008	2007
Operating revenues		
Fair revenues	$ 3,387,498	$ 3,995,300
Non-Fair revenues	614,067	750,694
Total operating revenues	$ 4,001,565	$ 4,745,995
Operating expenses	$ 4,962,340	$ 5,057,038
Total operating expenses	$ 4,962,340	$ 5,057,038
Operating loss	$ (960,775)	$ (311,043)
Nonoperating revenues (expenses)	631,594	(21,385)
Change in net assets	$ (329,181)	$ (332,428)
Total net assets - Beginning of fiscal year	7,832,100	8,164,528
Total net assets - End of fiscal year	$ 7,502,919	$ 7,832,100

Fair revenues decreased by approximately $608,000 during fiscal year 2007-08 because of a decrease in attendance and sponsorships.

Non-Fair revenues decreased by approximately $137,000 during fiscal year 2007-08 because of a reduction in ground rental revenues that was partially offset by an increase in building rental revenues.

Operating expenses decreased by approximately $95,000 during fiscal year 2007-08 because of reductions in fair expenses.

Nonoperating revenues (expenses) increased by approximately $653,000 because of a grant received from a State agency and a payment received from the State of Michigan.

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 expenses of $329,181 for fiscal year 2007-08 and $330,486 for fiscal year 2006-07.

FINANCIAL STATEMENTS

MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY
Statement of Net Assets
As of September 30, 2008

ASSETS		
Current assets:		
Cash	$	3,500
Equity in common cash		1,145,372
Accounts receivable, net of allowance for doubtful accounts, and other current assets		367,211
Total current assets	$	1,516,083
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		(8,086,036)
Total capital assets	$	7,619,663
Total assets	$	9,135,746
LIABILITIES		
Current liabilities:		
Warrants outstanding	$	194,239
Accounts payable and other liabilities		1,243,329
Amounts due to primary government		44,649
Deferred revenue		15,400
Current portion of other long-term obligations (Note 3)		33,649
Total current liabilities	$	1,531,266
Noncurrent liabilities:		
Noncurrent portion of other long-term obligations (Note 3)		101,561
Total liabilities	$	1,632,827
NET ASSETS		
Invested in capital assets, net of related debt	$	7,619,663
Unrestricted		(116,743)
Total net assets	$	7,502,919

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, 2008

OPERATING REVENUES		
Fair revenues		
Gate admissions	$	1,157,693
Parking		247,116
Midway		790,929
Merchandise		15,923
Concessions		11,364
Vendor space rental		324,992
Entry fees		124,789
Sponsorship		478,935
Premiums		203,475
Miscellaneous		32,283
Total Fair revenues	$	3,387,498
Non-Fair revenues		
Gate admissions	$	36,846
Parking		79,513
Merchandise		536
Concessions		13,283
Grounds rental		6,250
Buildings rental (Notes 4, 5, and 6)		458,243
Miscellaneous		19,397
Total non-Fair revenues	$	614,067
Total operating revenues	$	4,001,565
OPERATING EXPENSES		
Administration	$	1,022,322
Building and grounds maintenance and security		1,028,112
Agriculture and Livestock Division		503,860
Community Arts Division		97,967
Grounds entertainment		423,381
Professional entertainment		353,695
Fair expenses		1,052,241
Road paving expense		151,582
Depreciation		329,181
Total operating expenses	$	4,962,340
Operating loss	$	(960,775)
NONOPERATING REVENUES (EXPENSES)		
Grant from a State agency - road paving	$	151,582
Payment from State of Michigan		493,155
Interest expense, net of interest revenue		(13,142)
Total nonoperating revenues (expenses)	$	631,594
Change in net assets	$	(329,181)
Total net assets - Beginning of fiscal year		7,832,100
Total net assets - End of fiscal year	$	7,502,919

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, 2008

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	4,117,056
Payments to employees		(1,093,171)
Payments to suppliers		(3,332,820)
Claims paid		(110,538)
Net cash provided (used) by operating activities	$	(419,474)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Grant from a State agency - road paving	$	151,582
Payment from State of Michigan		493,155
Net cash provided (used) by noncapital and related financing activities	$	644,736
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	$	(13,142)
Net cash provided (used) by investing activities	$	(13,142)
Net cash provided (used) - All activities	$	212,120
Cash and cash equivalents - Beginning of fiscal year		742,513
Cash and cash equivalents - End of fiscal year	$	954,633
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Per statement of net assets classifications:		
Cash	$	3,500
Equity in common cash		1,145,372
Warrants outstanding		(194,239)
Cash and cash equivalents - End of fiscal year	$	954,633
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$	(960,775)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense		329,181
Changes in assets and liabilities:		
Accounts receivable and other assets (net)		228,521
Accounts payable and other liabilities		(16,401)
Net cash provided (used) by operating activities	$	(419,474)

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 were 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. Differences in Reporting from *SOMCAFR*

Information presented in the statement of revenues, expenses, and changes in net assets differs from the presentation in the combining statement of activities for non-major component units - authorities in the *SOMCAFR.* In the *SOMCAFR*, the grant from a State agency for road paving in the amount of $151,582 is reported as program revenue. In the MEFA statement, the amount is reported as nonoperating revenue. A waiver to differ from the *SOMCAFR* presentation was granted by the DMB Office of Financial Management.

d. 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's common cash pool as of September 30, 2008. 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 $7,619,663 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 revenues and revenues 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 a grant from a State agency, a payment from the State of Michigan, and 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, 2008 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	$(7,443,069)	$(329,181)	$	$(7,772,250)
Non-EDP equipment	(313,786)			(313,786)
Total accumulated depreciation	$(7,756,855)	$(329,181)	$ 0	$(8,086,036)
Capital assets (net)	$ 7,948,843	$(329,181)	$ 0	$ 7,619,663

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
$141,926	$30,884	$37,600	$135,210	$33,649

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 through September 30, 2009. The tenant has the right to extend the lease agreement for 3 additional option terms of 5 full lease years. MEFA has the right to terminate the lease if it enters into a binding contract to sell the entire State fairgrounds site. A termination fee may be required depending upon when a sale occurs.

MEFA leases other buildings to private entities under monthly operating leases.

Note 5 Schedule of Investment in Property on Operating Leases

The following schedule provides an analysis of the MEFA's property on operating leases as of September 30, 2008:

Buildings	$6,682,637
Less: Accumulated depreciation	(4,285,439)
Net investment in property on operating leases	$2,397,198

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, 2008:

Year ending September 30:	
2009	$ 50,000
2010	50,000
2011	50,000
2012	50,000
2013	50,000
2014 and later	550,000
Total minimum future rentals*	$ 800,000

* 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

MEFA'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, Michigan 48909 or by calling (517) 322-5103 or 1-800-381-5111.

MEFA is responsible only for the contribution amounts charged to MEFA by the State of Michigan. MEFA 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.

Defined Benefit Plan: MEFA'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 MEFA and the benefit provisions for the plan are established and may be amended by the State Legislature.

MEFA's contribution requirements and the contributions actually made were $55,681 for the fiscal year ended September 30, 2008.

Defined Contribution Plan: 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 DMB.

MEFA 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, 2008, MEFA's contributions were $27,851 and MEFA's member contributions were $6,915.

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. MEFA paid $77,502 in contributions for the fiscal year ended September 30, 2008.

Note 9 Risk Management

MEFA participates in the State of Michigan's 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 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 10 Abolishment of the Michigan Exposition and Fairgrounds Authority

On February 12, 2009, Governor Granholm issued Executive Order No. 2009-4 transferring the functions of MEFA and the position of manager of MEFA to DMB and abolishing MEFA and the position of manager of MEFA. The Executive Order is effective October 1, 2009 unless disapproved by the Legislature within 60 days. In addition, the Governor has not included appropriations for MEFA in the proposed fiscal year 2009-10 Executive Budget.

SUPPLEMENTAL

FINANCIAL SCHEDULE

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MICHIGAN EXPOSITION AND FAIRGROUNDS AUTHORITY
Schedule of Revenues, Expenses, and Changes in Net Assets - Budget and Actual
For the Fiscal Year Ended September 30, 2008

Statutory/Budgetary Basis	Budget	Actual	Variance
REVENUES AND OTHER SOURCES			
Miscellaneous	$ 6,589,100	$ 4,648,300	$ (1,940,800)
Total revenues and other sources	$ 6,589,100	$ 4,648,300	$ (1,940,800)
EXPENSES, TRANSFERS OUT, AND ENCUMBRANCES			
Operations	$ 5,917,300	$ 4,517,561	$ 1,399,739
Unclassified salary	101,000	97,199	3,801
Information technology	88,800	33,540	55,260
Support	150,000		150,000
Depreciation	332,000	329,181	2,819
Total expenses, transfers out, and encumbrances	$ 6,589,100	$ 4,977,481	$ 1,611,619
Revenues and other sources over (under) expenses, encumbrances, and other uses (statutory/budgetary basis)	$ 0	$ 329,181	$ (329,181)
Excess of revenues and other sources over (under) expenses and other uses (GAAP basis)		$ 329,181	
NET ASSETS (GAAP BASIS)			
Beginning balance		7,832,100	
Ending balance (GAAP basis)		$ 7,502,919	

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
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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. Robert G. Porter, 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. Porter, 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, 2008, as identified in the table of contents, and have issued our report thereon dated February 27, 2009. 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 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 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 statements will not be prevented or detected by the entity's internal control.

Our consideration of 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 none 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 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, the Governor, 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

February 27, 2009

FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

FINDING

1. Ticket Inventory and Ticket Sales

The Michigan Exposition and Fairgrounds Authority (MEFA) did not have sufficient controls over its ticket inventory and ticket sales. As a result, MEFA could not ensure that its gate admissions revenue and parking revenue of $1.4 million were reported accurately for the 2008 State Fair.

The State of Michigan Financial Management Guide (Part II, Chapter 12, Section 100) states that each agency that maintains inventory is responsible for implementing and maintaining an inventory accounting system that provides adequate internal control and also provides the financial information necessary for preparing the *State of Michigan Comprehensive Annual Financial Report*.

Our review of gate admission tickets and parking tickets used during the 2008 State Fair noted:

a. MEFA did not have an accurate record of its beginning ticket inventory. MEFA used remaining gate admission tickets from the 2006 and 2007 State Fairs and remaining parking tickets from the 2007 State Fair. Ending inventories of the respective State Fair tickets indicated that 1,736,218 gate admission tickets and parking tickets were available for use. Using the ending inventory as the beginning ticket inventory, we noted that 1,871 tickets with a resale value of $11,675 could not be located. MEFA indicated that it may have destroyed these tickets; however, it had no documentation of the destruction.

b. MEFA did not always document the tickets distributed to the contractor. Without proper documentation of the tickets distributed, MEFA could not ensure that it received all ticket sales revenue from the contractor. MEFA's informal procedure requires MEFA to document the beginning and ending ticket numbers and requires that both MEFA and the contractor sign the documentation acknowledging distribution and receipt of the tickets. Even though MEFA did not have documentation of all of the tickets distributed to the contractor, our review of the contractor's records and other documentation confirmed that MEFA did, in fact, distribute 1,731,851 gate admission tickets and parking tickets to the contractor.

c. MEFA did not perform a final ticket inventory count and an ending reconciliation of ticket sales. As a result, MEFA could not ensure that all tickets distributed to the contractor were accounted for and that all ticket sales revenue was received. MEFA's informal procedure requires MEFA to calculate the total number of tickets returned by the contractor, calculate the amount of ticket sales, and reconcile ticket sales to the contractor's sales reports. Our review disclosed that MEFA relied on the contractor's sales reports and the Office of the Auditor General's review to ensure the accuracy of the ticket sales revenue reported by the contractor.

d. MEFA did not require the contractor to submit supporting documentation of its ticket sales discounts. As a result, MEFA could not verify $18,076 of gate admission discounts reported by the contractor. Various discounts were offered to promote State Fair attendance and sponsorships. The contractor required its staff to maintain documentation of the discounts used; however, the contractor was not required to submit this documentation to MEFA.

e. MEFA did not have any inventory records or controls over unused ticket inventories from prior years' State Fairs and non-Fair events. Based on our observation, we estimated that MEFA had several million unused tickets without any related inventory records. An accurate inventory record would allow MEFA to properly use these unused tickets for future events, donate the tickets to local organizations, or destroy the tickets.

RECOMMENDATION

We recommend that MEFA implement sufficient controls over its ticket inventory and ticket sales.

AGENCY PRELIMINARY RESPONSE

MEFA agrees and will comply. MEFA indicated that it will update ticket procedures for the State Fair and conduct a complete inventory of all the tickets prior to the upcoming Fair.

FINDING

2. Vendor Space Rentals

MEFA did not always obtain required insurance certifications for vendor space rentals prior to the start of the State Fair. Without 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 certificates of insurance 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 36 (33.6%) of 107 vendor space rental files for which MEFA had collected vendor space rental revenue and noted the following deficiencies related to vendor space rentals:

a. MEFA did not have evidence of liability insurance for 4 (11.1%) of the 36 vendors. Subsequent to the end of the State Fair, MEFA obtained evidence of liability insurance for 2 of these vendors.

b. MEFA did not have sufficient evidence of workers' compensation insurance for 16 (44.4%) of 36 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, such review and approval would provide MEFA with assurance that its interests are protected and that vendors who conduct business on the fairgrounds are in compliance with the contract as of the start of the State Fair.

Our prior audit reported that MEFA did not obtain signed contracts and required insurance certifications for all vendor space rentals prior to the start of the State Fair. MEFA indicated that it agreed with our recommendation and would comply. However, MEFA has not fully complied with this recommendation.

RECOMMENDATION

WE AGAIN RECOMMEND THAT MEFA OBTAIN REQUIRED INSURANCE CERTIFICATIONS FOR VENDOR SPACE RENTALS PRIOR TO THE START OF THE STATE FAIR.

AGENCY PRELIMINARY RESPONSE

MEFA agrees and will comply. MEFA informed us that a new policy is being implemented to include an insurance verification form in the vendor application packet. In addition, a preaudit will be conducted prior to the opening of the State Fair to ensure that payment has been received, contracts are signed, and insurance is documented.

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.
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 of 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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