



Financial Audit Division Report

State Agricultural Society
Financial Statement Audit

Two Years Ended October 31, 2007

June 13, 2008

Report 08-16

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Office of the Legislative Auditor Financial Audit Division

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

June 11, 2008

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Bob Lake, President
State Agricultural Society Board of Managers

Members of the State Agricultural Society

Mr. Jerry Hammer, Executive Vice President
State Agricultural Society

This report presents the results of our audit of the State Agricultural Society's (society) basic financial statements for the two years ended October 31, 2007. This report meets the audit standard requirements of the American Institute of Certified Public Accountants and the Government Accountability Office to communicate internal control matters identified in a financial statement audit. The audit was conducted by Jim Riebe, CPA, (Audit Manager) and Carl Otto, CPA, CISA (Auditor-in-Charge), assisted by auditors Jennifer Cooper and Melanie Greufe.

We discussed the results of the audit with society staff on May 28, 2008. Management's response to our finding and recommendation is presented in the accompanying section of this report titled, *Agency Response*. We did not audit the response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the State Agricultural Society's management and the Legislative Audit Commission and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 13, 2008.

/s/ James R. Nobles

/s/ Cecile M. Ferkul

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusions

- The State Agricultural Society's (society) financial statements for the two years ended October 31, 2007, were presented fairly in accordance with generally accepted accounting principles in all material respects.
- Generally, the society's internal controls for selected financial operations were adequate. However, the fair had one weakness related to controls over the receipt of foundation grants.
- The society complied with the finance-related legal provisions we tested.
- The society implemented a prior audit recommendation: It strengthen controls over coliseum and grandstand ticket sales remitted by a contract vendor.

Finding

- The society did not sufficiently monitor a receipt from the Minnesota State Fair Foundation. ([Finding 1, page 7](#))

Audit Objectives and Scope

Audit Objectives:

- To give an opinion on the society's financial statements.
- To review internal control over selected financial operations.
- To determine compliance with finance-related legal provisions.
- To determine the status of a prior audit recommendation.

Audit Period: The two years ended October 31, 2007.

Programs Audited:

• Cash and Cash Equivalents	• Capital Assets
• Revenue Bond Liabilities	• Ticket Sales
• Entertainer Payouts and Other Expenses	• Payroll Expense

Background

The State Agricultural Society operates Minnesota's annual state fair and maintains the state fairgrounds. It earned about \$35 million in operating revenues during fiscal year 2007 and had total assets of nearly \$50 million on October 31, 2007.

The society included the activities of the State Fair Foundation in its annual report as a discretely presented component unit.

State Agricultural Society

Agency Overview

The State Agricultural Society (society) oversees the operation of the annual State Fair exposition and the maintenance of the fairgrounds. Under the authority of *Minnesota Statutes* Chapter 37, the society is a self-governing body and is exempt from the finance-related rules and regulations applicable to most state agencies. The ten-member board is comprised of one representative from each of the society's nine regional districts and a president.

The society publishes an annual report that includes its financial statements and our audit opinion on the financial statements. The society included the activities of the State Fair Foundation in its annual report as a discretely presented component unit.

The society realized net income of \$2.2 million in 2007. It had \$35 million in operating revenues earned chiefly through ticket sales and rental of its facilities during non-fair time. Significant expenses included \$17.3 million for activities and support, plant operations and maintenance of approximately \$7 million, and depreciation of about \$2.2 million.

The society had net assets of \$37.3 million at October 31, 2007. Capital assets, net of depreciation, totaled \$39.9 million; revenue bonds payable of about \$9.6 million represented the society's largest liability.

The society has not received state appropriations since approximately 1950.

Objectives, Scope, and Methodology

Our audit of the society's financial statements focused on the following objective, which included the consideration of internal controls and compliance with significant legal provisions over financial reporting:

- Were the society's basic financial statements for the two years ended October 31, 2007, fairly presented in accordance with generally accepted accounting principles in all material respects?

In addition to the financial statement objective, we considered these objectives:

- Were the society's internal controls over box office receipts, carnival receipts and expenses, payroll, and revenue bonds adequate to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorization, and complied with significant finance-related legal provisions?
- For the items tested, did the society comply with significant finance-related legal requirements, including state and federal laws, regulations, contracts, and applicable policies and procedures?
- Did the society implement a prior audit recommendation that it strengthen controls over coliseum and grandstand ticket sales remitted by a contract vendor?¹

To answer these questions, we reviewed the accounting principles applicable to the society's financial statements. We gained an understanding of the society's accounting policies and procedures and the business systems used to administer its financial activities and to prepare the financial statements. We obtained and analyzed electronic accounting data and other audit evidence and reconciled the supporting data to the society's accounting system. We interviewed key personnel to gain an understanding of the control process for each audited area, including cash, capital assets, revenue bond liabilities, ticket sales, payroll expense, and entertainer payouts and other expenses.

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. We used the guidance contained in the Internal Control-

¹ Financial Audit Division Report 07-15.

Integrated Framework,² published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls. We also used the society's internal policies and procedures as evaluation criteria.

Conclusions

The society's financial statements for the two years ended October 31, 2007, were fairly presented in accordance with generally accepted accounting principles in all material respects.

Based on our consideration of internal control and compliance over financial reporting, we did not identify any noncompliance as a result of our tests. However, as explained in the following finding, the society did not sufficiently monitor a receipt from the Minnesota State Fair Foundation. We consider the finding to be a significant control deficiency. According to the auditing standards, a control deficiency is significant if there is more than a remote likelihood that a consequential misstatement to the financial statements could occur and not be prevented or detected by the society's internal control. Given the limited nature of our audit work on the financial statements, we do not express an overall opinion on the effectiveness of the society's internal controls or compliance over financial reporting. In addition, our work may not have identified all significant control deficiencies or instances of noncompliance with legal requirements.

In relation to our additional objectives, the society generally had adequate controls and complied with the finance-related legal provisions we tested and implemented a prior audit recommendation to strengthen controls over coliseum and grandstand ticket sales remitted by a contract vendor.

² The Treadway Commission and its Committee of Sponsoring Organizations were established in the 1980s by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity.

Finding and Recommendation

The State Agricultural Society did not sufficiently monitor a receipt from the Minnesota State Fair Foundation.

Between October and December 2007, the State Agricultural Society did not know the whereabouts of a check from the Minnesota State Fair Foundation (foundation). Although the society received a letter from the foundation in October stating that a check to the society for a grant of \$150,000 was enclosed, it does not believe that it actually received the check at that time. The society did not record a receivable for the check, nor did it contact the foundation to determine the grant's status. About two months later, the foundation contacted the society to inquire why it had not cashed the check. The foundation subsequently stopped payment on the first check and issued a new check.

The society lacked a control process to ensure it had collected all grant funds authorized by the foundation's board of directors. Although the foundation notified the society of its grant in the October letter, the society could have also identified the authorization of foundation grants by reviewing minutes of meetings of the foundation's board of directors. Upon learning of an authorized grant, the society should have recorded a receivable for the authorized grant. An outstanding receivable would have alerted society staff to follow up on the grant's status.

The society received grants from the foundation totaling about \$538,000 in fiscal year 2007 and \$1.5 million in 2006.

Recommendation

- *The society should record a receivable for authorized foundation grants and follow up on any outstanding receivables not resolved within a reasonable time.*

Finding 1



THE GREAT MINNESOTA GET-TOGETHER
TWELVE DAYS OF **FUN** ENDING LABOR DAY

Mr. James R. Nobles
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar St.
St. Paul, MN 55155

June 6, 2008

Dear Mr. Nobles,

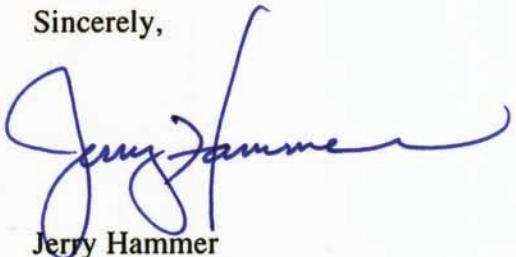
First and most important, our thanks to you, Jim Riebe and the audit team for your efforts on our behalf. We appreciate your help.

As for the finding, it states that the fair did not know the whereabouts of a check issued by the State Fair Foundation to the Society. We were fully aware that we had not received this particular check from the Foundation, and we were certain that the granted funds would be deposited as part of our year-end financial activities. (Whenever the Foundation makes a grant to the Society, the Society's Controller and I receive notification. The Foundation also provides the Controller with a year-end summary of all grant activity for the preceding year.)

Prior to receiving the reissued check, the Society did book the grant as a receivable, as recommended in the finding. To expedite the grant process in the future, however, the Society will now book granted funds when notification is given by the Foundation.

Again, thank you for your hard work on our behalf.

Sincerely,



Jerry Hammer
Executive Vice President

