

# State Agricultural Society

## Financial Audit

For the Year Ended October 31, 1997

March 1998

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

98-18





STATE OF MINNESOTA  
**OFFICE OF THE LEGISLATIVE AUDITOR**  
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Vern Prokosch, President  
Board of Managers  
State Agricultural Society

Mr. Jerry Hammer, Executive Vice President  
State Agricultural Society

Members of the State Agricultural Society

We have audited the State Agricultural Society for the year ended October 31, 1997. The primary objective of our audit was to issue an opinion of the financial statements of the Society for the year then ended. The State Agricultural Society Annual Report for the year ended October 31, 1997, includes our opinion thereon dated February 13, 1998. The following Summary highlights the audit objectives and conclusions. We discuss our conclusions more fully in the body of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. As part of obtaining reasonable assurance about whether the Society's financial statements are free from material misstatement, we performed tests of the Society's compliance with certain provisions of laws, regulations, contracts, and grants. We also obtained an understanding of the Society's internal control structure. Our conclusions on compliance and internal control are included within this report as a *Report on Compliance Based on an Audit of Financial Statements* and an *Auditor's Report on the Internal Control Structure*.

This report is intended for the information of the Legislative Audit Commission and the management of the State Agricultural Society. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 20, 1998.

James R. Nobles  
Legislative Auditor

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: February 13, 1998

Report Signed On: March 13, 1998



# SUMMARY

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## **State Agricultural Society**

### **Financial Audit**

### **For the Year Ended October 31, 1997**

Public Release Date: March 20, 1998

No. 98-18

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#### **Agency Background**

The State Agricultural Society operates under Minn. Stat. Chapter 37. The Minnesota State Agricultural Society Board of Managers operates the annual State Fair exposition and maintains the fairgrounds.

#### **Financial Highlights**

At October 31, 1997, the State Agricultural Society reported net income of \$3,038,160. The Society generated \$22,604,428 in revenues during the fiscal year, including both fair-time and non-fair event revenues. The Society had total assets of \$24,059,422 as of October 31, 1997.

#### **Objectives**

The audit objectives were to:

- issue an audit opinion on the Society's financial statements,
- obtain an understanding of the Society's internal control structure, and
- test the Society's compliance with significant finance-related legal provisions.

#### **Conclusions**

We issued an unqualified opinion on the Society's financial statements. The Society's annual report, which includes its audited financial statements, is available from the Society.



# State Agricultural Society

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## Table of Contents

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	Page
Introduction	1
Auditor's Report on the Internal Control Structure	2
Report on Compliance Based on an Audit of Financial Statements	4
Status of Prior Audit Issues	5

### Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Charlie Gill	Auditor-in-Charge
Chege Ngigi	Auditor
Shane Smeby	Auditor

### Exit Conference

We discussed the results of the audit at an exit conference with the following staff of the State Agricultural Society on March 6, 1998:

Jerry Hammer	Executive Vice President
Marshall Jacobson	Finance Director
Shelly Kinnunen	Accounting Supervisor





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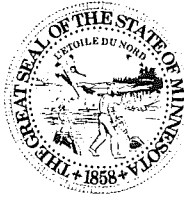
## Chapter 1. Introduction

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The State Agricultural Society was legally organized as a public corporation in 1860. The Society operates under Minn. Stat. Chapter 37. However, it is a self-governing body and is exempt from the finance-related rules and regulations applicable to most state agencies.

The Minnesota State Agricultural Society Board of Managers operates the annual state fair exposition and maintains the fairgrounds. The 10-member board is comprised of one representative from each of the Society's nine regional districts and a president. Annually, the board elects an executive vice president for the Society. Mike Heffron served as the executive vice president of the Society until Jerry Hammer was appointed on January 19, 1997.

The State Agricultural Society is financially self-sufficient. The society reported net income of \$3,038,160 for the year ended October 31, 1997, and \$603,666 for the year ended October 31, 1996. The Society's primary sources of revenue are fair-time ticket sales and space rentals. Significant expense classifications include activities and support, plant maintenance, plant operations, administrative, and depreciation charges. The Society's annual report, which includes its audited financial statements, is available from the Society.



STATE OF MINNESOTA  
**OFFICE OF THE LEGISLATIVE AUDITOR**  
JAMES R. NOBLES, LEGISLATIVE AUDITOR

**Auditor's Report on the Internal Control Structure**

Mr. Vern Prokosch, President  
Board of Managers  
State Agricultural Society

Mr. Jerry Hammer, Executive Vice President  
State Agricultural Society

Members of the State Agricultural Society

We have audited the financial statements of the State Agricultural Society, as of and for the year ended October 31, 1997, and have issued our report thereon dated February 13, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *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 from material misstatement.

The management of the State Agricultural Society is responsible for establishing and maintaining its internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations on any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the State Agricultural Society for the year ended October 31, 1997, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation. In addition, we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Mr. Vern Prokosch, President  
Mr. Jerry Hammer, Executive Vice President  
Members of the State Agricultural Society  
Page 2

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted other matters involving the internal control structure and its operation that we reported orally to the management of the State Agricultural Society at an exit conference held on March 6, 1998.

This report is intended for the information of the State Agricultural Society management and the Legislative Audit Commission. However, this report is a matter of public record, and its distribution is not limited.



James R. Nobles  
Legislative Auditor



Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

February 13, 1998



STATE OF MINNESOTA  
**OFFICE OF THE LEGISLATIVE AUDITOR**  
JAMES R. NOBLES, LEGISLATIVE AUDITOR

**Report on Compliance Based on an Audit of Financial Statements**

Mr. Vern Prokosch, President  
Board of Managers  
State Agricultural Society

Mr. Jerry Hammer, Executive Vice President  
State Agricultural Society

Members of the State Agricultural Society

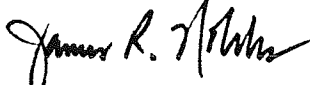
We have audited the financial statements of the State Agricultural Society as of and for the year ended October 31, 1997, and have issued our report thereon dated February 13, 1998.

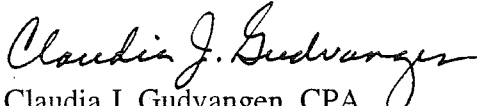
We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the State Agricultural Society is the responsibility of the Society's management. As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we performed tests of the Society's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instance of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the State Agricultural Society management and the Legislative Audit Commission. However, this report is a matter of public record, and its distribution is not limited.

  
James R. Nobles  
Legislative Auditor

  
Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

February 13, 1998

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## Status of Prior Audit Issues As of October 31, 1997

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### Most Recent Audit

**October 31, 1996, Legislative Audit Report 97-16** The primary objective of our audit was to issue an opinion of the financial statements of the Society for the year ended October 31, 1996. We questioned the Society's ability to adequately control receipts from the state fair carnival's ticket sales. The Society had experienced shortages of \$41,983 and \$41,355, respectively, for the 1995 and 1996 carnival activity. During the 1997 carnival, the Society improved controls and reduced the shortage to \$28,087. The Society plans to continue working to improve the operations of the carnival and to further reduce the annual shortage.

We also reported that the Society had not transferred the required \$790,399 match of foregone sales tax to the Building Fund during fiscal year 1996. During fiscal year 1997, the required transfers for both 1996 and 1997 were made to the Building Fund.

#### State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.