Compliance audit, financial statements and report of independent certified public accountants

Colorado State Fair Authority

June 30, 2001

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TABLE OF CONTENTS

PAGE

REPORT SUMMARY 1

RECOMMENDATION LOCATOR 2

DESCRIPTION OF THE AUTHORITY 3

FINANCIAL HIGHLIGHTS 4

FINDINGS AND RECOMMENDATIONS 5

DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS 8

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL STATEMENTS

Report of Independent Certified Public Accountants 11

Financial Statements:

Combined Balance Sheet – All Fund Types 13

Statement of Revenues, Expenses, and Changes in Fund Equity – Proprietary Fund Type 14

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund Type 15

Statement of Cash Flows – Proprietary Fund Type 16

Notes to Financial Statements 17

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* 26

REQUIRED COMMUNICATIONS 28

REPORT SUMMARY
COLORADO STATE FAIR AUTHORITY
FINANCIAL AND COMPLIANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2001

Authority, Purpose and Scope

This audit was conducted under the authority of Section 2-3-103 et seq., C.R.S., which authorizes the Office of the State Auditor to conduct audits of all departments, institutions, and agencies of state government.

The purpose of this audit was to express an opinion on the financial statements of the Colorado State Fair Authority for the fiscal year ended June 30, 2001.

The audit was conducted in accordance with auditing standards generally accepted in the United States of America. We obtained the information by reviewing documents, interviewing staff, analyzing data, and performing other audit procedures as we deemed necessary.

Financial Audit Opinion

We have issued an unqualified opinion dated September 21, 2001 on the Colorado State Fair Authority's June 30, 2001 financial statements.

Summary of Major Audit Findings and Recommendations

A summary of our findings and recommendations and the responses of the Colorado State Fair Authority can be found in the Recommendation Locator. See page 2 for the Recommendation Locator.

Summary of Progress in Implementing Prior Year Audit Recommendations

The following is the implementation status of the Colorado State Fair Authority Financial and Compliance Audit Findings and Recommendations for the year ended June 30, 2000:

Implemented	7
Not Implemented	2
Total	9

See pages 8 and 9 for a discussion regarding the disposition of the prior audit recommendations.

RECOMMENDATION LOCATOR
COLORADO STATE FAIR AUTHORITY
FINANCIAL AND COMPLIANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2001

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	5	The Authority should:		
		a. Limit cashier access to individual cash drawers and develop procedures to balance the cash counted in drawers at the end of a cashier's shift to documentation of sales made.	Agree	April 2002
		b. Reconcile ticket sales made for the day to the cash deposit.	Agree	October 2001
		c. Develop procedures to ensure that subsidiary ledger balances for box office deferred revenue are reconciled to reports generated by the box office.	Agree	April 2002
2	6	Store backup computerized accounting information at a location other than the administration building.	Agree	October 2001
3	7	Ensure that assets are properly identified in fixed asset detail schedules as coming from capital contributions of the State.	Agree	April 2002

DESCRIPTION OF THE AUTHORITY

The Colorado State Fair has been in existence for over 125 years. Over the years, the Colorado State Fair has undergone a number of organizational changes. In 1983 the General Assembly created the Colorado State Fair Authority (Authority) as a separate political subdivision of the State. House Bill 97-1342 abolished the existing Authority and its Board of Commissioners and created the new Colorado State Fair Authority as a division within the State Department of Agriculture effective June 30, 1997. The current Board of Commissioners consists of eleven members. Of the eleven members, one member must be a certified public accountant, one member must have current management-level banking experience and expertise in finance, and one member must have agriculture or 4-H club experience. The Commissioner of Agriculture or the Commissioner's designee also serves as a voting member of the Board.

The Authority operates on the State Fairgrounds in Pueblo on approximately 80 acres of land. The grounds and facilities are owned by the State and include exhibition halls, four permanent restaurants, permanent stalls for horse shows, three 4-H buildings, an amphitheater, six pavilions, and a covered grandstand. The facilities also include an indoor arena (the Events Center) which was constructed at a cost of approximately $7.5 million. The Events Center began operating in 1995. Most of the Authority's revenue is generated during the annual 17-day State Fair from admissions, parking, food and beverage sales, concessions, commercial space rental, sponsorships, and carnival ticket sales. Additional revenue is generated from events that are held on a year-round basis at the Events Center and other facilities on the State Fairgrounds. The Authority was appropriated 26.9 full-time staff plus contract employees to run its year-round operations. In the summer the Authority adds about 800 temporary staff to run the annual State Fair.

FINANCIAL HIGHLIGHTS

The following presents summarized statement of revenues, expenses and changes in fund equity – enterprise fund activity broken down between fair-time and off-season periods. The breakdown between fair-time and off-season periods is provided by the Colorado State Fair Authority and has not been audited.

	Year ended June 30, 2001 fair-time *	Year ended June 30, 2001 off-season	Year ended June 30, 2001 Total	Year ended June 30, 2000 Total
Operating revenues	$6,090,830	$ 1,237,730	$7,328,560	$6,880,782
Operating expenses	5,018,850	2,650,185	7,669,035	7,111,698
Operating loss before depreciation and amortization	$1,071,980	$(1,412,455)	(340,475)	(230,916)
Depreciation and amortization			(816,065)	(820,838)
Operating loss			(1,156,540)	(1,051,754)
Nonoperating revenues			266,889	336,829
Net loss			$ (889,651)	$ (714,925)

* Fair held during August/September 2000

According to the Authority, the most recent 17-day State Fair event (held in August/September 2001) resulted in an operating profit excluding depreciation. The 2001 State Fair results will be included in the financial statements for the year ended June 30, 2002.

During the years ended June 30, 2001 and 2000, the Authority's enterprise fund experienced a net operating cash outflow of $327,363 and $465,580, respectively.

Although the fair-time activities have positive financial results, the Authority continues to show operating losses when fair-time and off-season are totaled together. The loss for the year ended June 30, 2001 resulted in a retained deficit of $622,504 and also resulted in the Authority not being in compliance with requirements of the refunding revenue bonds.

FINDINGS AND RECOMMENDATIONS

BOX OFFICE RECONCILIATIONS

Reconciliations compare information, such as the number of items sold to sales figures, to determine whether amounts reported are reasonable and consistent. If reconciliations are not performed, the Colorado State Fair Authority (the Authority) cannot ensure that financial information is accurately recorded on the accounting system or use such information to better identify problems and make decisions. Reconciliation procedures also assist in mitigating the risk of fraud and help in ensuring the accountability of all box office personnel. During our audit, we found several instances where reconciliation procedures should be implemented.

During the annual State Fair, event sales cashiers at the box office do not have individual cash drawers, and as a result, several individuals use each other's cash drawers. Pre-printed tickets are freely exchanged and no documentation of sales is made. Cash drawers are not balanced at the end of each individual's shift and reconciled to the cash sales for that cash drawer.

The Authority's box office does not reconcile the ticket sales made each day to the cash deposit. A daily sales report is generated showing the ticket sales made for the day but this report is not reconciled to the cash deposit made for the day due to variances caused by receipt of handling fees and printing of tickets that are held and sold at a future date. The box office charges a $3 handling fee for all tickets sold that are mailed to customers. However, the Authority does not keep a record of the number of ticket orders that are charged the handling fee. In the prior year audit, recommendations were made to reconcile the daily sales report generated to the amount of cash collected and deposited for the day/event and to keep a record of the number of ticket orders that are charged a handling fee. The Authority agreed with these recommendations but the recommendations were not implemented by the Authority. Box office sales generated approximately $1,659,000 in operating revenues during the year ended June 30, 2001.

During the audit, there was significant difficulty in reconciling the amount of sales made prior to year-end for events subsequent to year-end (deferred revenue). The detail subsidiary ledger balances for deferred revenue could not be reconciled to reports generated by the box office.

Recommendation No. 1

The Authority should:

a. Limit event sales cashiers access to their own individual cash drawers and develop procedures to balance the cash counted in drawers at the end of a cashier's shift to documentation of sales made.

b. Develop a reconciliation form for use in the box office to be used on a daily basis to reconcile the ticket sales made for the day to the cash deposit. The Authority should also keep a record of the number of ticket orders that are charged a handling fee to assist in the reconciliation process.

c. Develop procedures to ensure that subsidiary ledger balances for box office deferred revenue are reconciled to reports generated by the box office.

Colorado State Fair Authority Response

a. Agree. The Authority agrees that a procedure should be developed to balance cash drawers with ticket sales for each ticket seller. However, at this time, with the computer system used at the Colorado State Fair, and provided by TicketMaster, it is not possible. The Authority is in the process of re-evaluating new ticketing vendors that we hope will provide a solution to this problem.

b. Agree. The Authority will develop a form to reconcile each day's sales with cash deposits. The Authority is in the process of evaluating whether to continue phone sales for the Fair and non-Fair events. If the Authority decides to continue phone sales, it will develop a process to reconcile fee revenue with the number of ticket orders where the fee is charged.

c. Agree. The Authority will develop procedures to reconcile deferred revenue ledger balances with box office reports.

BACKUPS OF COMPUTERIZED ACCOUNTING INFORMATION

While backups of computerized accounting information (Quick Books and Solomon software) are performed on a daily or weekly basis, the backup disk is kept in the administration building. Backup computerized accounting information should be stored at a location other than the administration building to ensure that information can be retrieved in the event of a catastrophic event (flood, fire, theft, etc.) in the administration building.

Recommendation No. 2

The Authority should store backup computerized accounting information at a location other than the administration building.

Colorado State Fair Authority Response

Agree. The Authority will make arrangements to store backup information in a building other than the Administration Building.

RESEARCH ON DEPRECIATION OF CONTRIBUTED CAPITAL

The contributed capital of the Authority consists of capital assets (land and buildings) transferred to the Authority from other State departments, appropriations from the State to be used to construct or purchase capital assets, and appropriations from the State for operations. As the capital assets received through contributed capital are depreciated, the amount of contributed capital should also be reduced by the amount of depreciation taken. Depreciation taken on assets identified as coming from contributed capital was only $121,021 during the year ended June 30, 2001. It appears that this depreciation may be understated.

Based on our review, we believe that not all of the assets that came from capital contributions of the State are properly identified as such on the fixed asset detail schedules. One example is the Events Center which is not identified as coming from contributed capital although a portion of the funds to construct the Events Center, approximately $1.9 million out of $7.5 million, were appropriated from the State. Therefore, the amount of contributed capital may be overstated for the depreciation on assets not properly identified as coming from contributed capital. Any adjustments to reduce contributed capital related to this issue would result in an increase to retained earnings (deficit).

Recommendation No. 3

The Authority should determine if assets acquired from capital contributions of the State are properly identified in fixed asset detail schedules. The Authority should then recompute what the balance in contributed capital should be at the end of the year and adjust the balance accordingly in COFRS.

Colorado State Fair Authority Response

Agree. The Authority will review the fixed asset records to determine that contributed capital is properly identified and depreciation taken is accounted for appropriately.

DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

The following recommendations are from the fiscal year 2000 Colorado State Fair Authority Financial and Compliance Audit.

Rec. No.	Recommendation	Disposition
1.	The Authority should segregate the duties of the cashier so that this employee does not both handle the cash and record entries to the accounting system.	Implemented.
2.	The Authority should ensure that two different employees count the events booth/box office funds after each event. As one individual counts, the other employee should be present to watch the count being performed.	Implemented.
3.	The Authority should ensure the accuracy of financial information by performing the following:	
	a. Keep a record of the number of ticket orders that are charged a handling fee.	Not implemented. See Recommendation No. 1.
	b. Reconcile the daily sales report generated to the amount of cash collected and deposited for the day/event.	Not implemented. See Recommendation No. 1.
4.	The Authority should follow documented procedures regarding changes to receipts by voiding the original receipt and issuing a new corrected receipt. In addition, the reason for the change, the employee that made the change, and the employee that approved the change should be documented.	Implemented.
5.	The Authority should review its policies for the useful lives of fixed assets and consider adjusting the useful lives to better correspond to the actual expected useful life of the building, land improvement or equipment.	Implemented.

Rec. No.	Recommendation	Disposition
6.	The Authority Board of Commissioners needs to conduct all public meetings in compliance with statute by maintaining a complete set of minutes for all Board and committee meetings.	Implemented.
7.	The Authority should record grant revenue based on when expenditures are made against the grant. In addition, the Authority should reconcile grant monies received and document information to determine how monies should be recorded.	Not implemented. The Authority agreed with this recommendation but the recommendation was not implemented. Follow-up will be performed on this recommendation in next year's audit.
8.	We recommend the Authority prepare or obtain amortization schedules for each of its capital lease obligations and make adjustments to the recorded capital lease obligations to be in accordance with generally accepted accounting principles.	Implemented.
9.	The Authority should:	
	a. Submit accurate exhibits to the State Controller's Office in a timely manner.	Implemented.
	b. Submit the Annual Report by the statutory deadline.	Deferred. The Annual Report is not required to be submitted until October 31, 2001 which is subsequent to the issuance of this document.
	c. Submit complete and accurate financial statements to the State Controller's Office as requested.	Implemented.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL STATEMENTS

<u>Report of Independent Certified Public Accountants</u>

Members of The Legislative Audit Committee:

We have audited the accompanying combined balance sheet – all fund types of the Colorado State Fair Authority (the Authority), a component unit of the State of Colorado, as of June 30, 2001, and the related statements of revenues, expenses, and changes in fund equity – proprietary fund type, statement of revenues, expenditures and changes in fund balances – governmental fund type, and cash flows – proprietary fund type for the year then ended. These financial statements are the responsibility of the 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 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 discussed in note A, the financial statements present only the Colorado State Fair Authority, a component unit of the State of Colorado. The financial statements are intended to present the financial position and the results of operations and cash flows of only that portion of the State of Colorado that is attributable to the transactions of the Authority in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2001, and the results of its operations and cash flows of its proprietary fund for the 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 September 21, 2001, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Colorado Springs, Colorado
September 21, 2001

Colorado State Fair Authority
COMBINED BALANCE SHEET – ALL FUND TYPES
June 30, 2001

	Proprietary Fund Type: Enterprise Fund	Governmental Fund Type: Capital Construction Fund	Total (Memo only)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 473,809	$ 571,295	$ 1,045,104
Accounts receivable, net	147,240	-	147,240
Due from local governments	19,037	-	19,037
Interest receivable	7,411	-	7,411
Inventory	37,997	-	37,997
Prepaid expenses	236,440	-	236,440
Total current assets	921,934	571,295	1,493,229
RESTRICTED ASSETS			
Bond sinking fund	126,261	-	126,261
Bond reserve fund	250,804	-	250,804
Total restricted assets	377,065	-	377,065
PROPERTY AND EQUIPMENT, net	7,575,281	-	7,575,281
UNAMORTIZED FINANCING COSTS	60,615	-	60,615
Total assets	$ 8,934,895	$ 571,295	$ 9,506,190
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term obligations	$ 173,341	$ -	$ 173,341
Accounts payable	106,154	571,295	677,449
Accrued interest payable	22,950	-	22,950
Accrued compensated absences	74,877	-	74,877
Damage deposits	8,300	-	8,300
Deferred revenue	1,157,492	-	1,157,492
Total current liabilities	1,543,114	571,295	2,114,409
LONG-TERM OBLIGATIONS			
Bonds and lease obligations payable	2,019,600	-	2,019,600
Total liabilities	3,562,714	571,295	4,134,009
FUND EQUITY			
Contributed capital	5,994,685	-	5,994,685
Retained deficit	(622,504)	-	(622,504)
Total fund equity	5,372,181	-	5,372,181
Total liabilities and fund equity	$ 8,934,895	$ 571,295	$ 9,506,190

The accompanying notes are an integral part of this statement.

Colorado State Fair Authority

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY –
PROPRIETARY FUND TYPE

Year ended June 30, 2001

	Proprietary Fund Type Enterprise Fund
OPERATING REVENUES	
Commercial space / concession	$ 2,088,310
Gate admission	1,481,796
Box office sales	1,659,354
Private sponsorship	797,198
Exhibitor fees	669,071
Building rental	454,797
Miscellaneous revenue	178,034
Total operating revenues	7,328,560
OPERATING EXPENSES	
Personal service and benefits	1,708,409
Entertainment and attractions	1,810,662
Advertising and promotions	948,426
Prizes and awards	662,604
Repairs and maintenance	291,096
Utilities	549,665
Supplies and materials	298,628
Contractual services	756,346
Other operating	280,560
Building, vehicle and equipment rental	340,915
Travel	21,724
Operating expenses excluding depreciation and amortization	7,669,035
Operating loss before depreciation and amortization	(340,475)
Depreciation and amortization	(816,065)
Operating loss	(1,156,540)
NONOPERATING REVENUES (EXPENSES)	
Local government grants	368,872
Investment income	74,308
Interest expense	(176,291)
Net nonoperating revenues	266,889
Net loss	(889,651)
Add depreciation on contributed assets	121,031
DECREASE IN RETAINED EARNINGS (DEFICIT)	(768,620)
FUND EQUITY	
Beginning retained earnings	146,116
Ending retained deficit	(622,504)
Beginning contributed capital	5,813,427
Additional contributed capital	302,289
Depreciation on contributed assets	(121,031)
Ending contributed capital	5,994,685
Ending fund equity	$ 5,372,181

The accompanying notes are an integral part of this statement.

Colorado State Fair Authority
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUND TYPE
Year ended June 30, 2001

	Governmental Fund Type Capital Construction Fund
REVENUES – State appropriations	$1,280,963
EXPENDITURES	
Repairs and maintenance	978,674
Contractual services	302,289
Total expenditures	1,280,963
Excess (deficiency) of revenues over (under) expenditures	-
Beginning fund balance	-
Ending fund balance	$ -

The accompanying notes are an integral part of this statement.

Colorado State Fair Authority
STATEMENT OF CASH FLOWS – PROPRIETARY FUND TYPE
Year ended June 30, 2001

	Proprietary Fund Type Enterprise Fund
Cash flows from operating activities	
Cash received from:	
Fees for service	$ 5,907,360
Sale of products	54,402
Rental of property	463,097
Other sources	424,419
Cash payments to:	
Employees	(1,674,943)
Suppliers	(4,760,511)
Other	(741,187)
Net cash used in operating activities	(327,363)
Cash flows from capital and related financing activities	
Increase in restricted assets	(10,414)
Local government grants	407,854
Debt service principal payments	(166,976)
Interest payments	(185,619)
Purchase of property and equipment	(32,597)
Net cash provided by capital and related financing activities	12,248
Cash flows from investing activities	
Interest and dividend income	62,083
Net cash provided by investing activities	62,083
Net decrease in cash and cash equivalents	(253,032)
Cash and cash equivalents, beginning of year	726,841
Cash and cash equivalents, end of year	$ 473,809
Reconciliation of operating income to net cash provided by operating activities:	
Net operating loss	$ (1,156,540)
Adjustments to reconcile net operating loss to net cash used in operating activities	
Depreciation and amortization of property and equipment	816,065
Loss on disposal of equipment	29,444
Net changes in assets and liabilities relating to operating activities	
Increase in accounts receivable	(90,820)
Decrease in inventory	16,138
Decrease in prepaid expenses	23,030
Increase in accounts payable	35,862
Increase in accrued compensated absences	15,137
Increase in damage deposits	8,300
Decrease in deferred revenue	(23,979)
Net cash used in operating activities	$ (327,363)
Noncash investing and financing activities:	
Property and equipment added through contributed capital from capital construction fund	$ 302,289
Unrealized gain on restricted assets	12,225

The accompanying notes are an integral part of this statement.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. *Organization*

The Colorado State Fair Authority (Authority) is a component unit of the State of Colorado (State) within the State Department of Agriculture. It operates under the jurisdiction of the Colorado State Fair Authority Board of Commissioners (Board) whose members are appointed by the Governor of the State.

The Authority operates on the state fairgrounds in Pueblo, Colorado. The grounds and facilities include exhibition halls, four permanent restaurants, permanent stalls for horse shows, three 4-H buildings, an amphitheater, six pavilions, a covered grandstand, and an indoor arena. Most of the Authority's revenue is generated during the annual 17-day Colorado State Fair and Exposition (State Fair) from admissions, parking, food and beverage concessions, commercial space rental, sponsorships and carnival ticket sales. Additional revenue is generated from events that are held on a year-round basis in the indoor arena and other facilities on the state fairgrounds.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The following is a summary of the more significant policies.

2. *Basis of Presentation – Fund Accounting*

The accounts of the Authority are organized into two funds. An enterprise fund, a proprietary fund type, is used to account for the operation of the State Fair. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. That is, where the intent of governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriated for capital maintenance control, accountability, or other purposes. A capital construction fund, a governmental fund type, is used to account for transactions related to acquisition, construction, or improvement to state owned facilities that are funded from appropriations made by the Colorado General Assembly.

3. *Basis of Accounting*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary fund types are accounted for on a flow of economic resources measurement focus and are reported on an accrual basis. Using the accrual basis, revenue is recognized when earned, and expenses, including depreciation, are recognized when incurred. Revenue received and expenses incurred prior to June 30 relating to the annual State Fair held in the subsequent fiscal year are recorded as deferred revenue and prepaid expenses, respectively, at year end. As permitted by Government Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply only those applicable Financial Accounting Standards Board Statements and interpretations issued prior to November 30, 1989.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

3. *Basis of Accounting – continued*

All governmental fund types are accounted for using a current financial resources measurement focus and are reported on the modified accrual basis. This basis of accounting recognizes revenue when measurable and available to finance current operations or to liquidate liabilities existing at fiscal year-end.

4. *Budgetary Process*

The financial operations of the Authority are controlled by an annual appropriation made by the Colorado General Assembly and signed into law by the Governor as part of the annual Long Appropriations Act or other special bill.

For Fiscal Year 2000-2001, the Authority's original and final operating budget as approved by the General Assembly was $8,052,380 which the Authority allocated to cover operating expenses, excluding depreciation.

The Authority also adopts an internal budget for its enterprise fund for management purposes. For fiscal year ended June 30, 2001, the internal budget showed total budgeted operating revenues of $6,960,500, total actual operating revenues were $7,328,560, total allocated budgeted operating expenses were $6,897,750, and total actual operating expenses were $7,669,035, excluding depreciation expense which is a non-budgeted operating expense.

5. *Inventory*

Inventory, consisting of facilities maintenance supplies, concession supplies and souvenirs, is stated at the lower of cost (first-in, first-out method) or market.

6. *Property and Equipment*

Property and equipment are stated at cost. Depreciation and amortization (on equipment under capital lease) is calculated using the straight-line method based upon estimated lives of seven years for furniture and equipment and twenty years for buildings and other improvements.

7. *Accrued Compensated Absences Liability*

Effective July 1, 1988, all employees in classified permanent positions within the State Personnel System accrue sick leave at the rate of 6.66 hours per month. Total sick leave per employee is limited to their respective accrued balance on July 1, 1988, plus 360 additional hours. Annual leave is earned on an annual basis, with the amount varying between 10 and 21 days per year depending on the level of, and number of years of continuous service provided by, the employee. Annual leave rights are vested after one year of continuous service and the accumulation of annual leave is limited to 42 days at the end of the fiscal year. The compensated absence liability accrual is recorded as an enterprise fund liability.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

8. *Statement of Cash Flows*

For the purpose of the statement of cash flows, the Authority considers unrestricted, highly liquid temporary investments maturing within three months of the acquisition to be cash equivalents.

9. *Total Column*

The total columns are captioned "Memo Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with accounting principles generally accepted in the United States of America. Nor are they comparable to a consolidation as interfund eliminations have not been made in the aggregation of this data.

NOTE B – CASH DEPOSITS

Cash includes petty cash, change funds, imprest funds, and cash on deposit with the State Treasurer. Moneys deposited with the Treasury are invested until the cash is needed. The State Treasurer pools these deposits and invests them in securities approved by C.R.S. 24-75-601.1. The Authority reports its share of the Treasurer's unrealized gains and losses based on its participation in the State Treasurer's pool only at fiscal year end. Effective July 1, 1997, with the Authority's initial adoption of Government Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

The Authority is authorized to deposit funds in bank accounts outside the custody of the Treasury. Colorado statutes require protection of public moneys in banks beyond that provided by the federal insurance corporations. The Public Deposit Protection Act in Section 11-10.5-107(5), C.R.S., requires all eligible depositories holding public deposits to pledge designated eligible collateral having market values at least 102 percent of the deposits exceeding those amounts insured by federal insurance. The Authority categorizes its cash into three categories as to their credit risk:

- Category 1 is federally insured deposits or deposits fully collateralized with securities held by the State or its agent in the State's name.

- Category 2 is deposits collateralized with securities held by the pledging financial institution's trust department or agent in the State's name.

NOTE B – CASH DEPOSITS – Continued

- Category 3 is uncollateralized deposits. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the State's name.

At June 30, 2001, the Authority had cash balances in the enterprise fund with a carrying value of $473,809. Of this amount, $8,412 consists of petty cash and change funds and $430,916 is on deposit with the Treasury. The Authority had cash balances in bank accounts outside the custody of the Treasury with a carrying value of $34,481 and a bank balance of $37,929. The full amount of the bank balance is covered by federal insurance.

At June 30, 2001, the Authority had cash balances in the capital construction fund with a carrying value of $571,295 which is all on deposit with the Treasury.

NOTE C – RESTRICTED ASSETS

In connection with the refunding revenue bonds issued in 1992, the Authority was required to establish a bond sinking fund. The bond sinking fund is comprised of monthly deposits sufficient to provide for the next maturing installments of bond principal and interest and for bond payments made in June and December of each year. The bond resolution states the sinking fund shall be on a calendar year. The balance in the sinking fund at June 30, 2001, was $126,261. The balance is collateralized with securities held by the pledging financial institution's trust department.

The Authority was also required to establish a reserve fund to be used in the event of deficiencies in the bond sinking fund. The balance in the reserve fund must be equal to (i) 10% of the outstanding principal amount of the refunding reserve bonds, (ii) the maximum annual debt service requirement, as defined in the bond resolution, or (iii) 125% of the average amount of all required annual principal and interest payments. The Authority has complied with these bond covenants for the year ended June 30, 2001. The Authority is also required to generate sufficient revenue to cover general operating expense plus 125% of the annual requirements of principal and interest on the outstanding bonds. The Authority was not in compliance with this requirement for the year ended June 30, 2001.

The Authority had the following investment, recorded at market value, in the restricted bond reserve fund at June 30, 2001:

Federal Farm Credit Medium Term Note (Int. payable 7/20 and 1/20 CPN 6.05% due April 21, 2003, $241,824 amortized cost)	$250,804

The Authority's investment is insured by an agency of the federal government and is an investment allowed under State statute to be held by the Authority. The Authority recognized an unrealized gain $8,980 on the investment during the year ended June 30, 2001.

NOTE D – PROPERTY AND EQUIPMENT

At June 30, 2001, property and equipment consisted of the following:

	Balance July 1, 2000	Additions	Deletions and reclassifications	Balance June 30, 2001
Land	$ 594,458	$ -	$ -	$ 594,458
Building	11,117,827	-	-	11,117,827
Land improvement	2,168,278	-	-	2,168,278
Furniture and equipment	2,095,850	32,597	133,070	1,995,377
Construction in progress	-	302,289	-	302,289
	15,976,413	$334,886	$ 133,886	16,178,229
Accumulated depreciation	(7,890,509)	$(816,065)	$ 103,626	(8,602,948)
Property and equipment, net	$ 8,085,904			$7,575,281

NOTE E – LONG-TERM OBLIGATIONS

Beginning balance, July 1, 2000	$2,355,730
Amortization of bond discount	4,187
Payments on bonds and lease obligations payable	(166,976)
Ending balance, June 30, 2001	$2,192,941

At June 30, 2001, long-term obligations consisted of the following:

Refunding Revenue Bonds, Series 1992, (net of unamortized discount of $11,513)	$1,868,487
Bleacher equipment capital lease, interest at 8%, semi-annual payments of $40,000 including principal and interest through July 2005, collateralized by bleacher equipment	289,482
Note, Kentucky Fried Chicken, non-interest bearing, annual payments of $1,659 through 2011, unsecured	16,590
Other capital leases	18,382
	2,192,941
Less: Current portion of long-term obligations	(173,341)
Long-term obligations	$2,019,600

Equipment recorded under capital lease obligations is recorded at a cost of $636,544 less accumulated depreciation of $493,100 as of June 30, 2001. Amortization of equipment recorded under capital lease obligations was $83,649 during the year ended June 30, 2001.

NOTE E – LONG-TERM OBLIGATIONS – Continued

The 1992 Bonds mature annually in varying amounts from December 1, 1993 through December 1, 2012. Interest is payable semi-annually at varying interest rates from 3.6% to 7.4%. The bonds are secured by a first lien on the net revenue of the Authority. The 1992 Bonds maturing on and after December 1, 2003, are subject to redemption prior to maturity at the option of the Authority on and after December 1, 2002 at the following redemption prices (expressed as a percentage of the principal amount so redeemed) plus interest thereon to the redemption date:

Redemption Dates	Redemption Prices
December 1, 2002 through November 30, 2003	101.0%
December 1, 2003 through November 30, 2004	100.5%
December 1, 2004 and thereafter	100.0%

Maturities of long-term debt at June 30, 2001, are as follows:

Fiscal year	Note and capital leases	Bond	Total
2002	$ 68,341	$ 105,000	$ 173,341
2003	71,640	110,000	181,640
2004	71,892	120,000	191,892
2005	75,020	130,000	205,020
2006	29,267	135,000	164,267
Thereafter	8,294	1,280,000	1,288,294
Total principal payments	324,454	1,880,000	2,204,454
Unamortized bond discount	-	(11,513)	(11,513)
	$324,454	$1,868,487	$2,192,941

NOTE F – PENSION PLANS

Plan Description – Virtually all of the Authority's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost-sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203.

NOTE F – PERA DEFINED BENEFIT PENSION PLAN – Continued

Plan Description – continued

Plan members vest after five years of service and most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. State troopers and judges comprise a small percentage of plan members but have higher contribution rates and are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their spouse or their eligible children under the age of 18 (23 if a fulltime student) are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

Funding Policy – Most employees contribute 8 percent (10% for state troopers) of their gross covered wages to an individual account in the plan.

During the year ended June 30, 2001, the Authority contributed 10.4 percent (13.1 percent for state troopers and 14.0 percent for the Judicial Branch) of the employee’s gross covered wages which was allocated by PERA before January 1, 2001, as follows:

- 1.1 percent was allocated to the Health Care Trust Fund.
- 9.3 percent was allocated to the defined benefit plan.

After January 1, 2001, the state contribution was allocated to three separate programs by PERA according to a statutory change in funding policy:

- 1.42 percent was allocated to the Health Care Trust Fund.
- The amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (see note G below).
- The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

The annual gross covered wages subject to PERA is the gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code. The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly.

The Authority’s contributions to the three programs described above for the year ended June 30, 2001, were $147,110. These contributions met the contribution requirement for the year.

NOTE G – VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. The match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month (7 percent for judges in the Judicial Branch). The PERA Board sets the level of the match annually – based on the actuarial funding of the defined benefit pension plan. Two percent of the gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer a 403(b) plan. Members who contribute to any of these plans also receive state match.

NOTE H – POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

The PERA Health Care Program began covering retired benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During the year ended June 30, 2001, the premium subsidy was $115 for those with 20 years of service credit ($230 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in note F.

Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 1999 there were 31,266 participants, including spouses and dependents, from all contributors to the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential and Rocky Mountain Life. Members may join one or both plans and they may continue coverage into retirement. Premiums are collected monthly by payroll deduction or other means.

NOTE I – RISK MANAGEMENT

The State currently self-insures its agencies, including the Authority, officials, and employees for the risk of losses to which they are exposed (general liability, motor vehicle liability, worker's compensation, and medical claims). Additional information regarding the state's risk management programs is included in the state's comprehensive annual financial report.

NOTE J – COMMITMENT

The Authority has construction contracts in progress at June 30, 2001 for repair and replacement of Authority facilities and has commitments remaining on the contracts of approximately $1.7 million.

NOTE K – TABOR

For the fiscal year ended June 30, 2001, the Authority did not qualify for exclusion from the provisions of Article X, Section 20 (TABOR) of the State of Colorado's constitution because it did not qualify as an enterprise as defined by TABOR.

Report of Independent Certified Public Accountants
on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards

Members of The Legislative Audit Committee

We have audited the financial statements of the Colorado State Fair Authority (the Authority) as of and for the year ended June 30, 2001, and have issued our report thereon dated September 21, 2001. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State of Colorado Legislative Audit Committee, the Authority's Board of Commissioners and the Authority's management and is not intended to be and should not be used by anyone other than these specified parties.

Colorado Springs, Colorado
September 21, 2001

REQUIRED COMMUNICATIONS
COLORADO STATE FAIR AUTHORITY
FINANCIAL AND COMPLIANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2001

The following specific matters are required to be discussed with the Audit Committee in accordance with Statement on Auditing Standard No. 61, *Communication with Audit Committees*. The matters discussed herein are those that we have noted as of September 21, 2001, and we have not updated our procedures regarding these matters since that date to the current date. Accordingly, we advise you of the following with respect to the Colorado State Fair Authority (Authority) for the year ended June 30, 2001:

Auditors' Responsibility Under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

Our responsibility, as prescribed by auditing standards generally accepted in the United States of America promulgated by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors or fraud (or illegal acts), or noncompliance with the provisions of laws, regulations, contracts and grants, if existing, have not been detected. Such standards also require that we obtain a sufficient understanding of the Authority's internal controls to plan the audit. However, such understanding and any tests performed with respect to such internal controls, or as to compliance with laws, regulations, contacts and grants, were for the purpose of expressing our opinion on the Authority's financial statements and not to opine or provide any assurance concerning such internal controls or compliance.

Our Responsibility for Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, the auditors' responsibility for other information in documents containing the Authority's audited financial statements does not extend beyond the financial information identified in the audit report, and the auditor is not required to perform procedures to corroborate such other information. However, in accordance with such standards, we are required to read the information in such documents and consider whether such information, or the manner of its presentation, is materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information which we believe is a material misstatement of fact.

Significant Audit Adjustments

For purposes of these required communications, professional standards define an audit adjustment, whether or not recorded, as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The definition includes adjustments that were not recorded by the Authority because they are not material to the current financial statements but might be potentially material to future financial statements. The Authority's management has represented to us that they believe the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and we concur with management's conclusion.

Disagreements with Management

For purposes of these required communications, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter which could be significant to the Authority's financial statements or the audit report. We are pleased to report that no such disagreements arose during the course of our audit.

Distribution

Copies of this report have been distributed to:

Legislative Audit Committee (12)

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Department of Agriculture (2)

Joint Budget Committee (3)

Department of Personnel
d.b.a. General Support Services
Executive Director (2)
State Controller (2)

Honorable Bill Owens, Governor

Office of State Planning and Budgeting (2)

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