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

Colorado State Fair Authority

June 30, 2002

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SECTION 2-3-103 (2), C.R.S., states in part:

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COSA - 201 04/00

October 15, 2002

Members of the Legislative Audit Committee:

We have completed the financial statement audit of the Colorado State Fair Authority as of and for the year ended June 30, 2002. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America.

We were engaged to conduct our audit pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions and agencies of state government. The reports which we have issued as a result of this engagement are set forth in the table of contents which follows.

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COLORADO STATE FAIR AUTHORITY
REPORT SUMMARY
FINANCIAL AND COMPLIANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2002

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, 2002.

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 August 15, 2002 on the Colorado State Fair Authority's June 30, 2002 financial statements.

Current Year Findings and Recommendations

There are two current year findings and recommendations. The Authority's enterprise fund has sustained operating losses for a number of years that have required continued State subsidization. We recommend that the Authority develop a detailed five-year business plan with strategies and pricing polices designed to bring the Authority to a break-even point, without State subsidization, within the five-year period covered by the plan. The second recommendation recognizes that users of the Authority's financial statements have a need for, and an interest in, an accurate allocation of revenues and expenses to programs or cost centers, broken down between Fair and Non-Fair operations. Currently, the allocation process used by the Authority lacks the level of sophistication necessary to produce meaningful allocation results. We recommend that policies and procedures be implemented to standardize the program cost allocation process.

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, 2001:

Implemented	3
Not Implemented	0
Total	3

See page 7 for a discussion regarding the disposition of the prior audit recommendations.

RECOMMENDATION LOCATOR

All recommendations are addressed to the Colorado State Fair Authority

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	5	Develop a detailed five-year business plan with strategies and pricing policies designed to bring the Authority to a break-even point, without State subsidization, within the five-year period covered by the plan.	Partially agree.	October 1, 2003
2	6	Implement policies and procedures to standardize the program cost center allocation process, (i.e. the allocation of revenues and expenses to programs or cost centers, broken down between Fair and Non-Fair operations).	Agree.	September 1, 2002

BACKGROUND

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 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. For Fiscal Year 2002, 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.

FISCAL YEAR 2002 FINANCIAL HIGHLIGHTS

The following presents a summarized statement of revenues, expenses and changes in fund net assets of the Authority's enterprise fund 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, 2002 Fair-time*	Year ended June 30, 2002 Off-season	Year ended June 30, 2002 Total	Year ended June 30, 2001 Total (as restated)
Operating revenues	$ 6,352,198	$ 1,218,472	$ 7,570,670	$ 7,328,560
Operating expenses (excluding depreciation and amortization)	5,521,145	2,447,351	7,968,496	7,669,035
Operating income (loss) before depreciation and amortization	$ 831,053	$ (1,228,879)	$ (397,826)	$ (340,475)
Depreciation and amortization			706,727	825,090
Operating loss			(1,104,553)	(1,165,565)
Nonoperating revenues			590,425	266,889
Net loss			(514,128)	(898,676)
Capital contributions			3,232,991	1,204,744
Increase in net assets			$ 2,718,863	$ 306,068

*Fair held during August/September 2001.

According to the Authority, the most recent State Fair (held in August/September 2002) resulted in an operating profit excluding depreciation. The 2002 State Fair results will be included in the financial statements for the year ended June 30, 2003.

The Authority's enterprise fund experienced a net operating cash outflow of $228,208 and $327,363, respectively, for the years ended June 30, 2002 and 2001.

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, 2002 resulted in a negative change in net assets of $514,128 before capital contributions.

Development of Five-Year Business Plan

The Authority's enterprise fund has incurred operating losses for several years, which has required substantial subsidization from the State to continue its operations. Specifically, for the Fiscal Years ended June 30, 2002 and 2001, the Authority experienced operating losses of $(1,104,553) and $(1,165,565), respectively. The operating losses include depreciation and amortization expense of $706,727 and $825,090, for the Fiscal Years ended June 30, 2002 and 2001, respectively. One of the criteria in determining if a fund should be treated as an enterprise fund under Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* is that "the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service)." Accordingly, generally accepted governmental accounting standards presume that enterprise funds will at some point reach break-even or better operationally and that subsidization of activities conducted by the enterprise will be the exception rather than the norm.

The Fiscal Year 1998 audit recommended that the Authority develop a long-range business plan. The plan was to include a comprehensive review of revenue and expense, projected operating results and cash flows for future years, and the Authority was to monitor projections-to-actual results. It was also recommended that the plan include an evaluation of the types of events held and specific revenue that the Authority projected it would receive. The Authority agreed with the recommendation. While we recognize that such an undertaking is a long-term project, the Authority has not yet developed this plan. We recommend that the Authority take steps to develop this plan to help ensure that it is able to reduce and eventually eliminate its dependence on the State subsidization. The business plan should be for a period of five years with detailed financial projections for one year and summary financial projections for no more than five years. For such a plan to be effective, accurate cost center operating results, based on the allocation methodology recommended in Recommendation No. 2, discussed below, would be required.

Recommendation No. 1

The Authority should develop a five-year business plan designed to bring the Authority's enterprise fund operations to a break-even point, without State subsidization, within the five-year period covered by the plan. Implementation of Recommendation No. 2, discussed below, concerning cost center allocations, is critical for the development of accurate pricing policies to achieve break-even.

Colorado State Fair Authority Response: Partially Agree.

For the Fiscal Year ended June 30, 2002 the Authority had a net increase in Cash and Cash Equivalents of $227,803. Included was a $155,720 State Appropriation and $536,256 in local grants from the City of Pueblo and Pueblo County. The Authority was required by footnote to House Bill 02-1420 (Fiscal Year 2002 Long Appropriations Bill) to include in its October 1, 2002 report to the

Joint Budget Committee a comparison between the Colorado State Fair and other state fairs' subsidy requirements. All required some form of subsidy as will the Authority in the form of continued local grants and, if available, assistance from the State Legislature.

The Authority will develop a five-year business plan. Implementation date of October 1, 2003.

Standardization of Cost Center Allocations

As noted above, the Authority has experienced operating losses for a number of years. As part of its efforts to develop a business plan, the Authority needs to develop meaningful methods for analyzing financial information.

An agreed-upon procedures report dated January 18, 2002, prepared by Grant Thornton LLP under contract with the Office of the State Auditor, recommended that the Authority standardize the program cost center allocation process. Users of the Authority's financial statements have a need for, and an interest in, allocated revenue and expense on a program basis, broken down between Fair and Non-Fair operations. The most significant users of the Authority's financial statements needed to agree to the types of the information that was needed from the process, the extent to which assumptions were to be used and how those assumptions were to be developed.

As a result of the January 2002 report, the Office of State Planning and Budgeting, the Department of Agriculture and the Authority agreed to develop cost center allocations for the Authority's activities. However, the Authority's current allocation process lacks the level of sophistication necessary to generate a meaningful allocation of revenue and expenses on a program or cost center basis, broken down between Fair and Non-Fair operations.

Recommendation No. 2

The Authority should implement policies and procedures to standardize the program cost center allocation process. In developing that process, the most significant users of the Authority's financial statements should agree to the types of information needed from the process, the extent to which assumptions are to be used and how those assumptions are to be developed, who is to perform the process and how the process will be monitored. Issues that should be addressed in the allocation process include:

a. the assessment of Fair/Non-Fair classification for every invoice and receipt as they are processed,
b. communication of a simple, yet accurate process for allocating time between Fair/Non-Fair and cost centers to all personnel on an ongoing basis and the establishment of a system to capture those allocations of payroll and related benefit costs,
c. matching depreciable assets to functions/uses and documentation of those procedures and
d. determining and documenting how the gate revenue is to be allocated to the various program cost centers.

An essential element in the determination of what is needed in the future should be a thorough discussion and analysis of the cost/benefit relationship of the proposed plan.

Colorado State Fair Authority Response: Agree. Implementation date of September 1, 2002.

DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

The following recommendations are from the Fiscal Year 2001 Colorado State Fair Authority Financial and Compliance Audit.

Rec. No.	Recommendation	Disposition
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.	Implemented.
	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.	Implemented.
	c. Develop procedures to ensure that subsidiary ledger balances for box office deferred revenue are reconciled to reports generated by the box office.	Implemented.
2.	The Authority should store backup computerized accounting information at a location other than the administration building.	Implemented.
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.	Implemented.

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

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the Colorado State Fair Authority (Authority), a division of the State Department of Agriculture of the State of Colorado (Department), as of and for the year ended June 30, 2002, as listed in the table of contents. 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 of the Authority are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities and the business-type activities of the Department that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2002, and the changes in its financial position and its cash flows, where applicable, for the year then ended 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, 2002, 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.

The accompanying management's discussion and analysis presented on pages 10 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.

As discussed in note L to the financial statements, the Colorado State Fair Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 37, *Basic Financial Statements Discussion and Analysis – for State and Local Governments: Omnibus*, during the year ended June 30, 2002 which change the basic financial statements required for governmental entities.

In accordance with *Government Auditing Standards,* we have also issued our report dated August 15, 2002, 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
August 15, 2002

This discussion and analysis of the Colorado State Fair Authority's financial performance is a required component of financial reporting under governmental accounting standards and was prepared by Colorado State Fair Authority Management. It provides an overview of financial activities for the year ended June 30, 2002 and should be read in conjunction with the Authority's financial statements, which begin on page 15. These financial statements reflect only activities of the Colorado State Fair Authority, a division of the State Department of Agriculture of the State of Colorado.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: 1) fund financial statements and 2) notes to the financial statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Authority can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The Authority maintains one individual governmental fund, a capital construction fund. The Authority uses the capital construction fund to account for State appropriations to be expended principally for capital asset additions.

The basic governmental fund financial statements can be found on pages 15 and 16 of this report.

Proprietary funds. The Authority maintains one proprietary fund, an enterprise fund. The Authority uses its enterprise fund to account for its Fair activities and Non-Fair activities conducted on the Fair grounds.

The basic proprietary fund financial statements can be found on pages 17-19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 20-31 of this report.

FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority's enterprise fund, assets exceeded liabilities by $9,087,169 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net assets (100.5 percent) reflects its investment in capital assets (e.g., land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to operate the State Fair and Non-Fair activities held on the premises; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Schedule of Fund Net Assets

	Governmental Fund (Capital Construction Fund)		Proprietary Fund (Enterprise Fund)	
	June 30		June 30	
	2002	2001	2002	2001
Current assets	$ 1,203,174	$ 571,295	$ 1,281,351	$ 1,298,999
Other assets	-	-	53,897	60,615
Capital assets	-	-	11,169,547	8,583,607
Total assets	1,203,174	571,295	12,504,795	9,943,221
Current liabilities	1,203,174	571,295	1,437,964	1,468,237
Non-current liabilities	-	-	1,979,662	2,094,477
Total liabilities	1,203,174	571,295	3,417,626	3,562,714
Net assets:				
Invested in capital assets, net of related debt	-	-	9,128,531	6,390,666
Restricted	-	-	272,997	377,065
Unrestricted (deficit)	-	-	(314,359)	(387,225)
Total net assets	$ -	$ -	$ 9,087,169	$ 6,380,506

An additional portion (3 percent) of the Authority's net assets as of June 30, 2002 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is a negative $314,359, which indicates that over time the State Fair's expenses have exceeded its revenue.

At the end of the current fiscal year, the Authority reported positive balances in the investment in capital assets net of related debt and restricted net assets, but was left with a negative balance in unrestricted net assets. The negative balance decreased $72,866 from June 30, 2001.

There was a decrease of $104,068 in restricted net assets reported in connection with the Authority's proprietary fund activities. The decrease resulted from the removal of restrictions on certain assets associated with revenue bonds during the current fiscal year.

The Authority's net assets increased by $2,706,663 during the current fiscal year. This increase primarily relates to a capital contribution of $3,232,991 from the State less State Fair operations expense in excess of revenue of $514,128.

Changes in Net Assets

	Governmental Fund		Proprietary Fund	
	2002	2001 (as restated)	2002	2001 (as restated)
Operating revenues:				
Commercial space/ concession	$ -	$ -	$ 2,089,721	$ 2,088,310
Gate admissions	-	-	1,509,655	1,481,796
Box office sales	-	-	1,836,443	1,659,354
Private sponsorships	-	-	816,434	797,198
Exhibitor fees	-	-	629,343	669,071
Building rentals	-	-	517,318	454,797
Miscellaneous revenues	-	-	171,756	178,034
Total operating revenues	-	-	7,570,670	7,328,560
Operating expenses:				
Personal service and benefits	-	-	1,761,853	1,708,409
Entertainment and attractions	-	-	2,066,110	1,810,662
Advertising and promotions	-	-	1,023,800	948,426
Prizes and awards	-	-	691,896	662,604
Depreciation and amortization	-	-	706,727	825,090
Other	-	-	2,424,837	2,538,934
Total operating expenses	-	-	8,675,223	8,494,125
Operating loss	-	-	(1,104,553)	(1,165,565)
Nonoperating revenues (expenses):				
Public works	(91,617)	(76,219)	-	-
Capital outlay	(3,232,991)	(1,204,744)	-	-
Local government grants	-	-	545,147	368,872
State appropriations	3,324,608	1,280,963	155,720	-
Investment income	-	-	42,569	74,308
Interest expense	-	-	(153,011)	(176,291)
Net nonoperating revenue	-	-	590,425	266,889
Decrease in net assets before capital contributions	-	-	(514,128)	(898,676)
Capital contributions	-	-	3,232,991	1,204,744
Increase in net assets	$ -	$ -	$ 2,718,863	$ 306,068

Governmental fund. The Authority has one governmental fund, the Capital Construction Fund, which is used to track the spending for capital projects appropriated by the General Assembly through the Colorado Department of Agriculture. The capital assets acquired through expenditures in this fund are transferred to the Authority resulting in a zero net asset balance.

Capital outlay transferred out of the governmental fund to the proprietary fund as a capital contribution increased the Authority's net assets by $3,232,991. Capital outlay items include land improvements, such as construction of bathroom facilities, water and drainage system replacement, street improvements, and parking lot construction. Governmental fund activities had no further effect on the Authority's net assets. Key elements of the changes in net assets are as follows:

- State appropriations for capital projects increased by $2,043,645 (159.5 percent) from the prior year. This increase related to repairs and maintenance items and construction projects completed during the current year, including bathroom facilities, water and drainage replacement, streets, and parking lot construction.
- Capital assets acquired in the governmental funds were transferred to the proprietary fund through a capital contribution, resulting in no effect to the change in net assets for the year.

Proprietary fund. Proprietary fund activities increased net assets by $2,718,863. Key elements of this increase are as follows:

- The capital contribution of $3,232,991 governmental funds noted above resulted in an increase in net assets for proprietary fund activities of $2,718,863, after a decrease in net assets of $514,128 before capital contributions. This decrease reflects the State Fair's losses prior to the capital contribution.
- Charges for services increased by $242,110 (3.3 percent) during the year. Most of this increase is the result of an increase in box office sales of $177,089 (10.7 percent increase in box office sales) for the year.
- A local grant provided additional funds of approximately $114,000 over the prior year to the Authority for operating expenses in Fiscal Year 2002.

Total expenses (operating expenses plus interest expense) for the current year increased by $157,818 (1.8 percent). The increase relates primarily to an increase of $255,448 in entertainment and attractions expenses in an effort to increase attendance during the State Fair and to Non-fair time activities held.

BUDGETARY HIGHLIGHTS

The Authority's budget is determined by a variety of methods. The majority of the budget is set by the annual appropriations bill (called the Long Bill—enacted by the General Assembly and signed by the Governor), which determines budgets for every agency within the State. The Long Bill and centrally appropriated funds are approved shortly before the start of each fiscal year. Agencies may also request a supplemental appropriation during the fiscal year to cover unexpected expenses as well as year-end transfers of spending authority, if needed. The final method of funding is special legislation. In Fiscal Year 2002, there was no special legislation that affected the Authority.

The approved budget for the Authority's proprietary fund activities at the beginning of the year was a cash spending authority appropriation of $7,952,713. A supplemental appropriation of $155,720 increased the budget to $8,108,433. Total earned revenues were $8,314,106 and total expenses on a budgetary basis were $8,172,794. The Authority earned $120,722 of excess cash. The Authority had expenditures in excess of budget of $64,361 of which $29,438 was approved.

Total operating expenses (GAAP basis)	$ 8,675,223
Plus interest expense	153,011
Less depreciation and amortization	(706,727)
Less nonbudgeted item (worker's compensation)	(20,590)
Plus capital outlay (budgeted)	71,877
Total expenses (budgetary basis)	$ 8,172,794

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This management's discussion and analysis (MD&A) is designed to provide Colorado citizens, Colorado government officials, our sponsors, customers and other interested parties with a general overview of the Authority's financial activity for Fiscal Year 2002 and to demonstrate the Authority's accountability for its use of State resources. If you have questions about the MD&A or need additional information, contact the Colorado State Fair Authority's Controller, 1001 Beulah Avenue, Pueblo, Colorado 81004-2499.

Colorado State Fair Authority
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2002

	Capital Construction Fund
ASSETS	
Cash and cash equivalents	$ 1,203,174
Total assets	$ 1,203,174
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	$ 1,203,174
FUND BALANCE	-
Total liabilities and fund balance	$ 1,203,174

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
Year Ended June 30, 2002

	Capital Construction Fund
REVENUES – Intergovernmental	$3,324,608
EXPENDITURES	
Current - Public works	91,617
Capital outlay	3,232,991
Total expenditures	3,324,608
Net change in fund balance	-
Fund balance, beginning	-
Fund balance, ending	$ -

The accompanying notes are an integral part of this statement.

Colorado State Fair Authority
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
June 30, 2002

	Enterprise Fund
ASSETS	
CURRENT ASSETS	
Unrestricted Assets	
Cash and cash equivalents	$ 701,612
Accounts receivable, net	106,730
Due from local governments	27,928
Interest receivable	7,411
Inventory	26,312
Prepaid expenses	138,361
Total unrestricted assets	1,008,354
Restricted Assets	
Bond sinking fund	20,378
Bond reserve fund	252,619
Total restricted assets	272,997
Total current assets	1,281,351
NONCURRENT ASSETS	
Capital Assets, net of accumulated depreciation	11,169,547
Unamortized financing costs	53,897
Total noncurrent assets	11,223,444
Total assets	12,504,795
LIABILITIES	
CURRENT LIABILITIES	
Current portion of long-term obligations	188,044
Accounts payable	221,755
Accrued interest payable	10,443
Damage deposits	18,054
Deferred revenue	999,668
Total current liabilities	1,437,964
NONCURRENT LIABILITIES	
Accrued compensated absences	126,690
Bonds and lease obligations payable	1,852,972
Total noncurrent liabilities	1,979,662
Total liabilities	3,417,626
NET ASSETS	
Invested in capital assets, net of related debt	9,128,531
Restricted for debt service	272,997
Unrestricted (deficit)	(314,359)
Total net assets	$ 9,087,169

The accompanying notes are an integral part of this statement.

Colorado State Fair Authority
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUND
Year Ended June 30, 2002

	Enterprise Fund
OPERATING REVENUES	
Commercial space/concessions	$ 2,089,721
Gate admissions	1,509,655
Box office sales	1,836,443
Private sponsorships	816,434
Exhibitor fees	629,343
Building rentals	517,318
Miscellaneous revenues	171,756
Total operating revenues	7,570,670
OPERATING EXPENSES	
Personal service and benefits	1,761,853
Entertainment and attractions	2,066,110
Advertising and promotions	1,023,800
Prizes and awards	691,896
Repairs and maintenance	346,519
Utilities	486,852
Supplies and materials	309,334
Contractual services	634,117
Other operating	316,727
Building, vehicle and equipment rental	315,241
Travel	16,047
Depreciation and amortization	706,727
Total operating expenses	8,675,223
Operating loss	(1,104,553)
NONOPERATING REVENUES (EXPENSES)	
Local government grants	545,147
State appropriations	155,720
Investment income	42,569
Interest expense	(153,011)
Total nonoperating revenue (expenses)	590,425
Loss before capital contributions	(514,128)
Capital contributions	3,232,991
CHANGE IN NET ASSETS	2,718,863
Total net assets, beginning – as previously reported	5,372,181
GASB 34 adjustment	996,125
Total net assets, beginning – as restated	6,368,306
Total net assets, ending	$ 9,087,169

The accompanying notes are an integral part of this statement.

Colorado State Fair Authority
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year Ended June 30, 2002

	Enterprise Fund
Cash flows from operating activities	
Cash received from:	
Fees for services	$ 6,094,495
Sale of products	24,993
Rental of property	527,072
Other sources	415,334
Cash payments to:	
Employees	(1,696,821)
Suppliers	(4,823,786)
Other	(769,495)
Net cash used in operating activities	(228,208)
Cash flows from capital and related financing activities	
Decrease in restricted assets	114,863
Local government grants	536,256
State appropriations	155,720
Debt service principal payments	(186,994)
Interest payments	(157,753)
Purchase of property and equipment	(37,855)
Net cash provided by capital and related financing activities	424,237
Cash flows from investing activities	
Interest and dividend income	31,774
Net increase in cash and cash equivalents	227,803
Cash and cash equivalents, beginning of year	473,809
Cash and cash equivalents, end of year	$ 701,612
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (1,104,553)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation and amortization of property and equipment	706,727
Net changes in assets and liabilities relating to operating activities	
Decrease in accounts receivable	40,510
Decrease in inventory	11,685
Decrease in prepaid expenses	98,079
Increase in accounts payable	115,601
Increase in accrued compensated absences	51,813
Increase in damage deposits	9,754
Decrease in deferred revenue	(157,824)
Net cash used in operating activities	$ (228,208)
Noncash investing and financing activities:	
Property and equipment added through contributed capital from capital construction fund	$ 3,232,991
Unrealized gain on restricted assets	10,795
Property and equipment financed under capital lease	34,022

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 division of the State Department of Agriculture of the State of Colorado (Department). 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 financial statements of the Authority are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities and the business-type activities of the Department that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2002, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 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. *Fund financial statements*

Separate financial statements are provided for the governmental fund and the proprietary fund.

3. *Measurement focus, basis of accounting, and financial statement presentation*

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority reports as a major governmental fund the capital construction fund which accounts for state appropriations to be expended principally for capital asset additions.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. *Measurement focus, basis of accounting, and financial statement presentation - continued*

The Authority reports the following major proprietary fund:

> The Colorado State Fair Authority enterprise fund accounts for the activities of the Authority and an agency of the State of Colorado. The Authority operates the Colorado State Fair and uses the fund to account for its Fair activities and Non-Fair activities conducted on the Fair grounds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund are from operating the Colorado State Fair and Exposition. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

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 2002, the Authority's original and final operating budget as approved by the General Assembly was $8,108,433 which the Authority allocated to cover operating expenses, excluding depreciation and change in leave accrual.

The Authority also adopts an internal budget for its enterprise fund for management purposes. For Fiscal Year Ended June 30, 2002, the internal budget showed total budgeted operating

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. *Budgetary Process - continued*

revenues of $7,515,000 while total actual operating revenues were $7,570,670 and total allocated budgeted operating expenses were $8,108,433 while total actual operating expenses were $8,172,794, excluding depreciation expense and change in leave accrual, which are non-budgeted operating expenses. Revenues and appropriations received in excess of budget resulted in additional expenditures. The Authority has total expenditures in excess of budget of $64,361 with an approved over expenditure of $29,438 for total appropriated expenses.

Total operating expenses (GAAP basis)	$ 8,675,223
Plus interest expense	153,011
Less depreciation and amortization	(706,727)
Less nonbudgeted item (worker's compensation)	(20,590)
Plus capital outlay (budgeted)	71,877
Total expenses (budgetary basis)	$ 8,172,794

5. *Accounts receivable*

Accounts receivable is comprised principally of amounts due for use of the Authority's facilities from organizations and individuals and is stated net of any allowance for amounts estimated to be uncollectible.

6. *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.

7. *Capital Assets*

Capital assets include property, plant and equipment. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized when projects are materially complete. Streets, sidewalks, and water and drainage systems located on the fairgrounds are recorded as land improvements.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

7. *Capital Assets - continued*

Assets	Years
Buildings (transferred from state)	20
Buildings (constructed)	40
Land improvements (streets, sidewalks, and water drainage systems)	50
Land improvements (other)	16
Furniture and equipment	7

8. *Deferred revenue*

Deferred revenue represents cash received by the Authority in advance of the related revenue being earned by the Authority. Deferred revenue is comprised principally of cash received for events and activities at the Fair that are held after the Authority's fiscal year end.

9. *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.

10. *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.

NOTE B – CASH DEPOSITS

1. *Cash*

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 Section 24-75-601.1, C.R.S. 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.

NOTE B – CASH DEPOSITS - Continued

2. *Categorization of Deposits*

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 on the basis of credit risk:

- Category 1 is federally insured deposits or deposits fully collateralized with securities held by the Authority or its agent in the Authority's name.
- Category 2 is deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.
- 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 Authority's name.

As of June 30, 2002, the Authority's deposits are categorized as follows:

	Bank balance	Carrying balance
Cash on hand	$ -	$ 2,400
Categorized deposits		
Deposits covered by Federal insurance – Category 1	100,000	100,000
Deposits required to be collateralized in a single institution pool(s) – Category 2	18,681	40,991
Cash on deposit with State Treasurer		
Enterprise fund	558,221	558,221
Capital construction fund	1,206,529	1,203,174
Total Cash	$1,883,431	$1,904,786

For cash on deposit with State Treasurer, the State Treasurer's investments as of June 30, 2002 are Category 1 investments and its cash deposits are principally Category 2 deposits.

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, 2002, was $20,378. 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, 2002. 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 in compliance with this requirement for the year ended June 30, 2002.

The Authority had the following investment, recorded at market value, in the restricted bond reserve fund at June 30, 2002:

Federal Farm Credit Medium Term Note	
(Int. payable 7/20 and 1/20 CPN 6.05%	
due April 21, 2003, $241,824 amortized cost)	$252,619

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 $10,795 on the investment during the year ended June 30, 2002.

NOTE D – CAPITAL ASSETS

At June 30, 2002, capital assets, all of which are used in business-type activities, consisted of the following:

	Balance July 1, 2001	Additions	Deletions and reclassifications	Balance June 30, 2002
Capital assets, not being depreciated				
Land	$ 594,458	$ -	$ -	$ 594,458
Construction in progress	302,289	600,251	(464,291)	438,249
Total capital assets, not being depreciated	896,747	600,251	(464,291)	1,032,707
Capital assets, being depreciated:				
Buildings	11,117,827	-	464,291	11,582,118
Land improvements	3,176,604	2,632,740	-	5,809,344
Furniture and equipment	1,995,377	71,877	-	2,067,254
Total capital assets, being depreciated	16,289,808	2,704,617	464,291	19,458,716
Less accumulated depreciation for:				
Buildings	(5,956,818)	(305,586)	-	(6,262,404)
Land improvements	(1,100,841)	(168,370)	-	(1,269,211)
Furniture and equipment	(1,557,490)	(232,771)	-	(1,790,261)
Total accumulated depreciation	(8,615,149)	(706,727)	-	(9,321,876)
Total capital assets, being depreciated, net	7,674,659	1,997,890	464,291	10,136,840
Capital assets, net	$ 8,571,406	$ 2,598,141	$ -	$ 11,169,547

NOTE E – LONG-TERM OBLIGATIONS

1. *Refunding Revenue Bonds*

The Refunding Revenue Bonds, Series 1992, 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. See Note C for bond reserve and sinking fund requirements. 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%

NOTE E – LONG-TERM OBLIGATIONS - Continued

1. *Refunding Revenue Bonds - continued*

Refunding revenue bonds debt service requirements to maturity are as follows:

Fiscal year	Principal	Interest
2003	$ 110,000	$ 125,720
2004	120,000	117,725
2005	130,000	108,910
2006	135,000	99,435
2007	145,000	89,283
2008-2012	910,000	261,590
2013-2017	225,000	8,325
Subtotals	1,775,000	810,988
Unamortized bond discount	(10,467)	-
Total	$1,764,533	$ 810,988

2. *Capital Leases*

The Authority has entered into a capital lease agreement as lessee for financing the acquisition of bleacher equipment with semi-annual payments of $40,000, including principal and interest (8%) through July 2005, and collateralized by the bleacher equipment. Other capital leases include leases for use of a tractor, concession buildings, and various office equipment.

The assets under capital leases as of June 30, 2002 are as follows:

Asset:	
Buildings	$ 66,357
Furniture and equipment	677,640
Subtotal	743,997
Less : Accumulated depreciation	(657,463)
Total	$ 86,534

The future minimum lease obligations and the net present value of these lease payments as of June 30, 2002 were as follows:

NOTE E – LONG-TERM OBLIGATIONS – Continued

2. *Capital Leases - continued*

Fiscal year	Amount
2003	$ 97,127
2004	92,017
2005	89,265
2006	30,371
2007	1,659
2008-2012	6,636
Total minimum lease payments	317,075
Less: amount representing interest	(40,592)
Present value of minimum lease payments	$ 276,483

3. *Changes in long-term liabilities*

Long-term liability activity for the Fiscal Year Ended June 30, 2002 was as follows:

Propriety fund activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Refunding revenue bonds	$1,880,000	$ -	$(105,000)	$1,775,000	$ 110,000
Less deferred amounts -					
On refunding	(11,513)	-	1,046	(10,467)	-
Total bonds payable	1,868,487	-	(103,954)	1,764,533	110,000
Capital leases	324,455	34,022	(81,994)	276,483	78,044
Total	$2,192,942	$ 34,022	$(185,948)	$2,041,016	$ 188,044

NOTE F – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2002 are as follows:

	Transfer in: Proprietary Fund
Transfer out:	
Capital construction fund	$3,232,991

The purpose of this transfer was to recognize the capital contribution for construction of bathroom facilities, water and drainage system improvements, streets, and parking lots.

NOTE G – PENSION PLANS

Plan Description – For eligible Authority employees participating in the Public Employees' Retirement Association plan (PERA), the plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The defined benefit plan is a cost-sharing multiple employer plan administered by 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, as well as other divisions' plans, is included in PERA's financial statements, which may be obtained by writing PERA of Colorado at 1300 Logan Street, Denver, Colorado 80203.

House Bill 00-1458, passed in the 2000 legislative session, changed the retirement eligibility of some state workers. Members, who are 55 years of age or older and retiring June 1, 2000 or later, with age plus years of service totaling 80 or more, may retire without a reduction for early retirement. The reduction for early retirement for some members with age plus years of service totaling less than 80 was also lowered. In addition, beginning March 1, 2000, the annual increase for PERA benefits will be 3.5% compounded annually, and it will no longer be tied to the Consumer Price Index. Currently, the increase is the lower of the actual rate of inflation or a cumulative annual rate of 3.5% since retirement.

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. Service retirement benefits are at 2.5% of HAS for each year of service credit. The benefit is limited to 100% (40 years) and cannot exceed the maximum amount allowed by federal law.

Reduced service retirement benefits are available at the following age and years of service: 50-25, 55-20, and 60-5. The benefit is calculated similarly to a service retirement benefit; however, it is reduced by percentages that vary from .25 to .5 percent, depending on the age and years of service, for each month before the eligible date for the full service retirement.

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, 2002, the Authority contributed 9.9 percent of the employee's gross covered wages which was allocated by PERA before January 1, 2002, as follows:

- 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 H below).
- The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

NOTE G – PENSION PLANS – Continued

Funding Policy - continued

After January 1, 2002, the state contribution allocated to the Health Care Trust Fund increased to 1.64 percent.

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 Fiscal Years Ended June 30, 2002, 2001, and 2000 were $120,237, $147,110, and $136,687, respectively. These contributions met the contribution requirement for the year.

NOTE H – 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. The Authority's contribution to the Matchmaker Program for the Fiscal Years Ended June 30, 2002 and 2001 were $20,360 and $8,655, respectively.

NOTE I – 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 Fiscal Year Ended June 30, 2002, 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 G. The Authority paid $51,046, $43,348, and $16,343 during the Fiscal Years Ended June 30, 2002, 2001, and 2000, respectively, into this fund.

NOTE I – POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS - Continued

Health Care Program - continued

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, 2001 there were 34,235 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 J – 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. There have been no significant reductions in insurance coverage from coverage in the prior year and the amount of settlements has not exceeded insurance coverage for any of the past three fiscal years.

NOTE K – TABOR (Taxpayers Bill of Rights)

For the Fiscal Year Ended June 30, 2002, 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. The reserve for declared emergencies, required by TABOR, is determined at the State level.

NOTE L – ADOPTION OF ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2001, the Colorado State Fair Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 37, *Basic Financial Statements Discussion and Analysis – for State and Local Governments: Omnibus*. GASB 34 and 37 establish the required basic financial statements and supplementary information for governmental entities. As a result of adopting GASB 34, net assets as of July 1, 2001 were restated to include $996,125 of land improvements (principally streets and water and drain systems) previously not capitalized.

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, 2002, and have issued our report thereon dated August 15, 2002. 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 over financial reporting 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
August 15, 2002

REQUIRED COMMUNICATIONS
COLORADO STATE FAIR AUTHORITY
FINANCIAL AND COMPLIANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2002

The following specific matters are required to be discussed with the Legislative 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 August 15, 2002, 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, 2002:

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. There were two uncorrected misstatements noted during our audit that would have increased the Authority's net assets by $13,422 as of June 30, 2002 had they been recorded in the 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.

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