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

Colorado State Fair Authority

June 30, 2003 and 2002

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September 27, 2003

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, 2003. 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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FINANCIAL AND COMPLIANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2003

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, 2003.

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

Our report dated July 30, 2003 (except for note K, as to which the date is September 19, 2003) on the Colorado State Fair Authority's June 30, 2003 financial statements includes an explanatory paragraph that describes a going concern uncertainty.

Current Year Findings and Recommendations

There are three 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. In addition, the Authority was in violation of bond covenants as of June 30, 2003, which contributed to issuance of a going concern uncertainty. 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 is the result of the Authority's violation of Section 35-65-401(9)(f), C.R.S. which prohibits the Board of the Colorado State Fair Authority from accepting contributions from nonstate sources during budget years when such contributions cause the Authority to exceed the "less than 10 percent" limit on state and local contributions, thus preventing the Authority from qualifying as an enterprise under TABOR. For Fiscal Year 2003, the Authority received grants from state and local governments in excess of ten percent of its total annual revenue. We recommend the Authority propose a statutory change to eliminate the Authority's limitation on the receipt of local government grants. The third recommendation is derived from the Authority not transferring capital assets in use by the Authority from construction in progress to land improvements. We recommend that the Authority review projects in construction in progress for placement in service and transfer to depreciable assets all project balances when the assets are placed in service.

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, 2002:

Implemented	0
Not implemented	1
Partially implemented	1
Total	2

See page 8 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	6	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 31, 2004
2	7	Propose a statutory change to eliminate the Authority's limitation on receipt of local government grants in Section 35-65-401(9)(f), C.R.S..	Agree.	October 31, 2003
3	7	Transfer construction in progress balances for assets placed in service to the appropriate depreciable asset category.	Agree.	September 1, 2003

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 2003, 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 2003 FINANCIAL HIGHLIGHTS

The following presents a summarized statement of revenues, expenses and changes in fund net assets of the Authority 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, 2003 Fair-time*	Year ended June 30, 2003 Off-season	Year ended June 30, 2003 Total	Year ended June 30, 2002 Total
Operating revenues	$ 6,016,527	$ 1,350,920	$ 7,367,447	$ 7,570,670
Operating expenses (excluding depreciation)	5,532,219	2,409,998	7,942,217	7,968,496
Operating income (loss) before depreciation	$ 484,308	$ (1,059,078)	$ (574,770)	$ (397,826)
Depreciation			600,249	706,727
Operating loss			(1,175,019)	(1,104,553)
Nonoperating revenues (net)			332,114	590,425
Net loss			(842,905)	(514,128)
State capital contributions			577,685	3,232,991
Change in net assets			$ (265,220)	$ 2,718,863

*Fair held during August/September 2002. The Authority allocates approximately 97% of governance and administration and facilities management expenditures for July, August and September to Fair-time activity. The amount allocated for Fiscal Year 2003 was $1,062,119.

According to the Authority, the most recent State Fair (held in August/September 2003) resulted in an operating profit excluding depreciation. The 2003 State Fair results will be included in the financial statements for the year ended June 30, 2004.

The Authority experienced a net operating cash outflow of $192,816 and $228,208, respectively, for the years ended June 30, 2003 and 2002.

Although the Fair-time activities have positive financial results after allocations made by management, the Authority continues to show operating losses when Fair-time and Off-season are totaled together. The loss for the year ended June 30, 2003 resulted in a negative change in net assets of $842,905 before State capital contributions.

FINDINGS AND RECOMMENDATIONS

Development of Five-Year Business Plan

The Authority's enterprise fund has incurred operating losses for several years. In addition, the Authority was in violation of bond covenants as of June 30, 2003, which contributed to issuance of a "going concern" uncertainty as part of our report on the Authority's financial statements. Specifically, the Authority has incurred losses and subsidization from the State as follows:

For Fiscal Year Ended	Operating Loss Including Depreciation and Amortization	Operating Loss Excluding Depreciation and Amortization	Total State Contributions	Local Contributions
June 30, 2003	$(1,175,019)	$(574,770)	$ 577,685	$ 458,012
June 30, 2002	(1,104,553)	(397,826)	3,480,328	545,147
June 30, 2001	(1,165,565)	(340,475)	1,280,963	368,872

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, however, the Authority did not implement the recommendation, and in Fiscal Year 2002, this recommendation was repeated due to the Authority's ongoing losses. Additionally, in January 2002, an agreed-upon-procedures report was issued relating to the Authority's cost center structure that emphasized the need for significant improvements in the procedures used in capturing accurate financial information by cost center. The purpose of this agreed-upon procedures engagement, which was conducted by Grant Thornton LLP with the assistance of Authority staff, was to help the Authority identify meaningful cost centers and methods for allocating all direct and indirect costs to these centers and to thereby identify which cost centers were making or losing money. The report recommended that the Authority standardize the program cost center allocation process and use this as a basis for developing a financial plan for the future of the Authority. Under Footnote 3 in the Fiscal Year 2003 Long Appropriations Bill (House Bill 02-1240), the General Assembly required that the Authority provide a report to the Joint Budget Committee by October 1, 2002, that contained a detailed analysis of each event and a plan to make each event self-sustaining; steps to be taken to avoid the need for a General Fund appropriation to the Authority; comparisons between the Fair's practices and those of other state fairs, including any subsidy those fairs receive; and a history of General Fund appropriations for operations and capital construction since 1997.

Our review of the October 2002 report provided to the Joint Budget Committee indicates that the Authority did not provide all the information requested, such as detailed financial information on various events or analysis of its activities on the basis of the cost centers developed during Fiscal Year 2002 or a plan to make each event or cost center self-sustaining. In its report, the Authority stated that some activities incur a loss and requested that the General Assembly consider making an annual General Fund appropriation for operations of $1.2 million. During Fiscal Year 2003, we found the Authority still had not fully implemented a standardized program cost center allocation process. As a result, the business plan compiled by the Authority in the fall of 2003 did not include meaningful analysis of its activity by cost center or a plan for achieving self-sufficiency. As noted in our Fiscal Year 2002 recommendation, 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 four years. For such a plan to be effective, accurate cost center operating results, based on fully implementing the allocation methodology recommended would be required.

Recommendation No. 1

The Authority should complete 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 prior year Recommendation No. 2, concerning cost center allocations, which was partially implemented in 2003, is critical for the development of accurate pricing policies to achieve break-even and correct the financial issues resulting in the violation of the Authority's debt covenant. Financial analysis and planning must be performed at a detailed level by cost center to properly identify areas of concern and where efficiencies can be achieved.

Colorado State Fair Authority Response: Partially agree.

An initial five-year business plan has been submitted to the Legislature. We recognize that this initial plan is not as comprehensive as contemplated by the Joint Budget Committee. It is our intention to enhance the plan with more comprehensive cost center analysis and cost center allocation data. We believe that it would be beneficial to the process of modifying this initial plan to have two years (Fiscal Years Ended June 30, 2003 and 2004) of actual comparative information that has been prepared on a cost center basis using the more comprehensive allocation process that we are currently implementing. Implementation date of October 31, 2004.

The Authority submitted a comparison of subsidy requirements between the Colorado State Fair and other state fairs as required by footnote to House Bill 02-1420 in its October 2002 report to the Joint Budget Committee. 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. While we believe the Authority will not be able to achieve break-even during the next five years without continued local grant support and state subsidization, we will be attempting to minimize state subsidization through cost containment and maximization of special events revenue.

Proposal for Statutory Change

According to Section 35-65-405(1), C.R.S., the Authority qualifies as an enterprise for TABOR purposes if it receives less than 10 percent of its funding from state and local grants or contributions. However, Section 35-65-401(9)(f), C.R.S. imposes an additional requirement that in any year, if nonstate contributions cause the Authority to exceed the "less than 10 percent" limit and therefore not qualify as a TABOR enterprise, the Board of Directors is prohibited from accepting nonstate contributions during that year. On the other hand, if state contributions cause the Authority to exceed the limit, the Board is not prohibited from accepting state or local contributions.

The Authority, until Fiscal Year 2003, had received sufficient state appropriations that these contributions alone prevented the Authority from qualifying as a TABOR enterprise. In Fiscal Year 2003, the State's contribution to the Authority was substantially reduced as a result of the decline in State revenues. The local contributions accepted by the Authority caused it to exceed the "less than 10 percent" limitation under TABOR. Therefore, according to the Statute, the Authority should not have accepted this local contribution. It is important that the Authority be able to accept all available local contributions in order to help cover its operating costs. The Authority should work with the General Assembly and seek a change in statutes that would eliminate the provisions in Section 35-65-401(9)(f), C.R.S. that limit its ability to accept local contributions.

Recommendation No. 2

The Authority should propose a statutory change to Section 35-65-401(9)(f), C.R.S. to eliminate the Authority's limitation on the receipt of local government grants.

Colorado State Fair Authority Response: Agree. Implementation date of October 31, 2003.

Transfer of Construction In Progress Placed in Service

The Authority did not review projects in construction in progress for placement in service and transfer such projects placed in service to an appropriate depreciable asset category. The projects that were included in construction in progress consisted of land improvements relating to the installation of a new sewer drainage system and streets totaling $454,601. An adjustment was prepared for this amount which relieved the construction in progress asset account and recorded the projects placed in service in a depreciable asset account. Since this was a reclassification from one asset account to another, the impact on the financial statements was zero. In order to calculate the correct depreciation expense amount for the fiscal year, all projects that are completed must be moved to a depreciable asset account on a regular basis.

Recommendation No. 3

The Authority should review all projects held in construction in progress and transfer assets placed in service to an appropriate depreciable asset category when placed in service.

Colorado State Fair Authority Response: Agree. Implementation date of September 1, 2003.

DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

The following recommendations are from the Fiscal Year 2002 Colorado State Fair Authority Financial and Compliance Audit.

Rec. No.	Recommendation	Disposition
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.	Not implemented – See current year recommendation No. 1
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.	Partially implemented. The Authority generated profit center reports for departmental review for the last quarter of Fiscal Year 2003. They completed a journal entry to allocate the governance, administration and facilities management expenditures for July, August and September to Fair-time activity for Fiscal Year 2003. The Authority has continued these practices in Fiscal Year 2004. Additionally, the Authority plans to allocate personal services expenditures between Fair-time and Non-fair-time activities in Fiscal Year 2004.

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Accountants and Business Advisors

Report of Independent Certified Public Accountants

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 years ended June 30, 2003 and 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 audits.

We conducted our audits 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 audits provide 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, of only that portion of 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, 2003 and 2002, and the changes in its financial position and its cash flows, where applicable, for the years 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, 2003 and 2002, and the respective changes in its financial position and its cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in note B, the Authority incurred a loss before State capital contributions of $842,905 and change in net assets of $(265,220) during the year ended June 30, 2003 and as of that date, the Authority's current liabilities exceeded its current assets by $2,043,245, it had deficit unrestricted net assets of $757,548 and it was not in compliance with certain bond covenants. These factors, among others, as discussed in note B to the financial statements, raise substantial doubt about the Authority's ability to continue as a going concern. Management's plans in regard to these matters are also described in note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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The accompanying management's discussion and analysis presented on pages 11 through 15 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated July 30, 2003, 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.

Grant Thornton LLP

Colorado Springs, Colorado
July 30, 2003 (except for note K, as to which
the date is September 19, 2003)

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, 2003 and should be read in conjunction with the Authority's financial statements, which begin on page 16. 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 only fund of the Authority is its proprietary fund.

Proprietary fund. 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 16-18 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 19-33 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 $8,821,949 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net assets (105.5 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

	June 30	
	2003	2002
Current assets	$ 1,189,587	$ 1,281,351
Other assets	47,179	53,897
Capital assets	11,225,546	11,169,547
Total assets	12,462,312	12,504,795
Current liabilities	3,232,832	1,437,964
Non-current liabilities	407,531	1,979,662
Total liabilities	3,640,363	3,417,626
Net assets:		
Invested in capital assets, net of related debt	9,304,277	9,128,531
Restricted	275,220	272,997
Unrestricted (deficit)	(757,548)	(314,359)
Total net assets	$ 8,821,949	$ 9,087,169

An additional portion (3.1 percent) of the Authority's net assets as of June 30, 2003 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is a negative $757,548, 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 increased $443,189 from June 30, 2002.

The Authority's net assets decreased by $265,220 during the current fiscal year. This decrease primarily relates to the decline in charges for services earned for box office entertainment and attractions.

Changes in Fund Net Assets

	Year ended June 30	
	2003	2002
Operating revenues:		
Commercial space/ concession	$ 2,110,730	$ 2,089,721
Gate admissions	1,320,596	1,509,655
Box office sales	1,617,888	1,836,443
Private sponsorships	889,531	816,434
Exhibitor fees	717,773	629,343
Building rentals	544,614	517,318
Miscellaneous revenues	166,315	171,756
Total operating revenues	7,367,447	7,570,670
Operating expenses:		
Personal service and benefits	1,787,043	1,761,853
Entertainment and attractions	1,978,186	2,066,110
Advertising and promotions	954,398	1,023,800
Prizes and awards	645,354	691,896
Depreciation	600,249	706,727
Other	2,577,236	2,424,837
Total operating expenses	8,542,466	8,675,223
Operating loss	(1,175,019)	(1,104,553)
Nonoperating revenues (expenses):		
Public works	-	-
Capital outlay	-	-
Local government grants	458,012	545,147
State appropriations	-	155,720
Investment income	26,344	42,569
Interest expense	(152,242)	(153,011)
Net nonoperating revenue	332,114	590,425
Decrease in net assets before State capital contributions	(842,905)	(514,128)
State capital contributions	577,685	3,232,991
Change in net assets	$ (265,220)	$ 2,718,863

For the Year Ended June 30, 2003 net assets decreased by $265,220. Key elements of this decrease are as follows:

- The State capital contributions of $577,685 resulted in an increase in net assets of $577,685, after a decrease in net assets of $842,905 before State capital contributions. This decrease reflects the State Fair Authority's losses prior to the State capital contributions.
- Charges for services decreased by $203,223 (2.7 percent) during the year. Most of this decrease is the result of a decrease in box office sales of $218,555 (11.9 percent decrease in box office sales) for the year.
- Local grants to the Authority for operating expenses decreased by $87,135 over the prior year.

Total expenses (operating expenses plus interest expense) for the current year decreased by $133,526 (1.5 percent). The decrease relates primarily to a decrease of $87,924 in entertainment and attractions expenses and $69,402 in advertising and promotions expenses in an effort to control cost in reflection of a deterioration in revenues during the 2002 Colorado State Fair.

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 2003, there was no special legislation that affected the Authority.

The approved budget for the Authority's activities at the beginning of the year was a cash spending authority appropriation of $8,243,653. During the year, appropriations were decreased by the General Assembly by $64,359 for a final cash spending authority appropriation of $8,179,294. Total revenues including local government grants and interest were $7,851,803 and total expenses on a budgetary basis were $8,166,030. The Authority spent $314,227 in excess of revenues.

Total operating expenses (GAAP basis)	$ 8,542,466
Plus interest expense	152,242
Less depreciation	(600,249)
Less nonbudgeted item (compensated absences)	(13,804)
Plus capital outlay	85,120
Plus nonbudgeted item (adjustment)	255
Total expenses (budgetary basis)	$ 8,166,030

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 2003 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
STATEMENTS OF FUND NET ASSETS
June 30,

	2003	2002
ASSETS		
CURRENT ASSETS		
Unrestricted Assets		
Cash and cash equivalents	$ 631,154	$ 701,612
Accounts receivable, net	42,723	106,730
Due from local governments	41,030	27,928
Interest receivable	210	7,411
Inventory	46,152	26,312
Prepaid expenses	153,098	138,361
Total unrestricted assets	914,367	1,008,354
Restricted Assets		
Bond sinking fund	30,161	20,378
Bond reserve fund	245,059	252,619
Total restricted assets	275,220	272,997
Total current assets	1,189,587	1,281,351
NONCURRENT ASSETS		
Capital Assets, net of accumulated depreciation	11,225,546	11,169,547
Unamortized financing costs	47,179	53,897
Total noncurrent assets	11,272,725	11,223,444
Total assets	12,462,312	12,504,795
LIABILITIES		
CURRENT LIABILITIES		
Current portion of bonds and capital lease obligations	1,756,473	188,044
Accounts payable	293,838	221,755
Accrued interest payable	6,960	10,443
Damage deposits	23,104	18,054
Deferred revenue	1,152,457	999,668
Total current liabilities	3,232,832	1,437,964
NONCURRENT LIABILITIES		
Accrued compensated absences	242,735	126,690
Capital lease obligations payable	164,796	1,852,972
Total noncurrent liabilities	407,531	1,979,662
Total liabilities	3,640,363	3,417,626
NET ASSETS		
Invested in capital assets, net of related debt	9,304,277	9,128,531
Restricted for debt service	275,220	272,997
Unrestricted (deficit)	(757,548)	(314,359)
Total net assets	$8,821,949	$ 9,087,169

The accompanying notes are an integral part of these statements.

Colorado State Fair Authority
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Year Ended June 30,

	2003	2002
OPERATING REVENUES		
Commercial space/concessions	$ 2,110,730	$ 2,089,721
Gate admissions	1,320,596	1,509,655
Box office sales	1,617,888	1,836,443
Private sponsorships	889,531	816,434
Exhibitor fees	717,773	629,343
Building rentals	544,614	517,318
Miscellaneous revenues	166,315	171,756
Total operating revenues	7,367,447	7,570,670
OPERATING EXPENSES		
Personal service and benefits	1,787,043	1,761,853
Entertainment and attractions	1,978,186	2,066,110
Advertising and promotions	954,398	1,023,800
Prizes and awards	645,354	691,896
Repairs and maintenance	433,616	346,519
Utilities	490,590	486,852
Supplies and materials	338,490	309,334
Contractual services	708,567	634,117
Other operating	278,945	316,727
Building, vehicle and equipment rental	313,965	315,241
Travel	13,063	16,047
Depreciation	600,249	706,727
Total operating expenses	8,542,466	8,675,223
Operating loss	(1,175,019)	(1,104,553)
NONOPERATING REVENUES (EXPENSES)		
Local government grants	458,012	545,147
State appropriations	-	155,720
Investment income	26,344	42,569
Interest expense	(152,242)	(153,011)
Total nonoperating revenues (expenses)	332,114	590,425
Loss before State capital contributions	(842,905)	(514,128)
State capital contributions	577,685	3,232,991
CHANGE IN NET ASSETS	(265,220)	2,718,863
Total net assets, beginning	9,087,169	6,368,306
Total net assets, ending	$ 8,821,949	$ 9,087,169

The accompanying notes are an integral part of these statements.

Colorado State Fair Authority
STATEMENTS OF CASH FLOWS
Year Ended June 30,

	2003	2002
Cash flows from operating activities		
Cash received from:		
Fees for services	$ 6,131,612	$ 6,094,495
Sale of products	18,483	24,993
Rental of property	549,663	527,072
Other sources	451,620	415,334
Cash payments to:		
Employees	(1,670,939)	(1,696,821)
Suppliers	(4,961,929)	(4,823,786)
Other	(711,326)	(769,495)
Net cash used in operating activities	(192,816)	(228,208)
Cash flows from capital and related financing activities		
Decrease in restricted assets	2,223	114,863
Local government grants	444,910	536,256
State appropriations	-	155,720
Debt service principal payments	(193,042)	(186,994)
Interest payments	(149,007)	(157,753)
Purchase of property and equipment	(12,872)	(37,855)
Net cash provided by capital and related financing activities	92,212	424,237
Cash flows from investing activities		
Interest and dividend income	30,146	31,774
Net increase (decrease) in cash and cash equivalents	(70,458)	227,803
Cash and cash equivalents, beginning of year	701,612	473,809
Cash and cash equivalents, end of year	$ 631,154	$ 701,612
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (1,175,019)	$ (1,104,553)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation of property and equipment	600,249	706,727
Loss on disposal of fixed assets	6,557	-
Net changes in assets and liabilities relating to operating activities		
Decrease in accounts receivable	64,007	40,510
(Increase) decrease in inventory	(19,840)	11,685
(Increase) decrease in prepaid expenses	(14,737)	98,079
Increase in accounts payable	72,083	115,601
Increase in accrued payroll and compensated absences	116,045	51,813
Increase in damage deposits	5,050	9,754
Increase (decrease) in deferred revenue	152,789	(157,824)
Net cash used in operating activities	$ (192,816)	$ (228,208)
Noncash investing and financing activities:		
Property and equipment added through State contributed capital	$ 577,685	$ 3,232,991
Unrealized gain on restricted assets	3,234	10,795
Property and equipment financed under capital lease	72,248	34,022

The accompanying notes are an integral part of these statements.

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, of only that portion of 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, 2003 and 2002, and the changes in its financial position and its cash flows, where applicable, for the years 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 16-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. *Fund financial statements*

For the Fiscal Year Ended June 30, 2002, the Authority presented as a separate governmental fund, that portion of the Department's capital construction fund that was attributable to the Authority, principally State appropriations for Authority capital projects. In the current year, the Authority has excluded the governmental fund because the State's capital contributions are disclosed as a separate line item in the Authority's financial statements. Accordingly, the Authority's 2002 financial statements, included herein for comparative purposes, also exclude those governmental activities previously presented separately.

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

The Authority's 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the 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 are from operating the Colorado State Fair and Exposition and hosting other off-season events. 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 2003, the Authority's original operating budget as approved by the General Assembly was $8,243,653 which was subsequently reduced by $64,359 for a final operating budget of $8,179,294. The Authority allocated the final budget to cover operating expenses, excluding depreciation and change in leave accrual. For Fiscal Year 2002, the Authority's original and final operating budget as approved by the General Assembly was $8,108,433.

The Authority also adopts an internal budget for its enterprise fund for management purposes. For Fiscal Year Ended June 30, 2003, the internal budget showed total budgeted operating

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. *Budgetary Process - continued*

revenues of $8,179,294. Total actual operating revenues were $7,367,447, and total revenue including operating revenues, local government grants and interest were $7,851,803. Total allocated budgeted operating expenses were $8,179,294 while total actual operating expenses were $8,166,030, excluding depreciation expense and change in leave accrual, which are non-budgeted operating expenses. The Authority spent $314,227 in excess of actual revenues.

For Fiscal Year Ended June 30, 2002, the internal budget showed total budgeted operating 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.

	2003	2002
Total operating expenses (GAAP basis)	$ 8,542,466	$ 8,675,223
Plus interest expense	152,242	153,011
Less depreciation	(600,249)	(706,727)
Less nonbudgeted item (compensated absences)	(13,804)	-
Less nonbudgeted item (adjustment)	255	-
Less nonbudgeted item (worker's compensation)	-	(20,590)
Plus capital outlay (budgeted)	85,120	71,877
Total expenses (budgetary basis)	$ 8,166,030	$ 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 plus computer equipment. 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:

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	5-7

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 a 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 – GOING CONCERN

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United Stated of America, which contemplate continuation of the Authority as a going concern. However, the Authority has a loss before State capital contributions of $842,905 and $514,128 and change in net assets of $(265,220) and $2,718,863 for the years ended June 30, 2003 and 2002, respectively. In addition, the Authority has negative working capital balances of $2,043,245 and $156,613 as of June 30, 2003 and 2002, respectively. As of June 30, 2003, the Authority was not in compliance with a bond covenant requiring general operating revenues to exceed general operating expenses, as defined in the bond document, plus 125% of the annual principal plus interest payment and including any required credit to the Reserve Fund and the Rebate Fund.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying statement of fund net assets is dependent upon continued operations of the Authority, which in turn is dependent upon the Authority's ability to meet its financing requirements on a continuing basis, to continue to receive subsidizations from the State of Colorado and to succeed in future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Authority be unable to continue in existence.

The Authority's management has developed a budget to reduce operating costs and it plans to promote off-season activities on the fairgrounds and continue to closely monitor the financial status of the Authority.

NOTE C – 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 Governmental 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.

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:

NOTE C – CASH DEPOSITS – Continued

- 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, 2003, the Authority's deposits are categorized as follows:

	Bank balance	Carrying balance
Cash on hand	$ -	$ 2,000
Categorized deposits		
Deposits covered by Federal insurance – Category 1	45,263	31,918
Deposits required to be collateralized in a single institution pool(s) – Category 2	-	-
Cash on deposit with State Treasurer	597,236	597,236
Total Cash	$ 642,499	$ 631,154

For cash on deposit with State Treasurer, the State Treasurer's investments as of June 30, 2003 are Category 1 investments and its cash deposits are principally Category 2 deposits.

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	558,221	558,221
Total Cash	$ 676,902	$ 701,612

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 D – RESTRICTED ASSETS

In connection with the refunding revenue bonds issued in 1992 (note F), 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, 2003 and 2002, was $30,161 and $20,378, respectively. 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, 2003 and 2002. The Authority is also required to generate sufficient revenue to cover general operating expenses plus 125% of the annual requirements of principal and interest on the outstanding bonds. Gross operating revenues, as defined by the bond document, includes operating revenue and other revenue except amounts appropriated by the General Assembly of the State and designated for capital purposes or other purposes not including payment of general operating expenses or the payment of principal, interest or premiums on the bonds. The Authority was not in compliance with this requirement for the year ended June 30, 2003. Gross operating revenues required by the bond covenant for Fiscal Year 2003 was $8,239,373. Actual gross operating revenue as defined by the bond covenant was $7,851,803. 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:

	2003	2002
Phoenix Money Market Fund	$ 245,059	$ -
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 of $3,234 and $10,795 on the investment during the years ended June 30, 2003 and 2002, respectively.

NOTE E – CAPITAL ASSETS

At June 30, 2003, capital assets consisted of the following:

	Balance July 1, 2002	Additions	Deletions and reclassifications	Balance June 30, 2003
Capital assets, not being depreciated				
Land	$ 594,458	$ -	$ -	$ 594,458
Construction in progress	438,249	577,685	(1,015,934)	-
Total capital assets, not being depreciated	1,032,707	577,685	(1,015,934)	594,458
Capital assets, being depreciated:				
Buildings	11,582,118	-	504,822	12,086,940
Land improvements	5,809,344	-	511,112	6,320,456
Furniture and equipment	2,067,254	85,120	(13,905)	2,138,469
Total capital assets, being depreciated	19,458,716	85,120	1,002,029	20,545,865
Less accumulated depreciation for:				
Buildings	(6,262,404)	(306,092)	-	(6,568,496)
Land improvements	(1,269,211)	(194,922)	-	(1,464,133)
Furniture and equipment	(1,790,261)	(99,235)	7,348	(1,882,148)
Total accumulated depreciation	(9,321,876)	(600,249)	7,348	(9,914,777)
Total capital assets, being depreciated, net	10,136,840	(515,129)	1,009,377	10,631,088
Capital assets, net	$ 11,169,547	$ 62,556	$ (6,557)	$ 11,225,546

NOTE E – CAPITAL ASSETS - Continued

At June 30, 2002, capital assets 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 F – BOND AND CAPITAL LEASE 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 D 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 F – BOND AND CAPITAL LEASE OBLIGATIONS - Continued

1. *Refunding Revenue Bonds - continued*

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

Fiscal year	Principal	Interest
2004	$ 120,000	$ 117,725
2005	130,000	108,910
2006	135,000	99,435
2007	145,000	89,283
2008	155,000	78,255
2009-2013	980,000	191,660
Subtotals	1,665,000	685,268
Unamortized bond discount	(9,420)	-
Total	$1,655,580	$ 685,268

As discussed in notes B and D, the Authority was in violation of one of its bond covenants as of June 30, 2003. According to the bond resolution for the bonds, such violation is considered an event of default. Per the bond resolution, upon the happening and continuance of any Event of Default, then in every case the Owner or Owners of not less than 25% in principal amount of the bonds then outstanding may proceed against the Authority to protect and enforce their rights. Accordingly, the entire principal amount of bonds outstanding as of June 30, 2003 in the amount of $1,665,000 has been classified as current.

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 are as follows as of June 30:

	2003	2002
Asset:		
Buildings	$ 66,357	66,357
Furniture and equipment	712,418	677,640
Subtotal	778,775	743,997
Less : Accumulated depreciation	(653,467)	(657,463)
Total	$ 125,308	$ 86,534

NOTE F – BOND AND CAPITAL LEASE OBLIGATIONS – Continued

2. *Capital Leases - continued*

The future minimum lease obligations and the net present value of these lease payments as of June 30, 2003 were as follows:

Fiscal year	Amount
2004	$ 108,372
2005	107,570
2006	46,980
2007	15,803
2008	14,413
2009-2013	4,977
Total minimum lease payments	298,115
Less: amount representing interest	(32,426)
Present value of minimum lease payments	$ 265,689

3. *Changes in long-term liabilities*

Long-term liability activity for the Fiscal Year Ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Refunding revenue bonds	$1,775,000	$ -	$(110,000)	$1,665,000	$ 1,665,000
Less deferred amounts -					
On refunding	(10,467)	-	1,047	(9,420)	-
Total bonds payable	1,764,533	-	(108,953)	1,655,580	1,665,000
Capital leases	276,483	72,248	(83,042)	265,689	91,473
Total	$2,041,016	$ 72,248	$(191,995)	$1,921,269	$ 1,756,473

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

	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 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 is 3.5% compounded annually, and is no longer tied to the Consumer Price Index.

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.

NOTE G – PENSION PLANS - Continued

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 years ended June 30, 2003 and 2002, the Authority contributed 10.4 percent and 9.9 percent, respectively, 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.

For the calendar year 2002, the state contribution allocated to the Health Care Trust Fund increased to 1.64 percent.

After January 1, 2003 the state contribution allocated to the Health Care Trust Fund decreased to 1.1 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, 2003, 2002, and 2001 were $129,559, $120,237 and $147,110, 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). For calendar year 2003, the match was 100 percent of up to 2 percent of employee's gross covered wages paid during the month (6 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. While the plan was not over-funded, the maximum one year change in the match is statutorily limited to one percent, and therefore, the match changed from 3 percent to 2 percent. 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, 2003 and 2002 were $19,329 and $20,360, respectively. The Authority's employees contributed $15,751 and $25,963 in Fiscal Year 2003 and 2002, 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 Years Ended June 30, 2003 and 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 H. The Authority paid $48,031, $51,046 and $43,348 during the Fiscal Years Ended June 30, 2003, 2002, and 2001, respectively, into this fund.

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, 2002 and 2001 there were 35,418 and 34,235 participants, respectively, 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, 2003, 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. In addition, the Authority received $458,012 in grants from the City of Pueblo and Pueblo County and $577,685 of capital contributed by the State of Colorado. In Fiscal Year 2003, the Authority was in violation of Section 35-65-401(9)(f), C.R.S., which states in part: "except that in any budget year that the Colorado state fair authority would otherwise qualify as an enterprise pursuant to section 35-65-405(1), the board shall not accept any nonstate contributions that would cause the authority to exceed the limitations prescribed in Section 35-65-405(1)." In September 2003, the Legislative Audit Committee approved pursuing a proposed Statute change requested by the Authority to eliminate the provisions in Section 35-65-401 (9)(f), C.R.S., that limit the Authority's ability to accept local contributions.

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, 2003, and have issued our report thereon dated July 30, 2003 (except for note K, as to which the date is September 19, 2003). Our report contains an explanatory paragraph for a going concern uncertainty. 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.

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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. However, this report is a matter of public record upon release by the Legislative Audit Committee.

Grant Thornton LLP

Colorado Springs, Colorado
July 30, 2003

REQUIRED COMMUNICATIONS
COLORADO STATE FAIR AUTHORITY
FINANCIAL AND COMPLIANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2003

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 July 30, 2003, 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, 2003:

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 if they exist, 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 is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

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 seven uncorrected misstatements noted during our audit that would have decreased the Authority's net assets by $23,018 as of June 30, 2003 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.

Should you desire further information concerning these matters, Dennis W. Yockey, Partner, will be happy to meet with you at your convenience.

This letter is intended solely for the information and use of the Legislative Audit Committee, Board of Director, and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record upon release by the Legislative Audit Committee.

Very truly yours,

Grant Thornton LLP

The electronic version of this report is available on the Web site of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303-869-2800

Please refer to the Report Control Number below when requesting this report.

Report Control No. 1543