REPORT OF

THE

STATE AUDITOR

COLORADO STATE FAIR AUTHORITY

FINANCIAL AND COMPLIANCE AUDIT
Fiscal Year Ended June 30, 1999

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STATE OF COLORADO

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February 24, 2000

Members of the Legislative Audit Committee:

This report contains the results of a financial and compliance audit of the Colorado State Fair Authority for the fiscal year ending June 30, 1999. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all state departments, institutions, and agencies. This report presents our findings and recommendations, along with the responses of the Colorado State Fair Authority.

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OFFICE OF THE STATE AUDITOR REPORT SUMMARY

J. DAVID BARBA, CPA
State Auditor

Colorado State Fair Authority
Financial and Compliance Audit
Fiscal Year Ended June 30, 1999

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 audit was conducted in accordance with generally accepted auditing standards. We gathered the information in this report through interviews, observations, document reviews, and data analysis.

The purpose of this audit was to evaluate the Fair's system of internal controls, review account balances, issue an opinion on the Colorado State Fair Authority's financial statements, and report on the implementation status of recommendations from the prior year's audit.

Financial Audit Opinion

We expressed an unqualified opinion on the State Fair Authority's financial statements for the fiscal year ended June 30, 1999.

Financial Condition of the Fair

The Colorado State Fair Authority faces continued financial problems, caused primarily by losses during the off-season and the Events Center debt burden. For the year ended June 30, 1999, the Fair faced a net loss of about $557,000. The loss takes into account depreciation expense of $815,422 and grants received from Pueblo County and the City of Pueblo of $894,262. An additional $196,252 in grants was provided by the State for capital construction.

Operating Improvements Are Needed

Concession Revenue

The Fair earns the largest portion of its operating revenue, more than 30 percent, through space rentals and food/beverage sales. We contracted with Zick, Howard, Ransick, and Associates, Inc., to review controls over concessions during the 1999 Fair. Overall, the firm concluded that controls were in place. The following areas were identified for improvements:

For further information on this report, contact the Office of the State Auditor at (303) 866-2051.

- The Fair needs to refine its contracting processes as follows: 1) responsibilities of the independent contractor overseeing concessions should be reviewed to ensure that conflicting duties are eliminated; 2) the standard vendor language should be reviewed annually; and 3) standard price lists should be obtained.

- Controls over vendor revenue should be strengthened. This includes reviewing receipts supporting vendor revenue, tracking hard liquor sales separate from beer sales, and performing daily backups of electronic food and beverage data. In addition, the Fair should consider the cost-benefit of improving security. Improvements could include rotating gate security employees, spot-checking beer vendors' vehicles entering the grounds and leaving the grounds at the end of the annual State Fair, and limiting hard alcohol deliveries to authorized distributors.

- The role of the internal auditors could be enhanced. Specifically, written inventory procedures need to be developed. Additionally, the internal auditors should be the close out point for all vendors.

Financial and Accounting Issues

In the past, the Fair has had substantial financial and accounting issues. Progress is evident. The Fair has focused attention on improving fiscal operations and is in the process of installing a new accounting system. The Fair could further improve fiscal operations as follows:

- The budget process could be refined to provide Board members with better information on which to make critical decisions. We recommend using cash-based budgeting and improving budget-setting information.

- Several improvements could be made to make the Annual Report more useful. The Fair should present all financial activity in the Annual Report, include footnotes to financial statements, and develop controls over the review process to ensure the accuracy of the information presented.

- The reporting of Fair transactions could be improved. The Fair should ensure that certain financial information required by the State Controller's Office for use in preparing the State's financial statements is accurate and submitted in a timely manner.

Recommendations

A summary of our recommendations and the responses of the State Fair Authority can be found in the Recommendation Locator.

Summary of Progress in Implementing Prior Year Audit Recommendations

The following is the implementation status of our 1998 State Fair Authority Financial Audit:

Implemented	2
Partially Implemented	4
Deferred	1
Total	7

RECOMMENDATION LOCATOR
Agency Addressed - State Fair Board

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	17	The State Fair Board should refine its contracting procedures to include:		
		a. Separating contracting responsibilities so that the contractor does not make the primary decision for awarding short-term contracts.	a. Agree	a. 1/2000
		b. Having an attorney annually review contracts.	b. Partially Agree	b. 2/2000
		c. Obtaining price lists as required in the contracts. Fair staff should also periodically compare the prices charged against the prices noted on the lists.	c. Agree	c. 8/2000
2	19	The State Fair Board should tighten controls over cash receipts by:		
		a. Ensuring that beginning sales balances (i.e., “Z tape” figures) can be obtained and by performing adequate review and sign-off of daily sales reports.	a. Agree	8/2000
		b. Tracking hard liquor sales separately.	b. Agree	9/2000
		c. Performing daily backups of vendor sales data and maintaining the backup copy separate from the computer and not with the contractor.	c. Agree	8/2000

RECOMMENDATION LOCATOR
Agency Addressed - State Fair Board

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
3	20	The State Fair Board should consider the cost-benefit of improving security by:		
		a. Rotating the schedules and hours of gate security employees.	a. Disagree	–
		b. Performing spot checks of incoming delivery vehicles and inspecting beer vendors' vehicles leaving the grounds at the end of the annual State Fair.	b. Disagree	–
		c. Limiting hard liquor deliveries to authorized distributors.	c. Agree	c. 8/2000
4	22	The State Fair Board should consider enhancing the internal audit function by:		
		a. Developing written inventory procedures that include written instructions and use of standard count sheets and maps that list products by location.	a. Partially Agree	a. 8/2000
		b. Extending contracts so that the internal auditors can close out all vendors by preparing the settlement sheets. If the contracts are not extended, a person not responsible for cash collections should prepare the settlement sheets.	b. Deferred	b. Deferred
		c. Controlling and accounting for release slips.	c. Agree	c. 9/2000

RECOMMENDATION LOCATOR
Agency Addressed - State Fair Board

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
5	24	The State Fair Board should further enhance its budgeting procedures to include adopting a cash-based or modified accrual-based approach to budgeting and including all material items in the budget.	Partially Agree	8/1999
6	26	The State Fair Board should improve its Annual Report by:		
		a. Presenting all activity in the financial statements in the Annual Report.	a. Agree	a. 9/2000
		b. Including footnotes to the financial statements and ensuring that all information presented is consistent and in accordance with generally accepted accounting principles.	b. Partially Agree	b. 9/2000
		c. Developing controls over the review process to ensure the accuracy of the information presented.	c. Agree	c. 9/2000
7	29	The State Fair Board should examine its local government contracts by:		
		a. Determining whether the monies for services from local governments should be accounted for as operating revenue or as grants.	a. Agree	a. 6/2000
		b. Working with the General Assembly to seek clarification of statutory provisions.	b. Agree	b. FY 2001

RECOMMENDATION LOCATOR
Agency Addressed - State Fair Board

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
8	30	The Fair Board needs to conduct all public meetings in compliance with statute by maintaining a complete set of minutes for all Board meetings.	Agree	1/2000
9	32	The State Fair Board should:		
		a. Submit accurate exhibits to the State Controller's Office in a timely manner.	a. Agree	a. 9/2000
		b. Record all activity and ascertain the accuracy of the account balances reported on the State's accounting system.	b. No Comment	b. –
		c. Implement a thorough review process to ensure accuracy of the financial statements.	c. Agree	c. 9/2000

Financial Condition of the Fair

Chapter 1

Background

The Colorado State Fair (Fair) has been in existence for over 125 years. Over the years, the Fair has undergone a number of organizational changes. In 1983 the General Assembly created the Colorado State Fair 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 State Fair Authority as a division within the State Department of Agriculture effective June 30, 1997. The current Board of Commissioners consists of 11 members. Of the 11 members, 1 member must be a certified public accountant, 1 member must have current management-level banking experience and expertise in finance, and 1 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 Fair 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 Fair's revenue is generated during the annual 17-day State Fair from admissions, parking, food and beverage sales, concessions, commercial space rental, sponsorships, and carnival ticket sales. Additional revenue is generated from events that are held on a year-round basis at the Events Center and other facilities on the State Fairgrounds. The Fair was appropriated 28 full-time staff plus contract employees to run its year-round operations. In the summer the Fair adds about 800 temporary staff to run the annual State Fair.

In the Colorado State Fair Authority financial audit for the year-ended December 31, 1996, we noted that the Fair's financial condition had been steadily deteriorating due to large losses and increased debt burden. The General Assembly took action to ease the financial strain facing the Fair. An appropriation of about $4 million was made to the Fair on June 30, 1997. This helped to cover repayment of about $3.1 million in existing debt and provided about $900,000 for future working capital needs. Although the infusion provided some relief, the Board has continued to face challenges restoring the profitability of the Fair and the Events Center. This chapter presents an analysis of the Fair's current financial condition and operating results.

Financial Results

As the following chart shows, the Fair has continued to post losses, primarily due to off-season results.

Colorado State Fair Authority Enterprise Fund Activity Income Summary					
	Fiscal Year 1999 Fairtime	**Fiscal Year 1999 Off-Season (1)**	**Fiscal Year 1999 Total**	**Fiscal Year 1998 Total**	**Favorable (Unfavorable) Variance**
Operating:					
Revenue	$5,589,793	$ 842,973	$ 6,432,766	$5,925,245	$507,521
Expenses	(4,776,455)	(2,149,524)	(6,925,979)	(6,150,768)	(775,211)
Net Operating Income/(Loss) Before Depreciation	$813,338	$(1,306,551)	(493,213)	(225,523)	(267,690)
Depreciation			(815,422)	(674,761)	(140,661)
Net Operating Income/(Loss)			(1,308,635)	(900,284)	(408,351)
Nonoperating:					
Revenue (2)			944,366	369,775	574,591
Expenses (3)			(192,815)	(250,410)	57,595
Net Nonoperating Income			751,551	119,365	632,186
Net Income/(Loss)			($ 557,084)	($780,919)	$223,835
Source: Data provided by the State Fair.					

1 Includes Events Center activities.
2 Nonoperating revenue consists of grants and interest income.
3 Nonoperating expenses consist of interest expense.

We believe that the depreciation reported in the above table should be allocated based on expenses for fairtime and off-season, which is consistent with the prior year's report. The allocation method would result in a fairtime profit of $212,937 and an off-season loss of $1,521,572. The method preferred by the Board is an allocation on a monthly basis, with one month allocated to the annual Fair and the rest of the year to the off-season. This method results in a fairtime profit of $745,386 and an off-season loss of $2,054,021. Regardless of the method used to allocate depreciation, it is clear that off-season problems continue to plague the Fair. Excluding depreciation, this year the Fair's off-season expenses were more than double its revenue.

According to the Fair's Annual Report, the most recent 17-day State Fair event (held in August/September 1999) resulted in an operating profit of about $918,000, excluding depreciation. (The 1999 Fair results will be included in the Fiscal Year 2000 operating statement, since the fiscal year runs from July 1, 1999 to June 30, 2000.) The $918,000 posted from the most recent event compares favorably with the $813,338 recorded for the 1998 Fair (which is included in Fiscal Year 1999 results). The Fair estimates that the off-season shortfall will be $826,000. Although the Fair's financial results improved this year, there is clearly a need for continued State and local grants if the Fair is to be viable in the long term. In addition to its ongoing expenditures, the Board has to deal with the strain of losses from the off-season, maintenance demands created by the aging fairgrounds, and debt obligations.

Debt Burden

The Fair is current on all of its obligations. With the 1997 appropriation from the General Assembly, the Fair was able to reduce its outstanding debt principal from $5.5 million at the end of 1996 to $2.5 million at June 30, 1999. Additionally, there is $1.3 million in scheduled interest payments. The average annual payment on the debt is $326,000 for the next five years. Outstanding debt consists of the following:

Colorado State Fair Authority Debt Obligations as of June 30, 1999			
Purpose	**Source**	**Final Due Date**	**Principal**
Capital Improvements	Everen Securities–1992 Series Bonds	2012	$2,058,252
Bleachers: Events Center	Private Party	2005	392,647
Miscellaneous	Various Sources	2013	50,303
Total Principal Owed:			**$2,501,202**
Source: Office of the State Auditor analysis of State Fair data.			

Cash Flow Problems Exist

During Fiscal Year 1999 the Fair experienced a net operating cash outflow as follows:

Colorado State Fair Authority Analysis of Cash Flows for Operating Activities Fiscal Year 1999	
Cash received from customers	$6,006,302
Cash payments to suppliers for goods and services	(4,647,590)
Cash payments to employees for services	(1,718,271)
Other operating revenue	126,758
Net cash provided/(used) by operating activities	$ (232,801)
Source: Office of the State Auditor analysis of State Fair data.	

This schedule shows the actual sources and uses of cash for operating purposes for the year. In addition to generating sufficient cash and revenue to keep current on operating expenses in future years, the Fair will also need to keep current on the $326,000 due annually on its remaining debt burden over the next several years. Although this amount will decrease after 2005, the Fair will still be responsible for annual payments of about $242,000 until 2013. The Fair is currently receiving additional assistance from Pueblo. The City will provide the Fair with $315,000 annually until 2003 and $215,000 in 2004 and 2005.

Concessions

Chapter 2

Introduction

The Fair earns the largest portion of its operating revenue, slightly more than 30 percent, from concessionaires. The Fair receives revenue from concessionaires from space rentals and food/beverage sales. Vendors are required to provide documentation regarding their sales and follow certain procedures that are designed to ensure that the Fair receives its appropriate share of revenue. The Fair is responsible for ensuring that vendors adhere to the established procedures.

During the summer of 1999, the Legislative Audit Committee was alerted to potential abuses involving concession beer sales during the annual State Fair event. The Committee asked the State Auditor to review this allegation with the State Fair management and determine the appropriate course of action. After discussing the issue with Fair management, we contracted with Zick, Howard, Ransick and Associates, Inc., a firm experienced in this area, to perform a review of the controls over concessions during the August/September 1999 Fair. The agreed-upon procedures performed were as follows:

- Interview a sample of concessionaires about contracting procedures.
- Determine through reviewing a sample of concessionaire contracts whether standard contracts were used and properly approved.
- Assess internal controls by testing a sample of concessionaire daily sales reports, settlement sheets, and the internal auditors' spreadsheets showing how many beer kegs were delivered to each vendor.
- Observe the internal auditors' schedule of planned procedures to be performed before, during, and after the Fair.
- Observe a sample of vendors using cash registers to ring up food and beer sales.
- Evaluate whether any unauthorized beer was delivered to the Fair by observing deliveries and inquiring of a sample of vendors.

- Observe security procedures in effect after 9:00 p.m. to determine whether Fair patrons were allowed to enter or leave the premises with alcoholic beverages.

- Inquire about the State Liquor Inspector's hours on the Fairgrounds.

Zick, Howard, Ransick, and Associates, Inc., found that overall controls were in place. Areas of improvement noted include refining contracting procedures, tightening controls over cash receipts from vendor sales, reviewing security to reduce the potential for abuse, and enhancing the internal audit function.

Refine Procedures for Awarding Concessionaire Contracts

The Fair hires an independent contractor (contractor) to oversee food and beverage concessions. Both short- and long-term concessionaire contracts are utilized by the Fair. These contracts specify the food and beverages that may be sold, the prices that can be charged, and the Fair's commission percentage, among other things. The contractor is responsible for processing and accepting new concessionaire applications, selecting new vendors to replace ones that did not return from the prior year, establishing guaranteed minimum earnings for the Fair, and determining the utility costs to be charged to the vendors. All concessionaire contracts, with the exception of new long-term contracts, are negotiated by the contractor.

We found that the contracting function needs to be refined, as follows:

- **Contracting duties need to be reviewed.** We found that the contractor has conflicting duties. The contractor both reviews and awards new short-term contracts. Applications for new vendors should be reviewed by an individual, or perhaps a committee, other than the contractor, prior to acceptance to ensure that contracts are granted fairly and objectively.

- **The standard vendor contract language has not been subject to a legal review since 1997.** The Fair uses a standard vendor contract. We noted some inconsistencies in the contract language. For example, one contract stated that no water shall be served and it also stated that water shall be provided without charge to the public. Language inconsistencies could be eliminated by a legal review at a minimal cost to the Fair.

- **Vendor price lists were not obtained for the 1999 Fair.** The contract requires the vendors to provide their price lists to the Fair's management prior to the commencement of the Fair. The price list is necessary for the Fair to analyze the reasonableness of its concessions earnings. The price list would also allow Fair staff to verify that the vendors are charging the correct amount and not making pricing adjustments during the Fair.

Additionally, during our review vendors complained about inequitable charges for utility fees. The Fair is aware of utility issues and intends to standardize ground fees for concessionaires. Ground fees will include set-up, inspection, and utility charges.

Recommendation No. 1:

The State Fair Board should refine its contracting procedures to include:

a. Separating contracting responsibilities so that the contractor does not make the primary decision for awarding short-term contracts.

b. Having an attorney annually review contracts.

c. Obtaining price lists as required in the contracts. Fair staff should also periodically compare the prices charged against the prices noted on the lists.

State Fair Board Response:

a. Agree. The separation of contracting duties and responsibilities is the current policy. To make the distinction clearer, we will prepare an administrative procedure to document the separation of duty.

b. Partially agree. The revenue-generating contract was last reviewed by the Attorney General’s Office in 1997. We are establishing a policy that vendor/concessionaire contracts go through the Attorney General’s review on a three-year cycle. Additionally, we will request a review by an attorney should any different or unusual circumstance arise.

c. Agree. We have performed a test of stated prices by vendor to actual prices charged by vendor in the past. We will implement this procedure again for the 2000 Fair.

Improve Controls Over Cash Receipts From Vendor Sales

Each vendor must submit various daily sales reports to the Fair. The reports are the basis for determining the Fair's earnings and are compiled by vendors from data obtained from their cash registers. The Fair must approve the vendors' cash registers to ensure that they are capable of providing the level of detailed sales information needed by Fair management. The reports show the beginning and ending sales balances, also known as "Z tape" figures, the items sold, the Fair's commission, and other information. Internal auditors review the sales reports for problems. In our review of this process, we found that controls over vendors' cash receipts need improvement. Specifically, the Fair should:

- **Improve controls over concession revenue.** Accurate daily sales reports are a key factor to help the Fair ensure that it receives an appropriate amount of concession revenue from vendors. We reviewed a sample of 90 sales reports. Problems noted include:

# of Errors Noted	Description of Problem	Consequence of Problem
5 of 9 vendors	There were no beginning "Z tape" figures recorded in the daily sales file for the first day of the Fair for 5 of 9 vendors sampled. Cash register limitations were responsible in some cases. Two vendors also sold items prior to the commencement of the Fair and were approached too late to provide the beginning "Z tape" balance.	Vendor sales could be understated. Without a "Z tape" showing a zero dollar beginning balance for the first day of the Fair, it is not possible for the Fair to determine the cumulative sales balance, which is the basis for the Fair's sales commission.
3 of 90 reports	Commission calculations were incorrect in three cases. Two errors were not detected by the internal auditors. One calculation was detected but incorrectly changed by the internal auditor.	Although these errors did not involve significant dollar amounts, it is possible that other reports contain errors of a more material nature.
2 of 90 reports	Two reports showed no indication of review by internal audit staff.	Although internal audit staff thought that the reports were reviewed and the sign-offs simply forgotten, it is possible that the reports were not audited.

- **Track hard liquor sales.** The Fair has established various procedures to control and track beer sales. Beer sales command a higher commission than that charged for soda sales. Similar procedures are not in place for hard liquor sales. As a result, vendors report hard liquor sales inconsistently. For example, some vendors report hard liquor sales as miscellaneous sales and others as beer sales. Differing reporting procedures can result in inaccurate sales information being used for decision-making purposes.

- **Perform backups of electronic data on food and beverage sales.** Food and beverage sales data are input into a computer by the contractor. Backups of the concessions data are performed only periodically and stored in the same office as the computer. During the off-season, one copy of these data was maintained with the contractor, not at the Fair. As previously mentioned, these data are critical for the Fair. A backup should be performed daily and stored in a location separate from the computer. In addition, maintaining the sole backup copy with the contractor during off-season is not sufficient should he/she decide not to return to the Fair in the subsequent year.

Recommendation No. 2:

The State Fair Board should tighten controls over cash receipts from vendors by:

a. Ensuring that beginning sales balances (i.e., "Z tape" figures) can be obtained and by performing adequate review and sign-off of daily sales reports.

b. Tracking hard liquor sales separately.

c. Performing daily backups of vendor sales data and maintaining the backup copy separate from the computer and not with the contractor.

State Fair Board Response:

a. Agree.

b. Agree. We will implement this procedure for the 2000 Fair by requiring all liquor to be delivered on grounds, inventory it, and request that vendors account for the sale separately from beer sales. We will analyze the inventory vs. sales report subsequent to the 2000 Fair.

c. Agree.

Review Security to Reduce Potential for Abuse

The Fair has security officers posted at the Fairground gates as well as throughout the grounds. We found that security procedures could be improved to lessen the potential for abuse. Specifically,

- **Security officers need to be rotated.** Because the security officers' hours and schedules do not vary, vendors may detect patterns that would enable them to circumvent the Fair's policies and procedures. We recommend rotating hours and locations.

- **Spot-checking vendors' vehicles entering the grounds, and leaving the grounds at the end of the annual State Fair.** Because there is no inspection of vehicles entering the grounds, vendors may bring in more alcohol than they report to the Fair. Also, there are inconsistent inspection practices of vendors leaving the grounds at the end of the Fair. Some beer vendors leave on the last day of the Fair and others come back the following day to gather their merchandise and settle their account. Inspections are performed only if the vendor is not returning the following day. Spot-checking vehicles is a simple means to alert vendors that the Fair's security intends to discourage potential abuse.

- **Limit hard liquor deliveries to authorized distributors.** Two of the three vendors we interviewed had their own authorized distributor bring hard liquor onto the fairgrounds. One vendor has the alcohol delivered by its company van. No invoices or paperwork for hard liquor is provided to the Fair either by the vendor or distributor. As a result, the Fair does not know the amount of hard liquor brought onto the grounds, limiting its ability to control and account for related sales.

Recommendation No. 3:

The State Fair Board should consider the cost-benefit of improving security by:

a. Rotating the schedules and hours of gate security employees.

b. Performing spot checks of incoming delivery vehicles and inspecting beer vendors' vehicles leaving the grounds at the end of the annual State Fair.

c. Limiting hard liquor deliveries to authorized distributors.

State Fair Board Response:

a. Disagree. Gate security job responsibility is specific to gate assignment. The cost associated with training security personnel to cover all gates outweighs the theoretical benefit, if any, derived from rotation.

b. Disagree. There is no evidence whatsoever that this has been an abuse area. Given the many controls in place, we do not believe the inconvenience, delay and negative effect on vendor relationships justifies a procedure to fix a problem that doesn't exist.

c. Agree. We will establish procedures to implement this recommendation.

Enhance the Internal Audit Function to Improve Controls

Internal auditors are employed by the Fair to ensure vendor compliance with contractual terms. Some procedures that the auditors perform are test counts of food/beverages and approvals/recalculations of daily sales sheets. We found that the Fair could better utilize the internal auditors in improving controls, as follows:

- **Develop standardized inventory control procedures for alcoholic beverages.** The internal auditors do not use standard written inventory procedures. Good inventory procedures are essential to substantiate the amount of alcohol on hand. Inventory procedures, used in conjunction with delivery and sales information, allow the Fair to verify the accuracy of its commissions revenue. Inventory spot checks could be conducted throughout the Fair. The development of a standard count sheet, with instructions, that separates the types of product counted by location would provide consistency regardless of who performed the spot check. In addition, a map of the grounds that could be crossed off as locations were counted would help ensure a complete count.

- **Extend the internal audit function during closeout.** Vendors close out when the Fair ends by completing a settlement sheet that shows monies owed to the Fair. The vendors make their payment to the Fair and receive a release slip that allows them to leave the property. During the 1999 closeout, Fair staff were in a position to both receive cash and prepare the settlement sheets. This occurred because the internal auditors were released before the final day of the Fair. As such, they were not available to assist with closeout, the time at which the majority of the vendors, and all of the major vendors, settle up with the Fair. It is a good business practice to have the individuals who take the vendor's payment be different from those who review the settlement sheet. This reduces the risk of any wrongdoing by Fair staff or concessionaires.

- **Control release slips.** As mentioned above, release slips allow vendors to leave the Fair with their property. The slips are not sequentially numbered and accounted for, which increases the possibility that a vendor may obtain a release slip inappropriately and leave the Fair without settling his or her account.

Recommendation No. 4:

The State Fair Board should consider enhancing the internal audit function by:

a. Developing written inventory procedures that include written instructions and use of standard count sheets and maps that list products by location.

b. Extending contracts so that the internal auditors can close out all vendors by preparing settlement sheets. If the contracts are not extended, a person not responsible for cash collections should prepare the settlement sheets.

c. Controlling and accounting for release slips.

State Fair Board Response:

a. Partially agree. The Fair does have standard inventory control procedures that are working. We agree, however, that they are not documented as well as they might and we will do that in our administrative procedures.

b. Deferred. We will consider–It is an additional cost, and we must evaluate the cost/benefit.

c. Agree.

Financial and Accounting Issues

Chapter 3

Introduction

The Fair has had pervasive financial and accounting issues. In prior audits we recommended that the Fair comply with annual reporting requirements, implement greater documentation standards to support payments, submit correct financial information to the State Controller's Office, request grant funding on a timely basis, and maintain meeting minutes, among other recommendations. Progress is evident. Fair management is in the process of installing a new financial system, the Board has stepped up oversight of financial matters, and there is closer coordination with the State Controller's Office. In this chapter, we note areas where we believe the Fair could further improve fiscal operations.

Budgets Need To Be Refined to Provide Better Financial Control

Budgets are the primary tools used by management to plan, maintain financial control, and measure the performance of the Fair. The Fair has to prepare its Fiscal Year 2001 budget and submit it to the Joint Budget Committee (JBC) by November 1, 1999. That is before Fiscal Year 2001 begins and about ten months before the annual Fair. Our 1996 audit identified questionable relationships between revenue and expenses when compared with the results from prior years. Since that time the Fair has focused more attention on developing accurate budget information. We believe there are further enhancements that would provide Fair management with better information and improve financial controls.

For example, traditionally, the Fair has budgeted for operating revenue and expenses by estimating the revenue and associated costs with Fair and off-season activities. The Fair has not incorporated monies received from nonoperating sources such as local grants and costs associated with nonoperating activities, such as capital outlay and debt payments. In practice, most enterprises that are similar to the Fair adopt cash- or modified accrual-based budgets. These budgets have an operating statement budget item for each anticipated outflow of cash, even if it is not directly related to operations. Such budgets provide management with more comprehensive financial information.

In addition to including costs associated with capital outlay and debt payments, we recommend that the Fair include all anticipated revenue and expense categories in future budgets. Thirteen categories, including some revenue and some expenses for both the Fair and off-season, are not currently incorporated into the Fair's budget. Examples of excluded items include off-season personal service contracts, Fair and off-season rentals, and off-season printing, travel, and supplies. The unbudgeted revenue totaled $303,850 and expenses totaled $471,036.

Recommendation No. 5:

The State Fair Board should further enhance its budgeting procedures to include adopting a cash-based or modified accrual-based approach to budgeting and including all material items in the budget.

State Fair Board Response:

Partially agree. We presently prepare each month an internal cash flow analysis that projects our cash receipts, cash disbursements and year end (June 30) cash balance. We believe our current year budget fiscal year ended 6/30/2000 does include "all material items."

Annual Report Needs Improvement

Section 35-65-406, C.R.S., requires the Colorado State Fair to submit an annual report to the Governor, the General Assembly, the Joint Budget Committee, and the Legislative Audit Committee by October 31 of each year. The report is to include a statement of revenue and expenses, a balance sheet, a statement of outstanding revenue bonds, and a statement of cash flows as of June 30. It is also to include a summary of Fair attendance and a statement of revenue and expenses as of September 30. The audited financial statements as of June 30, 1999, are presented in the financial section of this report. Highlights from the 1999 Fair follow:

Colorado State Fair Excerpts From the Annual Report for the August/September 1999 Fair	
Annual State Fair Event Revenue	$5,898,146
Annual State Fair Event Expenses	4,979,301
Fair Net Operating Profit	918,845
Expected Off-Season (Loss)	(825,650)
Expected Overall Operating Profit	$93,195
Attendance	686,941

Source: Colorado State Fair Annual Report due October 31, 1999.
Note: The annual State Fair event expenses and the expected overall operating profit presented above do not include depreciation. We have estimated this to be about $820,000, which results in an overall operating loss of about $727,000.

We found that several improvements can be made to make the Annual Report more useful. While we did not verify the accuracy of the amounts presented for the 1999 Fair portion of the report, errors were evident in the other information provided. Specifically, we found the following areas for improvement:

- **The Annual Report should present all Fair activity.** Fiscal Year 1999 was the first year that the State Fair had activities in two funds, an enterprise fund and a capital construction fund. However, the financial statements included in the Annual Report did not include the activity for the capital construction fund. This resulted in an understatement of $196,252 in revenue and expenses. An additional $700,000 has been appropriated to the Fair for capital construction for future years.

- **Information contained in the Annual Report should be consistent and clearly presented.** The Annual Report included two different balance sheets and statements of revenue and expenses covering the same time period, but in different formats. One operating statement shows Fiscal Year 1999 actual results compared with the budget, and the other presents the actual results for Fiscal Years 1998 and 1999. We also noted that the net cash amount presented in the statement of cash flows did not agree to the ending cash amount on the balance sheet. Cash and investments were reported at fair value on the statement of cash flows and at cost on the balance sheet. Depreciation expense of $815,422 should be recorded as operating according to accounting standards; however, it was shown as nonoperating. Finally, footnotes to the financial statements were not provided in the Annual Report. Footnotes provide valuable information about the assumptions made in preparing the financial statements and clarify information that is presented in the statements.

The Annual Report contained simple mistakes that could have been corrected if a more thorough review had been conducted prior to its publishing. Since this report is made available to the public, it is important that the report be reviewed to ensure that the information presented is accurate. The State Fair is working on a schedule to complete its financial statements for June 30, 2000, by the State Controller's August due date. This will mean that the statements can be audited by October, prior to release of the Annual Report.

Material errors have been corrected for the final financial statements presented in the financial information section of this report.

Recommendation No. 6:

The State Fair Board should improve its Annual Report by:

a. Presenting all activity in the financial statements in the Annual Report.

b. Including footnotes to the financial statements and ensuring that all information presented is consistent and in accordance with generally accepted accounting principles.

c. Developing controls over the review process to ensure the accuracy of the information presented.

State Fair Board Response:

In the future, State Fair and State Auditor personnel have agreed to cooperate in planning their work and schedules so that State Fair audits will be completed before the October 31 due date for filing the Annual Report. Completing the audit on this timetable will, of course, obviate the need for this section in future audit reports.

a. Agree. This was our first year with Fund 461, the Capital Construction Fund, and the activity in that fund, $196,252 in revenue and expense, was inadvertently omitted. We have made special note of the problem and will work to not let it happen again.

b. Partially agree. We agree that financial statements should include footnotes and be in accordance with accounting standards. As regards the reporting of depreciation expense, one of the statements did erroneously identify depreciation as "non-operating." We recognize that depreciation is indeed an "operating expense," however, we do not think an inadvertent error means we are not following accounting standards.

   The State Auditor and Comptroller have insisted that a $352,758 disbursement of a specifically earmarked grant be reflected as just another operating expense. We believe that distorts the financial results of the Fair's operations and that they are improperly interpreting Generally Accepted Accounting Principles (GAAP).

c. Agree. In the interest of controlling costs, we do not have much in the way of administrative personnel levels. We will, nevertheless, implement an administrative review process prior to the close of Fiscal Year 1999-2000.

Revenue Classifications Are Needed to Determine Statutory Compliance

TABOR is a constitutional amendment that establishes a limit on the amount of revenue that may be retained by the State. The Fair is statutorily designated as an enterprise for TABOR purposes, but only if it receives no more than 10 percent of its funding from grants. When an entity is considered a TABOR enterprise, it is not subject to certain revenue limitations. For Fiscal Year 1999, the Fair received more than 10 percent of its revenue from grants, which disqualified it as a TABOR enterprise.

The Fair received the following monies from outside sources in Fiscal Year 1999:

Entity	Revenue Recorded
State of Colorado	$ 196,252
County of Pueblo	531,143
City of Pueblo	363,119
Total	**$1,090,514**
TABOR REVENUE LIMIT	**$ 758,633**
Source: Office of the State Auditor analysis of State Fair data.	

Clarify Local Grant Agreements

In prior years all money from Pueblo was considered a grant for TABOR purposes. Agreements between the City of Pueblo and the Fair, as well as agreements between the County of Pueblo and the Fair, reflected these amounts as grants. On September 14, 1998, a new agreement was entered into between the City and the Fair. The language in the agreement was changed from previous years to specify that a portion was for a grant and a portion for services rendered. Specifically, $80,000 was designated as a grant to pay the lease for the bleachers, with the purpose of the remaining funds of $283,119 described as reasonable compensation for "valuable services performed" by the Fair. This language does not clearly state what services are included and may be construed as a means to bypass TABOR consequences. The amount received from Pueblo under the services portion of the agreement was reported in the Fair's Fiscal Year 1999 financial statements as a grant. We agree with this accounting treatment. However, the agreement implies that funds are operating revenue for services performed, not a grant.

The agreement further states that the balance of $283,119 "shall be revenue to the authority resulting from a fee imposed for the provision of promotional and other services to the City...." The services provided are not specifically outlined in the contract, and the same contract in the prior year did not contain any such stipulations. The monies from the City come from a tax on lodging. The new agreement raises the question of how to classify the ambiguous portion of the funding. For TABOR purposes, the determination of a grant is based on the substance of the transactions. If services are rendered, they should be quantified and verifiable. The City of Pueblo classifies the expenditures as intergovernmental, specifying neither a grant nor a purchase of a service. Because this contract extends until 2005, the classification of these monies needs to be determined.

Clarify Statutory Provisions

Section 35-65-401(9) (f), C.R.S., imposes additional TABOR-related requirements on the Fair. This section states that "the board shall not accept any nonstate contributions that would cause the authority to exceed the limitations prescribed in section 35-65-405(1)...." The statute goes on to clarify that, "nothing shall be construed to prohibit the board from accepting contributions from nonstate sources during any budget year that the authority does not qualify as an enterprise...due to the amount of state grants received by the authority." Only if the Fair has already been disqualified as a TABOR enterprise because of state funding can local monies be accepted.

The extent of the provision of the law is not clear. The Fair has benefitted significantly from the infusion of state and local funds and is likely to need this type of help for the foreseeable future. In addition, the statute creates logistical problems for the Fair. The Fair does not know the amount of state funding it will recognize until late in the fiscal year. This is because state funding is used for capital construction projects that the Fair undertakes during its off-season. Factors outside of the Fair's control, such as weather and contractor delays, could cause the Fair not to complete planned projects, resulting in the recognition of little state funding. However, the Fair must determine whether or not it will accept local funding at the beginning of the year. The Fair should consider working with the General Assembly to clarify statutory language allowing the Fair the ability to make the best use of its state and local funding.

Recommendation No. 7:

The State Fair Board should examine its local government contracts by:

a. Determining whether the monies for services from local governments should be accounted for as operating revenue or as grants.

b. Working with the General Assembly to seek clarification of statutory provisions.

State Fair Board Response:

a. Agree.

b. Agree.

Improvements Have Been Made in Documenting Fair Board Meetings

Section 35-65-104(9)(d), C.R.S., requires the Fair Board to meet at least once a month. In our 1998 audit report we recommended that the Fair Board improve its procedures associated with maintaining minutes of meetings, specifically those documenting Board decisions. Improvements in meeting records were evident. From a compliance perspective however, we noted that the Fair Board did not document three meetings during Fiscal Year 1999.

According to Board records, a regular meeting was scheduled for September 28, 1998. However, two special meetings were held in its place and no minutes were recorded. In addition, the Finance Committee met on April 29, 1998, and no minutes were prepared for that meeting. The Colorado Sunshine Law, or specifically, Section 24-6-402(2)(d), C.R.S., requires that "minutes of any meeting of a state public body shall be taken and promptly recorded, and such records shall be open to public inspection."

Recommendation No. 8:

The Fair Board needs to conduct all public meetings in compliance with statute by maintaining a complete set of minutes for all Board meetings.

State Fair Board Response:

Agree.

Improve the Recording and Reporting of Fair Transactions

As part of our audit we reviewed the Fair's recording of accounting transactions and financial reporting. As noted earlier, the Fair Board has focused attention on improving fiscal operations and is in the process of installing an internal accounting system. The new system, along with continued oversight, should help remedy problems noted in our current audit. Problems include:

- **Exhibits should be accurate and submitted in a timely manner.** The State Controller's Office requires exhibits to be submitted each fiscal year in order to compile the State's financial statements. Exhibits provide additional information that is not readily obtainable from the State's accounting system. The Fair should have submitted nine exhibits this year. We found that four exhibits were not prepared. These exhibits should have disclosed the Fair's disqualification as a TABOR enterprise, the Fair's compliance with bond covenants, a reconciliation between the State's accounting system and the Fair's financial statements, and noncash transactions. Another four exhibits contained errors or omissions, such as the incorrect amounts of principal payments for revenue bond and lease debt, undisclosed cash balances, and about $108,000 of cash held by financial institutions that was reported as being insured when it was not. Errors in the underlying accounting records contributed to misreporting on these exhibits. In addition, the exhibits that were prepared were received by the State Controller's Office after the due date. Subsequent revisions to the exhibits were still being made in late October/early November after the State's financial statements were completed.

- **The State's accounting system needs to reconcile with the Fair's financial statements.** Contributed capital recorded on the State's accounting system needs to be adjusted to reflect the correct balance for errors made two years ago. Contributed capital is overstated and retained earnings is understated by $1,945,009. In addition, several other accounts on the State's accounting system, including leases payable and notes payable, continue to reflect the incorrect balances. The financial statements were revised to report the correct balances for contributed capital, and leases and notes payable. The Fair should ensure that changes made to improve the accuracy of the year-end financial statements are also made to the State's accounting system in a timely manner.

- **Revisions to the Fair's financial statements were necessary.** As explained in our comment regarding the Annual Report, the Fair did not include $196,252 in capital construction fund revenue and expenses. Depreciation expense of $123,460 should have been offset against contributed capital. Certain disclosures, such as the basis of accounting, were also missing. There were inaccuracies in amounts reported and inconsistencies in reporting the same amounts, for such items as cash, repairs and maintenance, and budget. These errors were corrected when brought to the attention of Fair staff.

Although the Board reviews monthly financial statements on an ongoing basis, a more thorough review, possibly by the Fair's Finance Committee, would help to prevent these problems. It is important that accurate and reliable financial information be prepared.

Recommendation No. 9:

The State Fair Board should:

a. Submit accurate exhibits to the State Controller's Office in a timely manner.

b. Record all activity and ascertain the accuracy of the account balances reported on the State's accounting system.

c. Implement a thorough review process to ensure accuracy of the financial statements.

State Fair Board Response:

Like Recommendation No. 6, this section will no longer be necessary because of the plan to complete the annual audit before the filing due date of the Annual Report.

a. Agree. We acknowledge that the report was not complete in every detail. The infractions were immaterial, and with a timely audit and this learning experience we believe the process will be appropriately addressed in the future.

b. No comment - This "error" is unrelated to any action on the part of the present State Fair Board and management. We "inherited" the Fund Equity section of the balance sheet from the previous authority and, since it was subject to audit, we quite appropriately assumed it contained no material errors. Further, the balance sheet has been subject to two reviews by the State Comptroller, and two audits by the State Auditor subsequent to the July 1, 1997, inception of this authority with no proposed adjustment to the Fund Equity prior to this year.

c. Agree. See response for Recommendation No. 6c.

Disposition of Prior Audit Recommendations

The following recommendations are from the Fiscal Year 1998 Colorado State Fair Authority Financial and Compliance Audit, the Fiscal Year 1997 Statewide Financial Audit report, and the State Fair Authority Financial Audit for December 31, 1996.

State Fair Authority Financial and Compliance Audit for Fiscal Year 1998

Rec. No.	Recommendation	Disposition
1	The State Fair Board should refine the goals and objectives of the Board and develop a long-range plan. The plan should include projected operating results and steps to eliminate debt burden.	Deferred. We will continue our follow-up during Fiscal Year 2000.
2	The Fair should ensure that transactions are properly recorded. Budgets should be based on accurate financial information, and budget to actual comparisons should be made and analyzed.	Partially implemented. See Recommendation No. 5.
3	Fair management should maintain a complete set of minutes detailing Board decisions, including a signed copy of the minutes, financial information, and any other applicable attachments presented at the meeting.	Partially implemented. See Recommendation No. 8.
4	The State Fair should comply with all applicable statutory requirements, specifically by submitting an accurate annual report in a timely manner.	Partially implemented. See Recommendation No. 6.
5	The Fair should request funds that are made available by the Fair's use in a timely manner to avoid lost interest and to cover operating expenses.	Implemented.
6	The Fair should implement procedures to ensure that sufficient documentation is maintained for all payments.	Implemented.

Rec. No.	Recommendation	Disposition
7	The State Fair Board should submit accurate exhibits to the State Controller's Office in a timely manner.	Partially implemented. See Recommendation No. 9.

Statewide Financial Audit for Fiscal Year 1997

Rec. No.	Recommendation	Disposition
1	The State Fair should establish controls over fixed assets that include:	
	a. Developing and implementing policies and procedures for the tagging of fixed assets.	Implemented.
	b. Providing appropriate training and support to ensure adequate financial management of the fixed assets.	Implemented.

State Fair Authority Financial Audit for December 31, 1996

Rec. No.	Recommendation	Disposition
5	The State Controller, State Fair, and Department of Agriculture should work together to establish an accounting system which meets the needs of all users.	Deferred. The State Fair is still developing procedures so that the current system will interface with COFRS, thereby eliminating posting each entry on to the two different systems. We will follow up during Fiscal Year 2000.
7	The State Fair Board should investigate the amounts remaining with VALIC and seek legal guidance on winding down its deferred compensation plan to ensure that distributions are done properly and that the Fair is meeting its fiduciary responsibility.	Implemented.
13	The State Fair Board should review its overall ticket issuance policy and pricing strategy to determine if the appropriate types of tickets exist and if the pricing strategy is yielding the best return.	Deferred. We will follow up during Fiscal Year 2000.

Financial Information

STATE OF COLORADO

J. DAVID BARBA, CPA
State Auditor

OFFICE OF THE STATE AUDITOR
(303) 866-2051
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Legislative Services Building
200 East 14th Avenue
Denver, Colorado 80203-2211

November 4, 1999

Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the Colorado State Fair Authority (the Authority), a component unit of the State of Colorado, as of and for the year ended June 30, 1999, 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 generally accepted auditing standards. 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.

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, 1999, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

J. David Barba

COLORADO STATE FAIR AUTHORITY
BALANCE SHEET
June 30, 1999

	Enterprise Fund	Capital Construction Fund	Total (Memo Only)
ASSETS			
CURRENT ASSETS			
Cash	$ 1,058,232	$ 41,179	$ 1,099,411
Accounts Receivable, Net	58,077	-	58,077
Interest Receivable	7,410	-	7,410
Inventory	55,892	-	55,892
Prepaid Expenses	219,982	-	219,982
Total Current Assets	1,399,593	41,179	1,440,772
RESTRICTED ASSETS			
Cash Held in Trust	44,549	-	44,549
Bond Sinking Fund	107,614	-	107,614
Bond Reserve Fund	243,077	-	243,077
Total Restricted Assets	395,240	-	395,240
PROPERTY & EQUIPMENT, NET	8,855,002	-	8,855,002
LONG-TERM ASSETS			
Unamortized Financing Costs	74,051	-	74,051
TOTAL ASSETS	$ 10,723,886	$ 41,179	$ 10,765,065
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES			
Accounts Payable	$ 249,256	$ 41,179	$ 290,435
Accrued interest Payable	30,359	-	30,359
Accrued Compensated Absences	47,948	-	47,948
Current Portion of Long-Term Debt	157,308	-	157,308
Deferred Revenue	1,189,080	-	1,189,080
Total Current Liabilities	1,673,951	41,179	1,715,130
LONG-TERM LIABILITIES			
Bonds and Leases Payable	2,343,894	-	2,343,894
OTHER NONCURRENT LIABILITIES	31,573	-	31,573
TOTAL LIABILITIES	4,049,418	41,179	4,090,597
FUND EQUITY			
Contributed Capital	5,934,458	-	5,934,458
Retained Earnings	740,010	-	740,010
TOTAL FUND EQUITY	6,674,468	-	6,674,468
TOTAL LIABILITIES AND FUND EQUITY	$ 10,723,886	$ 41,179	$ 10,765,065

See accompanying notes to the financial statements

COLORADO STATE FAIR AUTHORITY
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDING JUNE 30, 1999

	Enterprise Fund	Capital Construction Fund	Total (Memo Only)
OPERATING REVENUE			
Commercial Space/Concession	$ 1,941,284	$ -	$ 1,941,284
Gate Admission	1,389,657	-	1,389,657
Box Office Sales	1,241,755	-	1,241,755
Private Sponsorship	724,609	-	724,609
Exhibitor Fees	536,826	-	536,826
Building Rental	470,145	-	470,145
Miscellaneous Revenue	128,490	-	128,490
Total Operating Revenue	6,432,765	-	6,432,765
OPERATING EXPENSES			
Personal Service and Benefits	1,729,741	-	1,729,741
Entertainment and Attractions	1,546,705	-	1,546,705
Advertising and Promotions	1,022,462	-	1,022,462
Prizes and Awards	558,431	-	558,431
Repair and Maintenance	557,234	196,252	753,486
Utilities	494,618	-	494,618
Supplies and Materials	316,636	-	316,636
Contractual Service	285,818	-	285,818
Other Operating	276,423	-	276,423
Building, Vehicle, and Equipment Rental	122,313	-	122,313
Travel	15,598	-	15,598
Operating Expenses Excluding Depreciation	6,925,979	196,252	7,122,231
Operating Loss Before Depreciation	(493,213)	(196,252)	(689,465)
Depreciation	(815,422)	-	(815,422)
Operating Loss After Depreciation	(1,308,635)	(196,252)	(1,504,887)
NONOPERATING REVENUE (EXPENSES)			
Local Government Grants	894,262	-	894,262
State Appropriations	-	196,252	196,252
Investment Income	50,104	-	50,104
Interest Expense	(192,815)	-	(192,815)
Net Nonoperating Revenue	751,551	196,252	947,803
NET LOSS	(557,084)	-	(557,084)
Add Depreciation on Contributed Assets	123,460	-	123,460
DECREASE IN RETAINED EARNINGS	(433,624)	-	(433,624)
FUND EQUITY			
Beginning Retained Earnings	1,173,634	-	1,173,634
Ending Retained Earnings	740,010	-	740,010
Beginning Contributed Capital	4,183,880	-	4,183,880
Contributions from State	1,874,038	-	1,874,038
Depreciation on Contributed Assets	(123,460)	-	(123,460)
Ending Contributed Capital	5,934,458	-	5,934,458
Ending Fund Equity	$ 6,674,468	$ -	$ 6,674,468

See accompanying notes to the financial statements

COLORADO STATE FAIR AUTHORITY
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 1999

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Operating Loss	$ (1,308,635)
Adjustments to Reconcile Net Loss to Net	
Cash Used by Operating Activities	
Depreciation	815,422
Unrealized (Gain) Loss on Investments	4,986
Net Changes in Assets and Liabilities	
Relating to Operating Activities	
Decrease in Accounts Receivable	12,914
Decrease in Inventory	9,113
Decrease in Prepaid Expenses	343,060
Decrease in Unamortized Finance Costs	(6,718)
Increase in Accounts Payable	90,717
Increase in Compensated Absence Liability	11,470
Decrease in Deferred Revenue	(102,530)
Decrease in Deposits Held for Others	(102,600)
NET CASH USED BY OPERATING ACTIVITIES	(232,801)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Decrease in Restricted Assets	105,758
Local Government Grants	753,117
Debt Service Principal Payments	(146,383)
Interest Payments	(186,097)
Purchase of Property and Equipment	(172,344)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	354,051
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment Income	55,094
NET CASH PROVIDED BY INVESTING ACTIVITIES	55,094
NET INCREASE IN CASH	176,344
CASH, JULY 1, 1998	881,888
CASH, JUNE 30, 1999	$ 1,058,232
Supplemental Information on Noncash Transactions:	
Fixed Assets Transferred from General Fixed Asset Group of Accounts	$ 5,620,948
Assumption of Capital Lease Obligation	$ 30,807
Unrealized Loss on Investments	$ (4,986)
Bond Amortization	$ (6,718)

See accompanying notes to the financial statements

COLORADO STATE FAIR AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization – The Colorado State Fair Authority (Authority) is organized under the laws of the State of Colorado (State) within the State Department of Agriculture. It operates under the jurisdiction of the Colorado State Fair Authority Board of Commissioners (Board) whose members are appointed by the Governor of the State. The accounting policies of the Authority conform to generally accepted accounting principles, as applicable to governmental units. The following is a summary of the more significant policies.

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

Basis of Accounting – The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. Proprietary fund types are reported on an accrual basis. Using this basis, revenue is recognized when earned, and expenses, including depreciation, are recognized when incurred. Revenue received and expenses incurred prior to June 30 relating to the annual State Fair held in the subsequent fiscal year are recorded as deferred revenue and prepaid expenses, respectively, at year-end. The Authority follows all applicable GASB pronouncements, regardless of issue date, as well as the following pronouncements issued on or before November 10, 1989: FASB Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with, or contradict, GASB pronouncements. All governmental funds are accounted for using a current financial resources measurement focus. Governmental fund types are reported on the modified accrual basis. This basis of accounting recognizes revenue when measurable and available to finance current operations or to liquidate liabilities existing at fiscal year-end.

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 1999, the Authority was not considered an enterprise for TABOR purposes. The Authority's operating budget is 100 percent funded from cash sources.

Inventory – Inventory is stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment – Property and equipment is stated at cost. Depreciation is calculated using the straight-line method based upon estimated useful lives of three to fifteen years for furniture and equipment and 20-40 years for buildings and other improvements.

Accrued Compensated Absence 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. Both current and noncurrent portions of the compensated absence liability accrual are recorded as an enterprise fund liability.

Investments – Colorado Revised Statutes 24-075-601.1 authorizes the type of investments that the Authority may hold. In general, the statute requires securities that are of the highest quality as determined by national rating agencies, those guaranteed by another state or the federal government, or a registered money market fund whose policies meet criteria set forth in the statute.

Statement of Cash Flows – For the purpose of the statement of cash flows, the Authority considered unrestricted, highly liquid temporary investments maturing within three months of their acquisition to be cash equivalents.

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

2. Cash Deposits

Cash includes petty cash, change funds, imprest fund and cash on deposit with the State Treasurer. The State Treasurer acts as a bank for the Authority. Moneys deposited with the Treasury are invested until the cash is needed. The Authority is authorized to deposit funds in bank accounts outside the custody of the Treasury. Colorado statutes require protection of public moneys in banks beyond that provided by the federal insurance corporations. The

Public Deposit Protection Act in Section 11-10.5-107(5), C.R.S., requires all eligible depositories holding public deposits to pledge designated eligible collateral having market values at least 102 percent of the deposits exceeding those amounts insured by federal insurance. The Authority categorizes its cash into three categories as to their risk:

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

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

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

At June 30, 1999, the Authority had cash balances in all funds with a carrying value of $1,251,574. Of this amount, $2,500 consists of petty cash and change funds and $1,043,889 is on deposit with the Treasury. The Authority had cash balances in bank accounts outside the custody of the Treasury with a carrying value of $97,571 and a bank balance of $98,048. The full amount of the bank balance is covered by federal insurance. In addition, the Authority has $107,614 in a money market account deposited in a financial institution and is classified in Category 3.

3. Cash held in Trust

Prior to the Authority becoming part of the Department of Agriculture, it had the ability to receive contributions in conjunction with the State Enterprise Zone Program. Beginning June 30, 1997, the Authority is no longer qualified to receive these donations under this program. The Authority is in the process of transferring the contributions received to other qualified enterprise zones in accordance with the approval of the various contributors. At June 30, 1999, cash held in trust related to this purpose was $44,549.

4. Restricted Bond Funds

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 statement states the sinking fund shall be on a calendar year. The balance in the sinking fund at June 30, 1999 was $107,614.

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 ending June 30, 1999. The Authority is also required to generate sufficient revenue to cover general operating expenses plus 125 percent of the annual requirements of principal and interest on the outstanding bonds. The Authority was in compliance with this requirement for the year ending June 30, 1999.

The Authority had the following investment, recorded at market value, in the restricted bond reserve fund at June 30, 1999.

	June 30, 1998 Market Value	June 30, 1999 Market Value	Unrealized Loss
Federal Farm Credit Medium Term Note (Int. payable 7/20 and 1/20 CPN 6.050% due 04-21-03, $241,823 Amortized Cost)	$ 248,063	$ 243,077	$ 4,986

The Authority's investment is insured by an agency of the federal government.

5. Property and Equipment

At June 30, 1999, property and equipment consisted of the following:

	Balance July 1, 1998	Additions and Reclassifications	Deletions and Reclassifications	Balance June 30, 1999
Land	$ 44,100	$ 550,358	$ –	$ 594,458
Buildings	–	11,117,827	–	11,117,827
Land Improvement	–	2,168,278	–	2,168,278
Furniture and Equipment	1,907,142	177,455	(40,683)	2,043,914
Leasehold Improvements	8,187,656	–	(8,187,656)	–
Accumulated Depreciation	(2,547,393)	40,683	(4,562,765)	(7,069,475)
Property and Equipment, Net	$7,591,505	$14,054,601	$(12,791,104)	$8,855,002

At June 30, 1999, property balances reflect a transfer from the State's general fixed asset group of accounts to the State Fair Authority of fixed assets with a cost of $5,620,948 and accumulated depreciation of $3,746,910.

6. Changes in Long-term Debt

Beginning Balance, July 1, 1998	$ 2,616,778
Additional Leases	30,807
Payments on Outstanding Bonds and Leases	(146,383)
Ending Balance, June 30, 1999	$ 2,501,202

Current Portion of Long-Term Debt	$ 157,308
Non-Current Portion of Long-Term Debt	2,343,894
Total Long-Term Debt	$ 2,501,202

At June 30, 1999, long-term debt consisted of the following:

Refunding Revenue Bonds, Series 1992, (net of unamortized discount of $16,748)	$ 2,058,252
Bleacher Equipment Lease	392,647
Note, Kentucky Fried Chicken, non-interest bearing, annual payments of $1,659 through 2011	19,907
Capital Leases - Other	30,396
Less: Current Portion of Long-Term Debt	(157,308)
Total Non-Current Long-Term Debt	$ 2,343,894

The 1992 Bonds mature annually in varying amounts from December 1, 1992 through December 1, 2012. Interest is payable semi-annually at varying interest rates from 3.6% to 7.4%. The bonds are secured by a first lien on the net revenue of the Authority. The 1992 Bonds maturing on and after December 1, 2003 are subject to redemption, in whole or in part, at the option of the Authority on December 1, 2002 or at any date thereafter at the following redemption prices:

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

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

Fiscal Year	Note and Capital Leases	Bond	Total
2000	$ 62,308	$ 95,000	$ 157,308
2001	62,408	100,000	162,408
2002	66,782	105,000	171,782
2003	69,385	110,000	179,385
2004	69,485	120,000	189,485
Thereafter	112,582	1,545,000	1,657,582
Total Principal Payments	$442,950	$2,075,000	$2,517,950

7. Budgetary Data

For Fiscal Year 1999, the Authority's original and final operating appropriation as approved by the General Assembly was $8 million which the Authority allocated to cover operating expenses, excluding depreciation. The Authority's original and final capital construction appropriation as approved by the General Assembly was $985,419 and actual total expenditures were $196,252.

The Authority also adopts an internal budget for management purposes. For the Fiscal Year ending June 30, 1999, the internal budget showed total budgeted operating revenue of $5,967,767, and total budgeted operating expenses of $6,008,160. Actual operating revenue was $6,432,765, and operating expenses were $6,925,979, excluding depreciation.

8. Pension Plan

All full and part-time employees of the Authority participate in a defined benefit pension plan administered by the Public Employees Retirement Association of Colorado (PERA). PERA is a cost-sharing multiple-employer pension plan. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan and other division plans are included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203.

PERA benefits vest after five years of service with covered employers. Plan members are eligible for full retirement benefits at age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with the three periods of 12 consecutive months of service.

Members disabled, who have five or more years of service credit, six months of which as been earned since the most recent period of membership, may receive 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 full time student) are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

The Authority's employees contribute 8 percent of their annual gross covered wages to an individual account in the plan. The Authority contributes 10.6 percent of the employees' gross covered wages. The annual gross covered wages subject to PERA is the gross earnings less any reductions 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 the plan members and their employers are established, and may be amended, by the General Assembly.

For the Fiscal Years ending June 30, 1999, June 30, 1998, and the calendar year ending December 31, 1997, the Authority's contribution to PERA were $137,875, $130,433, and $119,617, respectively. These amounts were equal to the required contributions for the years.

9. Post Retirement Health Care Benefits

The PERA Health Care Program began covering 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 1998, the subsidy was $115 for those with 20 years of credit and reduced by $5.75 for each year under 20.

The Health Care Fund is maintained by a contribution of 0.8 percent of covered salary. The Authority paid $10,406, $9,752, and $8,860 in Fiscal Years 1999 and 1998, and calendar year 1997, respectively. 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 the retiree has. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services with Colorado. During 1998 there were approximately 38,625 participants, including spouses and dependents, from all contributors to the plan.

10. 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.

11. Contingencies

The Authority is a defendant in a lawsuit by a former employee accusing the Authority of wrongful termination. In the event the Authority losses, the State's risk management program is expected to cover the claim. Therefore, the Authority does not believe that the outcome of the lawsuit will have a material impact on its financial operations.

Required Supplementary Information

STATE OF COLORADO

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State Auditor

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Legislative Services Building
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Denver, Colorado 80203-2211

November 4, 1999

Independent Auditor's Report
On Required Supplementary Information

Members of the Legislative Audit Committee:

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole for the State Fair Authority (the Authority) as of and for the year ended June 30, 1999, which are presented in the preceding section of this report. The year 2000 supplementary information on page 57 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 supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the Authority will become year 2000 compliant, that the Authority's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Authority does business are or will become year 2000 compliant.

J. David Barba

Year 2000 Preparations

The year 2000 issue arises because most computer software programs allocate two digits to the year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs may interpret the year 2000 as the year 1900. In addition, some programs may be unable to recognize the year 2000 as a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features – such as, environmental systems, elevators, and vehicles – as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the Authority's direct control but also the systems of other entities with which the Authority transacts business. Some of the Authority's systems and equipment affected by the year 2000 issue are critical to the continued and uninterrupted operations of the Authority.

The Authority has completed the process of validating/testing the remediation efforts on potential year 2000 problems for its critical systems. Because of the unprecedented nature of the year 2000 issue, its effects and the success of the related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot guarantee that the Authority is or will be year 2000 ready, that the Authority's remediation efforts will be successful in whole or in part, or that parties with whom the Authority does business will be year 2000 ready.

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