

COLORADO STATE FAIR AUTHORITY

FINANCIAL AND COMPLIANCE AUDIT
Fiscal Years Ended June 30, 2010 and 2009

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COLORADO STATE FAIR AUTHORITY
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June 30, 2010 and 2009

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**COLORADO STATE FAIR AUTHORITY
FINANCIAL AND COMPLIANCE AUDIT
REPORT SUMMARY
FISCAL YEARS ENDED JUNE 30, 2010 and 2009**

Authority, Purpose and Scope

The audit of the Colorado State Fair Authority was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all State agencies. The 2010 audit was conducted under contract with Wall, Smith, Bateman and Associates, Inc. The audit was conducted in accordance with audit standards generally accepted in the United States of America. Audit work was performed June through November, 2010.

The purposes and scope of the audit were to:

- Perform a financial and compliance audit of the Colorado State Fair Authority for the years ended June 30, 2010 and 2009 and to express an opinion on the financial statements. This included a review of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate progress in implementing prior audit recommendations.

Audit Results

Wall, Smith, Bateman and Associates, Inc. expressed an unqualified opinion on the financial statements for the year ended June 30, 2010 and 2009.

We issued a report on the Colorado State Fair Authority's internal control over financial reporting and compliance with other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*.

Required Auditor Communications to the Legislative Audit Committee

The auditor is required to communicate to the Legislative Audit Committee certain matters related to the conduct of the audit and to ensure that the Legislative Audit Committee receives additional information regarding the scope and results of the audit that may assist the Audit Committee in overseeing the financial reporting and disclosure process for which management is responsible. These matters have been communicated to the Legislative Audit Committee in this report and include among other items that no significant difficulties were encountered in dealing with management in performing our audit.

Summary of Findings and Recommendations

The following is a summary of the findings contained in the report. The audit recommendations for these findings and associated Authority responses are summarized in the recommendation locator, which follows the summary.

There are 5 current year findings and recommendations:

- The Authority detected a fraud, during Fiscal Year 2010, in the amount of approximately \$30,000 related to cash collections, misuse of a credit card and misappropriation of cash stored in a safe. The Authority implemented internal controls to improve the ability to prevent and detect fraud.

We recommend that the Authority continue to assess its internal control structure regularly and identify improvements that can be implemented to prevent the occurrence of fraud.

- The Authority did not perform the May and June 2010 bank reconciliations in a timely manner for two of the Authority's cash accounts. We recommend that the Authority reconcile all cash accounts each month prior to preparation of the monthly financial statements.
- The Authority did not retain adequate documentation to support certain expenses. We recommend that the Authority ensure that staff retains adequate supporting documentation for all expenses incurred.
- The Authority did not classify a private donation of a capital asset in the amount of \$338,324 as a nonoperating revenue and materially understated the operating loss. An audit adjustment was proposed and recorded to correct the misclassification. We recommend that the Authority pay special attention to the classification of non-routine transactions and consider using the resources of the Department of Agriculture for a technical review of the financial statements.
- The Authority reported an operating loss of \$2.1 million for fiscal year ending 2010 and the nonoperating revenues from local and state subsidies are not adequate for the Authority to break even. The Authority decreased the unrestricted net assets by \$536,938 during fiscal year ending 2010 leaving the Authority with \$270,923 of unrestricted net assets. We recommend that the Authority continue to refine its strategies and efficiencies and work with the Department of Agriculture and the State to secure adequate subsidies to offset operating losses.

A detailed description of the audit comments and recommendations is contained in the findings and recommendations section of the report.

Summary of Progress in Implementing Prior Audit Findings

The implementation of the recommendation included in the Fiscal Year 2009 audit report is discussed in Disposition of Prior Audit Recommendations.

RECOMMENDATION LOCATOR

All recommendations are addressed to the Colorado State Fair Authority Fiscal Year 2010

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	6	The Authority should continue to assess its internal control structure regularly and identify improvements that can be implemented to prevent the occurrence of fraud.	Agree	June 1, 2010
2	7	The Colorado State Fair Authority should reconcile all cash accounts each month prior to preparation of the monthly financial statements. Management should review the bank statement and reconciliation to ensure the unusual items are identified and resolved in a timely manner.	Agree	November 4, 2010
3	8	The Colorado State Fair Authority should ensure that staff retain adequate supporting documentation for all expenses incurred.	Agree	December 1, 2010
4	10	The Authority should pay special attention to classification of non-routine transactions in the future. Also, the Authority should consider using the resources of the Department of Agriculture for a technical review of the financial statements.	Agree	Immediately
5	11	The Authority should continue to refine its strategies and pricing policies and also search for efficiencies in its operations to minimize future losses and work with the Department of Agriculture and State of Colorado to obtain adequate subsidies for operations.	Agree	Ongoing

COLORADO STATE FAIR AUTHORITY
June 30, 2010 and 2009

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 2010, the Authority was appropriated 24 full-time staff and 3 contract employees to run its year-round operations. In the summer, the Authority adds about 800 temporary staff to run the annual State Fair.

The fiscal year 2010 fair was held during August/September 2009. Approximately 75% of governance, administration and facilities management expenditures for July, August and September are allocated to Fair-time activity. The results from the 2010 State Fair which was held during August and September 2010 will be included in the financial statements for the year ended June 30, 2011.

FISCAL YEAR 2010 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, 2010 <u>Fair-time</u>	Year ended June 30, 2010 <u>Off-season</u>	Year ended June 30, 2010 <u>Total</u>	Year ended June 30, 2009 <u>Total</u>
Operating revenues	\$ 6,037,442	\$ 1,383,446	\$ 7,420,888	\$ 7,370,708
Operating expenses (excluding depreciation)	<u>5,667,975</u>	<u>3,469,203</u>	<u>9,137,178</u>	<u>9,531,180</u>
Operating income (loss) before depreciation	<u>\$ 369,467</u>	<u>\$ (2,085,757)</u>	(1,716,290)	(2,160,472)
Depreciation			<u>(419,491)</u>	<u>(651,684)</u>
Operating loss			(2,135,781)	(2,812,156)
Nonoperating revenues (net)			<u>1,317,973</u>	<u>3,258,864</u>
Gain (loss) before state capital contributions			(817,808)	446,708
Capital contributions			<u>1,109,790</u>	<u>890,317</u>
Change in net assets			<u>\$ 291,982</u>	<u>\$ 1,337,025</u>

**COLORADO STATE FAIR AUTHORITY
FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010**

Internal Controls over Cash

The Colorado State Fair Authority (the Authority) collected \$7.4 million of operating revenues and had \$9.6 million of operating expenses in the fiscal year ended June 30, 2010. As the Authority operates the Colorado State Fair as well as other entertainment events during the year, the nature of the revenue cycle is cash intensive. During Fiscal Year 2010, the Authority detected a fraud in the amount of approximately \$30,000 that was allegedly perpetrated by one employee related to cash collections by the Authority, misuse of credit card expenditures, and misappropriation of cash stored in the Authority's safe. This fraudulent activity started in May of 2009 and was discovered in January 2010. After discovering the misappropriation of funds, the Authority reevaluated their internal control structure and implemented changes to improve internal controls, specifically related to segregation of duties.

What was the purpose of the audit work?

The purpose of the audit work was to test the Authority's new internal controls over the cash transactions affected by the fraud.

What audit work was performed and how were results measured?

We obtained an understanding of the internal controls over the transactions affected by the fraud and considered those transactions during the course of the audit. Internal controls were assessed using the state fiscal rules and the Colorado State Fair Authority policies and procedures manual.

What problem did the audit work identify?

The Authority reallocated responsibilities among management in order to improve the segregation of duties. We reviewed these changes implemented by the Authority and found that they represented reasonable efforts to improve the Authority's ability to prevent fraud in the future. The transactions tested during the audit contained evidence of authorization, review and segregation of duties as prescribed by the Authority.

Why does this problem matter?

The State Fair operations are cash intensive and thus susceptible to the misappropriation of cash. Inadequate internal controls increase the risk of fraud and irregularities. Controls need to be designed and placed in service in order to prevent and detect fraud. While the fraudulent misappropriation of assets was detected in a timely manner by management, the Authority lost money to this fraudulent activity.

Why did the problem occur?

There was a lack of preventative controls, specifically segregation of duties, which allowed for the misappropriation of assets. However, the detection controls in place identified the misappropriation of assets and the fraudulent activity was stopped before material theft could occur.

**COLORADO STATE FAIR AUTHORITY
FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010**

(Classification of Finding: Other Matter)

Recommendation No. 1:

The Authority should continue to assess its internal control structure regularly and identify improvements that can be implemented to prevent the occurrence of fraud.

Colorado State Fair Authority's Response:

Agree. Implementation date: June 1, 2010

The Authority will continue to evaluate its cash controls to provide for the early detection of fraud.

Timely Reconciliation of Cash Accounts

The Colorado State Fair Authority (the Authority) generates revenue during the annual Colorado State Fair and Exposition as well as throughout the year during concerts and other events that are held at the Fairgrounds.

What was the purpose of the audit work?

The purpose of the audit work was to determine that cash transactions were recorded in the appropriate period as well as that cash balances existed and were properly valued at June 30, 2010.

What audit work was performed and how were results measured?

The audit work included obtaining bank reconciliations as of June 30, 2010. Reconciling items were selected and tested to ensure they were appropriate.

What problem did the audit work identify?

Bank reconciliations were performed in a timely manner throughout the year with the exception of the May and June 2010 bank reconciliations. These reconciliations were not performed in a timely manner for two cash accounts with book balances totaling \$49,656. The bank accounts that were not reconciled handle a significant number of transactions each month. During June, the accounts had disbursements totaling \$25,900 and \$119,641 and deposits totaling \$23,860 and \$116,639 respectively. These reconciliations were not performed until November 9, 2010.

Why does this problem matter?

When bank reconciliations are not performed in a timely manner, errors may not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. In addition, this condition delays the process for preparing the

**COLORADO STATE FAIR AUTHORITY
FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010**

fiscal year end financial statements in a timely manner. Further, the lack of controls over bank reconciliations can increase the risk of fraud and irregularities.

Why did the problem occur?

The staff person responsible for performing the Authority's cash reconciliations resigned in June 2010 and had not been replaced as of the date of our report. Although the responsibility for performing cash reconciliations has been reassigned to another staff person temporarily, the preparation and review of bank reconciliations in a timely manner has not been a priority for the Authority.

(Classification of Finding: Material Weakness)

Recommendation No. 2:

The Colorado State Fair Authority should reconcile all cash accounts each month prior to preparation of the monthly financial statements. Management should review the bank statement and reconciliation to ensure that unusual items are identified and resolved in a timely manner.

Colorado State Fair Authority's Response:

Agree. Implementation date: November 4, 2010

The Authority will reconcile all cash accounts in a timely manner. The loss of a critical employee at the most difficult time of the year led to this error. As of November 30, 2010, all accounts are reconciled.

Retention of Accounting Records

The Colorado State Fair Authority (the Authority) disbursed \$9,137,178 during Fiscal Year 2010. To support that disbursements are made for Authority business, hard copies of payment vouchers, journal vouchers, invoices, etc. are maintained.

What was the purpose of the audit work?

The purpose of the audit work was to substantiate the existence, occurrence, rights and obligations, valuation, classification, and cutoff of expenses recorded in the financial statements.

What audit work was performed and how were results measured?

Supporting documentation for selected expense items was reviewed to ensure that transactions were recorded in appropriate accounts, that vendor invoices existed to support the expenses, that proper approvals were obtained, and that payments were made to the appropriate vendor for Authority related business.

**COLORADO STATE FAIR AUTHORITY
FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010**

What problem did the audit work identify?

Adequate supporting documentation was not available for one item in three of the fifteen expense accounts that were selected for testing.

- Credit card fees in the amount of \$8,317 were recorded as an expense on September 30, 2009. This amount did not agree to the related credit card statement which indicated that credit card fees were \$3,103, a difference of \$5,214 is not supported.
- Complete documentation to support a disbursement to a vendor for rental expenses recorded on July 20, 2009 in the amount of \$9,813 was unavailable.
- Supporting documentation for a disbursement paid to the City of Pueblo on September 25, 2009 in the amount of \$19,739 was unavailable.

Further, when the accounting department was prepared to reconcile the May and June cash accounts in October 2010, they were unable to locate the May and June 2010 credit card statements which had total credit card receipts in the amount of \$100,614 and \$116,639, respectively. The State Fair requested and received duplicate statements in November 2010.

Why does this problem matter?

Without proper documentation, it is not possible to determine whether a disbursement is appropriate and has been accounted for correctly. Undocumented disbursements could lead to misstatement of the financial statements. In addition, the lack of controls over retention of documentation can increase the risk of fraud and irregularities.

Why did the problem occur?

The problem occurred because there were misfiled and missing supporting documentation due to unorganized and inadequate filing.

(Classification of Finding: Significant Deficiency)

Recommendation No. 3:

The Colorado State Fair Authority should ensure that staff retain adequate supporting documentation for all expenses incurred.

Colorado State Fair Authority's Response:

Agree. Implementation Date: December 1, 2010

The Authority regrets the lack of documentation and is working diligently to correct this error.

**COLORADO STATE FAIR AUTHORITY
FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010**

Financial Misstatement

The Authority receives contributions from private and public sources in the form of cash and capital assets. During Fiscal Year 2010 the cash contributions totaled \$1.3 million and capital contributions totaled \$1.1 million.

What was the purpose of the audit work?

The purpose of the audit work was to determine that transactions were correctly classified between operating and nonoperating revenues and expenses in the Statements of Revenues, Expenses and Changes in Net Assets in accordance with accounting principles generally accepted in the United States (GAAP).

What audit work was performed and how were results measured?

An analysis of the private sponsorships operating revenue was performed to determine the source and value of the amount reported on the Statements of Revenues, Expenses and Changes in Net Assets and whether amounts were correctly classified in accordance with accounting principles generally accepted in the United States.

What problem did the audit work identify?

A private donation of a capital asset in the amount of \$338,324 was reported as operating revenue. However, this transaction should have been classified as nonoperating revenue because the donation was not received in return for providing goods or services. This required an audit adjustment to reclassify the transaction as a nonoperating revenue.

Why does this problem matter?

The classification of the donated capital asset was not in accordance with generally accepted accounting principles and the operating loss was understated by \$338,324, which materially misstated the operating loss reported in the Statement of Revenues, Expenses and Changes in Net Assets.

Why did the problem occur?

The Authority's accountant misapplied generally accepted accounting principles to a non-routine transaction due to lack of accounting expertise. The Authority does not have additional accounting staff with expertise to perform a review of the financial statements.

(Classification of Finding: Material Weakness)

**COLORADO STATE FAIR AUTHORITY
FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010**

Recommendation No. 4:

The Authority should pay special attention to classification of non-routine transactions in the future. Also, the Authority should consider using the resources of the Department of Agriculture for a technical review of the financial statements.

Colorado State Fair Authority's Response:

Agree. Implementation Date: Immediately

The Authority has now hired an accountant with the expertise to properly record transactions.

Five Year Business Plan

In October of 2006 the board approved a five-year business plan. First, the business plan allowed for the Fair to continue operating with an 11 day Fair which was started during fiscal year ended June 30, 2005 (i.e., the August 2004 Fair); prior to this the Fair was 16 days long. The Authority hoped to improve the quality of the Fair with better attractions in fewer days. The second aspect of the business plan called for an increase in revenue by hiring an entertainment and venue management company to assist in marketing the Events Center. Third, the business plan called for loans from the State Treasury and for the construction of the Events Center to be paid off. HB 06-1384 provided sufficient funds for the payoff of the Authority's debt in fiscal year 2009 as well as \$550,000 per year for operating expenses. HB 08-1399 took effect on February 27, 2009 when the Authority certified to the State Treasury that the above mentioned loans had been paid off. HB 08-1399 provides the Authority with 25% of the interest on the Unclaimed Property Tourism Promotion Trust Fund. This income replaces the \$550,000 provided with HB 06-1384 and is expected to provide approximately \$800,000 per year to the Authority for operating expenses.

What was the purpose of the audit work?

The purpose of the audit work was to follow up on the June 30, 2009 finding and recommendation and to determine if the revenue from the Unclaimed Property Fund interest income and other cash contributions were adequate to assist in offsetting the Authority's operating loss for Fiscal Year 2010.

**COLORADO STATE FAIR AUTHORITY
FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010**

What audit work was performed and how were results measured?

The results of the Fiscal Year Ended June 30, 2010 were compared to the previous seven years as follows:

For Fiscal Year Ended	Operating Loss Including Depreciation and Amortization	Operating Loss Excluding Depreciation and Amortization	Total State Contributions	Local Contributions	Operating Loss After Cash Contributions
June 30, 2010	\$ (2,135,781)	\$ (1,716,290)	\$ 854,908	\$ 445,859	\$ (835,014)
June 30, 2009	(2,812,156)	(2,160,472)	3,609,952	599,693	1,397,489
June 30, 2008	(2,353,317)	(1,736,988)	3,988,351	385,153	2,020,187
June 30, 2007	(2,417,273)	(1,825,645)	4,320,175	270,132	2,173,034
June 30, 2006	(1,748,741)	(1,167,995)	812,924	347,997	(587,820)
June 30, 2005	(1,351,088)	(737,361)	77,352	441,757	(831,979)
June 30, 2004	(1,255,087)	(639,851)	109,674	228,734	(916,679)
June 30, 2003	(1,175,019)	(574,770)	577,685	458,012	(139,322)

What problem did the audit work identify?

The Authority has been operating an 11 day Fair since the year ended June 30, 2005 and the operating loss has increased significantly every year since the change until fiscal year ended 2010. The results of fiscal year ended June 30, 2010 shows an improvement; however the operating loss continues to be substantial. The Fiscal Year 2010 operating revenues were .68% higher and operating expenses were 6.15% lower than the Fiscal Year 2009. Further, the Authority's unrestricted net assets decreased from \$807,861 as of June 30, 2009 to \$270,923 as of June 30, 2010. The contributions are not adequate to offset the Authority's operating loss.

Why does this problem matter?

If the results of operations and the cash contributions are comparable for Fiscal Year 2011 the Authority will have to obtain financing to operate. The unrestricted net assets at June 30, 2010 are not sufficient to absorb substantial losses in the future.

Why did the problem occur?

The Authority's management has worked to develop strategies to improve efficiencies at the State Fair however more progress should to be accomplished to minimize the operating losses. Also, the State subsidies during Fiscal Year 2010 were not adequate to maintain the unrestricted net assets.

(Classification of Finding: Other Matter)

Recommendation No. 5:

The Authority should continue to refine its strategies and pricing policies and also search for efficiencies in its operations to minimize future operating losses and work with the Department of Agriculture to find other means to offset losses.

**COLORADO STATE FAIR AUTHORITY
FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010**

Colorado State Fair Authority's Response:

Agree. Implementation Date: Ongoing

The Colorado State Fair Authority agrees that it is a prudent business practice to continually refine strategies and pricing policies and search for efficiencies to minimize future losses. This has been demonstrated in the last three years by reducing expenses and maximizing revenues. The 2010 Fair was just \$20,000 short of a million dollar profit. This is an increase of close to \$500,000 over previous fairs. In addition, the authority has received additional allocations from the Ag Management funds from the Commissioner of Agriculture to offset losses. These funds are available in the future. The Authority continues to look for areas that revenues can be enhanced and expenses controlled.

The 2010 Fair set record attendance in spite of a difficult economy. As the economy improves, the Fair should see improved attendance as well as an increase in the Fair's portion of the interest on the Unclaimed Property Fund.

The Fair's primary goal is to showcase Colorado's agricultural economy and educate the state's youth. Neither is a profitable undertaking, but both serve the public interest. The Fair's objective is for the commercial exhibits and other revenue drivers to offset the inherently unprofitable goals.

Disposition of Prior Audit Recommendations

Listed below is the recommendation from the Fiscal Year 2010 Colorado State Fair Authority Financial and Compliance audit.

Recommendation	Disposition
1. The Authority should continue to refine its strategies and pricing policies and also search for efficiencies in its operations to minimize future losses.	Partially Implemented. See Recommendation No. 5

INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities of the Colorado State Fair Authority (the Authority), a division of the State Department of Agriculture (the Department) of the State of Colorado, as of June 30, 2010 and 2009, which collectively comprise the Authority's basic financial statements 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, 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, 2010, and 2009, 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 business-type activities of the Authority as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2010 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 agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

Management's Discussion and Analysis on pages 15 through 20 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Wall, Smith, Bateman and Associates, Inc.

Wall, Smith, Bateman and Associates, Inc.
Certified Public Accountants

December 8, 2010

**COLORADO STATE FAIR AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2010 and 2009**

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, 2010, and should be read in conjunction with the Authority's financial statements, which begin on page 21. 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 Fairgrounds.

Statements of Net Assets

The Statements of Net Assets (see page 21) include the Authority's assets and liabilities and provides information pertaining to the nature of these assets and liabilities. The statement also provides the basis for determining the overall financial health of the Authority including liquidity and financial flexibility.

Statements of Revenues, Expenses, and Changes in Net Assets

The Statements of Revenue, Expenses and Changes in Net Assets (see page 22) include all revenues and expenses (both cash and non-cash). This statement measures the efficiency of the Authority's overall operation and can be used to determine if the Authority's operating revenue and contributions are adequate to cover expenses related to the operations of the fair.

Statements of Cash Flows

The Statements of Cash Flows (see page 23) present information concerning the Authority's cash receipts, cash payments, and net cash from operations, investing, and financing activities during the year.

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 25 through 36 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 \$12,404,602 at the close of the most recent fiscal year.

**COLORADO STATE FAIR AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2010 and 2009**

The following schedule provides a condensed statement of net assets as of June 30, 2010, 2009 and 2008.

	Schedule of Net Assets		
	June 30,		
	2010	2009	2008
Current assets	\$ 1,334,472	\$ 1,639,190	\$ 1,810,945
Other assets	-	-	21,089
Capital assets	12,133,679	11,304,759	11,053,129
Total assets	13,468,151	12,943,949	12,885,163
Current liabilities	939,175	705,472	1,977,279
Noncurrent liabilities	124,374	125,857	132,289
Total liabilities	1,063,549	831,329	2,109,568
Net assets			
Invested in capital assets, net of related debt	12,133,679	11,304,759	10,076,982
Restricted	-	-	195,262
Unrestricted (deficit)	270,923	807,861	503,351
Total net assets	\$ 12,404,602	\$ 12,112,620	\$ 10,775,595

2010

The largest portion of the Authority's net assets (97.8 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.

The remaining balance of unrestricted net assets is \$270,923.

At the end of the Fiscal Year 2010, the Authority reported positive balances in the investment in capital assets net of related debt and restricted net assets.

The Authority's net assets increased by \$291,982 during the current fiscal year.

2009

The largest portion of the Authority's net assets (93.3 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.

At the end of the Fiscal Year 2009, the Authority reported positive balances in the investment in capital assets net of related debt, restricted net assets, and unrestricted net assets.

The Remaining balance of restricted net assets is \$807,861.

At the end of the Fiscal Year 2009, the Authority reported positive balances in the investment in capital assets net of related debt and restricted net assets.

The Authority's net assets increased by \$1,337,025 during this fiscal year.

On February 27, 2009, the total principal and interest on the Authority's revenue bond was paid.

**COLORADO STATE FAIR AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2010 and 2009**

**Schedule of Changes in Fund Net Assets
Year ended June 30**

	<u>FY10</u>	<u>FY09</u>	<u>FY08</u>
Operating revenues			
Commercial space/concessions	\$ 1,260,409	\$ 1,270,127	\$ 1,273,236
Gate admissions	1,829,400	1,746,961	1,918,890
Box office sales	1,321,377	1,429,681	1,384,300
Private sponsorships	1,833,812	1,692,758	1,934,660
Exhibitor fees	521,924	552,627	578,923
Building rentals	530,965	537,948	577,317
Miscellaneous revenues	123,001	140,606	133,677
	<hr/>	<hr/>	<hr/>
Total operating revenues	7,420,888	7,370,708	7,801,003
Operating expenses			
Personnel service and benefits	2,303,819	2,223,118	2,162,379
Entertainment and attractions	1,207,558	1,305,785	1,435,327
Advertising and promotions	1,871,640	1,802,197	2,008,415
Prizes and awards	756,601	839,175	827,793
Depreciation	419,491	651,684	616,329
Other	2,997,560	3,360,905	3,104,077
	<hr/>	<hr/>	<hr/>
Total operating expenses	9,556,669	10,182,864	10,154,320
Operating loss	<hr/>	<hr/>	<hr/>
	(2,135,781)	(2,812,156)	(2,353,317)
Nonoperating revenues (expenses)			
Department of Agriculture contribution	-	544,661	-
Local government grants	445,859	599,693	385,153
Unclaimed property fund interest income	854,908	2,174,974	3,284,333
Private donations	-	-	974
Investment income (loss)	17,206	16,029	5,816
Interest expense	-	(76,493)	(103,162)
	<hr/>	<hr/>	<hr/>
Net nonoperating revenue	1,317,973	3,258,864	3,573,114
Increase in net assets before capital contributions	(817,808)	446,708	1,219,797
Capital contributions	1,109,790	890,317	704,018
	<hr/>	<hr/>	<hr/>
Change in net assets	<u>\$ 291,982</u>	<u>\$ 1,337,025</u>	<u>\$ 1,923,815</u>

**COLORADO STATE FAIR AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2010 and 2009**

For the Year Ended June 30, 2010, net assets increased by \$291,982. Key elements of this increase are as follows:

- State capital contributions of \$771,466 and a private donation of a Weatherport structure increased net assets by \$771,466 and \$338,324, respectively. Additionally, the Authority received \$854,908 of Unclaimed Property interest revenue. These three contributions helped accomplish the increase in net assets by \$291,982.
- Unclaimed Property interest revenue decreased from \$2,174,974 in Fiscal Year 2009 to \$854,908 in Fiscal Year 2010 due to the decreased appropriation of this funding in House Bill 06-1384. The funding was originally used to reduce debt, once the Authority paid off outstanding debt in Fiscal Year 2009, the State of Colorado determined that the Authority required less funding.
- Operating revenue increased by \$50,180 mainly due to increases in gate admissions and private sponsorships.
- Operating expenses decreased by \$626,195 with the largest savings in the areas of other operating expenses, \$363,345; entertainment and attractions, \$98,227; prizes and awards, \$82,574; and depreciation \$232,193.

For the Year Ended June 30, 2009, net assets increased by \$1,337,025. Key elements of this increase are as follows:

- State capital contributions increased net assets by \$890,317. Additionally, the Authority received \$2,174,974 of Unclaimed Property interest revenue. These two contributions helped accomplish the increase in net assets by \$1,337,025.
- Operating revenue decreased by \$430,295 mainly due to decreases in gate admissions and private sponsorships but also to a smaller degree, decreases in exhibitor fees and building rentals.
- Operating expenses increased by \$28,544 with the largest increases in the areas of contractual services, (\$291,417); other operating expenses, \$(93,983); personnel services and benefits, (\$60,739); utilities, (\$39,977); and prizes and awards, (\$11,382). These increases were offset by savings in the areas of advertising and promotions, \$206,218; entertainment and attractions, \$129,542; building, vehicle and equipment rentals, \$71,999; repairs and maintenance, \$64,418; supplies and materials, \$29,510; and travel, \$7,622. There was an increase in depreciation expense of (\$35,355) that makes up the balance of the overall expense increase.

For the Year Ended June 30, 2010, capital assets increased by \$1,248,411. Key Elements of this increase include a Weatherport structure with a carrying value of \$425,340, electrical and infrastructure updates in the amount of \$771,466, and \$52,000 of new furniture and equipment.

For the Year Ended June 30, 2009, capital assets increased by \$903,314. Key elements of this increase include electrical and infrastructure updates in the amount of \$890,316 and \$12,998 of new furniture and equipment.

**COLORADO STATE FAIR AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2010 and 2009**

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.

The approved original and final budget for the Authority's activities was cash spending authority appropriation of \$8,329,073. The budgetary amount includes the Colorado State Fair Program Line Item in the Long Bill. Total revenues including local government grants and interest were \$8,738,861 and total expenses on a budgetary basis were \$8,195,661, or \$881,524 below revenues.

Total operating expenses (GAAP basis)	\$	9,556,669
Less depreciation		(419,491)
Plus nonbudgeted item (decrease in compensated absences)		1,483
Plus capital outlay		476,945
Less in-kind match		(1,419,945)
		(1,419,945)
 Total expenses (budgetary basis)	 \$	 <u>8,195,661</u>

ECONOMIC OUTLOOK

On June 5, 2006, House Bill 1384 was passed by the State Legislature which provided valuable financial assistance to the Authority. The financial assistance was provided to the Authority for the purpose of funding to payoff the debt to the State Treasury in the amount estimated at \$2.1 million and to pay a loan on the construction of the Events Center in the amount of \$1.4 million. It also provided the Authority with \$550,000 per year for operations once the debts are paid off. In Fiscal Year 2007 the Authority reduced its debt to the Treasury by \$1,212,477. On April 29, 2008, House Bill 1399 was passed granting 25% of the interest from the Unclaimed Property Tourism Promotion Trust Fund to the Authority and 65% to the Department of Agriculture to take effect once the refunding revenue bonds were paid in full. The Authority has a positive cash balance with the Treasury at this point and has paid off the bonds in Fiscal Year 2009. The Authority has received 25% of the unclaimed property interest since February 2009. The Colorado Department of Agriculture has assessed the Authority for indirect expenses beginning in Fiscal Year 2009. The assessment for Fiscal Year 2010 was \$131,803 and for 2011 is \$143,055.

During Fiscal Year 2010, management of the Colorado State Fair, working in cooperation with Department of Agriculture administration, recognized the need to aggressively pursue cost saving strategies in connection with the economic downturn. Several strategies for the Non-Fair season were adopted and were successful however management recognized that there would be opportunity for significant cost reductions during the Fiscal Year 2011 Colorado State Fair. The focus of the strategy is to provide a high quality product appealing to a diverse audience at the lowest possible cost. Fairtime advertising and entertainment budgets reflect the biggest cost savings. Management is working to increase group sales and carnival sales by reaching out to more businesses and schools as well as offering new carnival promotions. Colorado State Fair management plans to sustain the current budget.

**COLORADO STATE FAIR AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2010 and 2009**

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 2010 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 Department of Agriculture Administrative Services, 700 Kipling Street, Suite 4000, Lakewood, Colorado 80215-8000.

COLORADO STATE FAIR AUTHORITY
STATEMENTS OF NET ASSETS
June 30, 2010 and 2009

	2010	2009
ASSETS		
Current Assets		
Unrestricted assets		
Cash and cash equivalents	\$ 1,177,842	\$ 1,346,705
Accounts receivable, net of allowance for doubtful accounts	18,176	45,376
Due from local governments	-	89,128
Inventory	29,424	36,062
Prepaid expenses	109,030	121,919
Total unrestricted assets	1,334,472	1,639,190
Total current assets	1,334,472	1,639,190
Noncurrent assets		
Capital assets, net of accumulated depreciation	12,133,679	11,304,759
Total noncurrent assets	12,133,679	11,304,759
TOTAL ASSETS	13,468,151	12,943,949
LIABILITIES		
Current liabilities		
Accounts payable	263,800	142,101
Accrued payroll	177,477	157,119
Deferred revenue	490,738	396,602
Other current liabilities	7,160	9,650
Total current liabilities	939,175	705,472
Noncurrent liabilities		
Accrued compensated absences	124,374	125,857
Total noncurrent liabilities	124,374	125,857
TOTAL LIABILITIES	1,063,549	831,329
NET ASSETS		
Invested in capital assets, net of related debt	12,133,679	11,304,759
Unrestricted	270,923	807,861
TOTAL NET ASSETS	\$ 12,404,602	\$ 12,112,620

The accompanying notes are an integral part of these statements.

COLORADO STATE FAIR AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Commercial space/concessions	\$ 1,260,409	\$ 1,270,127
Gate admissions	1,829,400	1,746,961
Box office sales	1,321,377	1,429,681
Private sponsorships	1,833,812	1,692,758
Exhibitor fees	521,924	552,627
Building rentals	530,965	537,948
Miscellaneous revenues	123,001	140,606
Total operating revenues	<u>7,420,888</u>	<u>7,370,708</u>
OPERATING EXPENSES		
Personal service and benefits	2,303,819	2,223,118
Entertainment and attractions	1,207,558	1,305,785
Advertising and promotions	1,871,640	1,802,197
Prizes and awards	756,601	839,175
Repairs and maintenance	238,543	212,601
Utilities	962,410	930,539
Supplies and materials	222,014	270,198
Contractual services	839,981	1,233,053
Other operating	501,016	478,668
Building, vehicle and equipment rental	198,267	187,132
Travel	35,329	48,714
Depreciation	419,491	651,684
Total operating expenses	<u>9,556,669</u>	<u>10,182,864</u>
Operating loss	<u>(2,135,781)</u>	<u>(2,812,156)</u>
NONOPERATING REVENUES (EXPENSES)		
Unclaimed property fund interest income	854,908	2,174,974
Department of Agriculture contribution	-	544,661
Local government grants	445,859	599,693
Investment income (loss)	17,206	16,029
Interest expense	-	(76,493)
Total nonoperating revenues (expenses)	<u>1,317,973</u>	<u>3,258,864</u>
Gain (loss) before state capital contributions	(817,808)	446,708
Capital contributions	<u>1,109,790</u>	<u>890,317</u>
Change in net assets	291,982	1,337,025
Net assets, beginning of year	<u>12,112,620</u>	<u>10,775,595</u>
Net assets, end of year	<u>\$ 12,404,602</u>	<u>\$ 12,112,620</u>

The accompanying notes are an integral part of these statements.

COLORADO STATE FAIR AUTHORITY
STATEMENTS OF CASH FLOWS
June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from fees for services	\$ 6,888,257	\$ 6,407,607
Cash received from rental of property	530,965	537,948
Cash received from other sources	123,001	140,606
Cash paid to employees	(2,284,943)	(2,248,014)
Cash paid to suppliers	(5,900,202)	(6,379,835)
Cash paid to others	(794,421)	(865,900)
	(1,437,343)	(2,407,588)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Local government grants	534,987	510,565
State revenue	854,908	2,719,635
	1,389,895	3,230,200
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
(Increase) decrease in restricted assets	-	195,262
Capital contributions	771,466	890,317
Debt service - principal payments	-	(976,147)
Interest payments	-	(82,541)
Purchase of property and equipment	(910,087)	(903,314)
	(138,621)	(876,423)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividend income	17,206	16,029
	17,206	16,029
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(168,863)	(37,782)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,346,705	1,384,487
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,177,842	\$ 1,346,705

The accompanying notes are an integral part of these statements.

COLORADO STATE FAIR AUTHORITY
STATEMENTS OF CASH FLOWS
June 30, 2010 and 2009

	2010	2009
OPERATING LOSS	\$ (2,135,781)	\$ (2,812,156)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	419,491	651,684
Amortization of bonds	-	21,089
(Increase) decrease in accounts receivable	27,200	(24,581)
(Increase) decrease in inventory	6,638	3,910
(Increase) decrease in prepaid expenses	12,889	48,510
Increase (decrease) in accounts payable	121,699	(12,082)
Increase (decrease) in compensated absences	(1,483)	(6,432)
Increase (decrease) in accrued payroll	20,358	(18,464)
Increase (decrease) in other payables	(2,490)	900
Increase (decrease) in deferred revenue	94,136	(259,966)
Total adjustments	698,438	404,568
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ (1,437,343)	 \$ (2,407,588)
 NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment added through contributed capital	\$ 1,109,790	\$ 890,317
Inkind contributions	\$ 1,419,945	\$ 1,240,875

The accompanying notes are an integral part of these statements.

**COLORADO STATE FAIR AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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, 2010 and 2009, and 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 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.

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 the 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.

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.

COLORADO STATE FAIR AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009

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.

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 2010, the Authority's original and final budget as approved by the General Assembly was \$8,329,073. The Authority allocated the final budget to cover operating expenses, excluding depreciation and change in leave accrual. For Fiscal Year 2009, the Authority's original and final operating budget as approved by the General Assembly was \$9,009,242. The Authority allocated the final budget to cover operating expenses, excluding depreciation and change in leave accrual.

The Authority also adopts an internal budget for its enterprise fund for management purposes. For Fiscal Year Ended June 30, 2010, the internal budget showed total budgeted operating revenues of \$7,275,000. Total actual operating revenues were \$7,420,888 and total revenue including operating revenues, unclaimed property fund interest income, local government grants, private donations and interest were \$8,738,861. Total allocated budgeted operating expenses were \$7,796,287 while total actual operating expenses were \$8,195,661 on a budgetary basis.

For Fiscal Year Ended June 30, 2009, the internal budget showed total budgeted operating revenues of \$10,703,531. Total actual operating revenues were \$7,370,708 and total revenue including operating revenues, unclaimed property fund interest income, local government grants, private donations and interest were \$10,706,065. Total allocated budgeted operating expenses were \$8,530,620 while total actual operating expenses were \$8,386,227, on a budgetary basis.

	<u>2010</u>	<u>2009</u>
Total operating expenses (GAAP basis)	\$ 9,556,669	\$ 10,182,864
Plus interest expense	-	76,493
Less depreciation	(419,491)	(651,684)
Plus nonbudgeted item (compensated absences)	1,483	6,432
Less in-kind match	(1,419,945)	(1,240,875)
Plus capital outlay	<u>476,945</u>	<u>12,997</u>
 Total expenses (budgetary basis)	 <u>\$ 8,195,661</u>	 <u>\$ 8,386,227</u>

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.

**COLORADO STATE FAIR AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009**

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.

Capital Assets

Capital assets include property, plant and equipment. Capital assets are defined by the Authority as equipment with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year as well as computer equipment and buildings and land improvements with an initial cost of more than \$50,000. 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 are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Estimated Lives</u>
Buildings (transferred from state)	20 Years
Buildings (constructed)	40 Years
Land improvements (streets, sidewalks, and water drainage systems)	50 Years
Land improvements (other)	16-20 Years
Furniture and equipment	3-10 Years

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.

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. These compensated absences are recorded as a liability.

COLORADO STATE FAIR AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009

In-kind Revenues and Expenses

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. In-kind revenues and expenses of \$1,419,945 are included in the operating revenues and expenses of the Authority and are made up of advertising and other costs to operate the annual state fair in August and September.

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 2 CASH DEPOSITS

Cash

The Authority deposits its cash with the Colorado State Treasurer as required by Colorado Revised Statutes (C.R.S.). The State Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2010, the Authority had cash on deposit with the State Treasurer of \$999,050, which represented approximately 0.0167 percent of the total \$5,977.9 million fair value of deposits in the State Treasurer's Pool (Pool).

For financial reporting purposes all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year end. On the basis of the Authority's participation in the Pool, the Authority reports as an increase or decrease in cash for its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

Investments in the Treasurer's Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the state's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the state's name. As of June 30, 2010, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2010, approximately 88.1 percent of investments of the Treasurer's Pool are subject to credit quality risk reporting. Except for \$25,573,200 of corporate bonds rated lower medium and \$14,533,750 of corporate bonds rated as speculative, and \$14,218,750 of corporate bonds

**COLORADO STATE FAIR AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009**

rated as very speculative, these investments are rated from upper medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the State Treasurer’s investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2010, the weighted average maturity of investments in the Treasurer’s Pool is 0.04 years for Commercial Paper (3.7 percent of the Pool), .01 years for Money Market Funds (3.2 percent of the Pool), 1.3 years for U.S. Government Securities (73.8 percent of the Pool), 1.36 years for Asset Backed Securities (12.6 percent of the Pool), and 2.05 years for Corporate Bonds (6.7 percent of the Pool).

The Treasurer’s Pool was not subject to foreign currency risk or concentration of credit risk in Fiscal Year 2009-10.

Additional information on investments of the State Treasurer’s Pool may be obtained in the state’s Comprehensive Annual Financial Report for the year ended June 30, 2010.

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 (PDPA) 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 the federal insurance.

As of June 30, 2010 the Authority’s deposits are as follows:

	Bank Balance	Carrying Balance
Cash on hand	\$ -	\$ 3,740
Deposits covered by depository insurance - Federal Insurance	194,905	175,052
Total Cash	\$ 194,905	\$ 178,792

COLORADO STATE FAIR AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009

As of June 30, 2009, the Authority had \$1,174,766 on deposit with the State Treasurer. As of June 30, 2009, the Authority's deposits are as follows:

	Bank Balance	Carrying Balance
Cash on hand	\$ -	\$ 2,100
Deposits covered by depository insurance - Federal Insurance	122,633	169,839
 Total Cash	 \$ 122,633	 \$ 171,939

NOTE 3 CAPITAL ASSETS

At June 30, 2010, capital assets consisted of the following:

	Balance 06/30/09	Additions	Deletions	Balance 06/30/10
Capital assets not being depreciated				
Land	\$ 594,458	\$ -	\$ -	\$ 594,458
Construction in progress	1,041,285	771,466	1,812,751	-
Total capital assets not being depreciated	1,635,743	771,466	1,812,751	594,458
Capital assets being depreciated				
Buildings	12,049,278	425,340	-	12,474,618
Land improvements	8,796,649	1,812,356	-	10,609,005
Furniture and equipment	2,155,810	52,000	-	2,207,810
Total capital assets being depreciated	23,001,737	2,289,696	-	25,291,433
Less accumulated depreciation for:				
Buildings	(8,397,180)	(158,364)	-	(8,555,544)
Land improvements	(2,900,989)	(234,984)	-	(3,135,973)
Furniture and equipment	(2,034,552)	(26,143)	-	(2,060,695)
Total accumulated depreciation	(13,332,721)	(419,491)	-	(13,752,212)
Total capital assets being depreciated, net	9,669,016	1,870,205	-	11,539,221
Capital assets, net	\$ 11,304,759	\$ 2,641,671	\$ 1,812,751	\$ 12,133,679

Construction in progress additions during fiscal year 2010 consisted of electrical and infrastructure improvements.

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At June 30, 2009, capital assets consisted of the following:

	Balance 06/30/08	Additions	Deletions	Balance 06/30/09
Capital assets not being depreciated				
Land	\$ 594,458	\$ -	\$ -	\$ 594,458
Construction in progress	198,760	890,316	47,791	1,041,285
Total capital assets not being depreciated	<u>793,218</u>	<u>890,316</u>	<u>47,791</u>	<u>1,635,743</u>
Capital assets being depreciated				
Buildings	12,049,278	-	-	12,049,278
Land improvements	8,748,858	47,791	-	8,796,649
Furniture and equipment	2,159,197	12,998	16,385	2,155,810
Total capital assets being depreciated	<u>22,957,333</u>	<u>60,789</u>	<u>16,385</u>	<u>23,001,737</u>
Less accumulated depreciation for:				
Buildings	(8,098,105)	(299,075)	-	(8,397,180)
Land improvements	(2,583,227)	(317,762)	-	(2,900,989)
Furniture and equipment	(2,016,090)	(34,847)	(16,385)	(2,034,552)
Total accumulated depreciation	<u>(12,697,422)</u>	<u>(651,684)</u>	<u>(16,385)</u>	<u>(13,332,721)</u>
Total capital assets being depreciated, net	<u>10,259,911</u>	<u>(590,895)</u>	<u>-</u>	<u>9,669,016</u>
Capital assets, net	<u>\$ 11,053,129</u>	<u>\$ 299,421</u>	<u>\$ 47,791</u>	<u>\$ 11,304,759</u>

Depreciation expense for the years ended June 30, 2010 and 2009, was \$419,491 and \$651,684, respectively.

NOTE 4 PENSION PLAN OBLIGATIONS

A. PLAN DESCRIPTION

Most of the Authority's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require an actuarial assessment and legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

New employees are allowed 60 days to elect to participate in PERA's defined contribution plan. If that election is not made, the employee is automatically enrolled in the plan to which he or she last contributed or, if there was no prior participation, to the defined benefit plan. PERA members electing the PERA

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defined contribution plan are allowed an irrevocable election between the second and fifth year of membership to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to rules in effect for those hired on or after January 1, 2007, as discussed below. The employer contribution to the defined contribution plan is the same amount as the contribution to the PERA defined benefit plan.

Defined benefit plan members vest after five years of service and are eligible for full retirement based on their original hire date as follows:

- Hired before July 1, 2005 - age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005, and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2007 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service.

Members are also eligible for retirement benefits without a reduction for early retirement based on their original hire date as follows:

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.

Most members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5 percent times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as 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 and limited to a 15 percent increase between periods.

For retirements after January 1, 2009, the HAS is calculated based on original hire date as follows:

- Hired before January 1, 2007 – HAS is calculated based on three periods of service credit and is limited to a 15 percent increase between periods; the lowest salary of four periods is used as a base for determining the maximum allowable 15 percent increase.
- Hired on or after January 1, 2007 – HAS is calculated based on three periods of service credit and is limited to an 8 percent increase between periods; the lowest salary of four periods is used as a base for determining the maximum allowable 8 percent increase.

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Prior to January 1, 2010, retiree benefits were increased annually based on their original hire date as follows:

- Hired before July 1, 2005 – 3.5 percent, compounded annually.
- Hired between July 1, 2005, and December 31, 2006 – the lesser of 3 percent or the actual increase in the national Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI).
- Hired on or after January 1, 2007 – the lesser of 3 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)

In the 2010 legislative session, the general assembly set the current increase as the lesser of 2 percent or the average of the monthly CPI amounts for calendar year 2009. The 2009 CPI was negative resulting in a calendar year 2010 increase of 0 percent. The 2010 legislation moved the payment date of all increases to July. New rules governing the annual increase amount will be in effect beginning January 1, 2011.

Members who are 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 eligible children under the age of 18 (23 if a full time student) or their spouse may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse then financially dependent parents, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

B. FUNDING POLICY

The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly. Salary subject to PERA contribution is 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.

Most employees contribute 8.0 percent of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2009, to December 31, 2009, the state contributed 12.95 percent of the employee's salary. From January 1, 2010, through June 30, 2010, the state contributed 13.85 percent. During all of Fiscal Year 2009-10, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2009, the division of PERA in which the state participates was underfunded with an amortization period of 43 years.

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay

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an additional .5 percent of salary beginning January 1, 2006, another .5 percent of salary in 2007, and subsequent year increases of .4 percent of salary until the additional payment reaches 3.0 percent in 2012.

In the 2006 legislative session, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one-half percentage point through 2013 resulting in a cumulative increase of three percentage points. For state employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries, and used by the employer to pay the SAED.

In the 2010 legislative session, the general assembly extended both the AED and SAED. The AED will continue to increase at a rate of .4 percent of salary from calendar years 2013 through 2017. The SAED will continue to increase by one-half percentage point from calendar years 2014 through 2017. If the funding ratio reaches 103%, both the AED and the SAED will be reduced by one-half percentage point. Neither the AED nor the SAED may exceed 5 percent.

Historically members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required, that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

The Authority's contributions to PERA and/or the state defined contribution plan for the fiscal years ending June 30, 2010, 2009, and 2008 were \$233,366, \$219,555, and \$272,320, respectively. These contributions met the contribution requirement for each year.

NOTE 5 VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

Defined Contribution Plan

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees have the option of participating in the plan. On July 1, 2009, administration of the state's defined contribution plan was transferred to PERA and participants of the state's plan became participants of the PERA defined contribution plan. Existing state plan members at the time of the transfer became participants in the PERA defined contribution plan and retained their vesting schedule for employer contributions, while employer contributions for new members will vest from 50 percent to 100 percent evenly over 5 years. Participants in the plan are required to contribute 8 percent of their salary. At December 31, 2009, the plan had 3,039 participants.

Deferred Compensation Plan

The Colorado PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the state's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the state's administrative functions were transferred to PERA, and all costs of administration and funding are borne by the plan participants. In calendar year 2009, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of \$16,500. Participants who are age 50 and older may contribute an additional \$5,500 for total contributions of \$22,000 in 2009. At December 31, 2009, the plan had 18,007 participants.

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PERA also offers a voluntary 401k plan entirely separate from the defined benefit pension plan. Certain agencies and institutions of the state offer 403(b) or 401(a) plans.

NOTE 6 POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Plan

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; the program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare and \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5 percent for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in Note 4. Beginning July 1, 2004, state agencies are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The Authority contributed \$13,508, \$14,691, and \$17,297 as required by statute in Fiscal Years 2009-10, 2008-09, and 2007-08, respectively. In each year the amount contributed was 100 percent of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. In addition, two of PERA's insurance carriers offered high deductible health care plans in 2009. As of December 31, 2009, there were 46,985 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2009, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.50 billion, a funded ratio of 14.8 percent, and a 53-year amortization period.

NOTE 7 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.

COLORADO STATE FAIR AUTHORITY
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NOTE 8 TABOR (TAXPAYERS BILL OF RIGHTS)

The Authority received more than 10% of its total revenue from the State during the fiscal years ending June 30, 2010 and 2009. As a result, in fiscal years ended 2010 and 2009 the Authority was included in the State Tabor District.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Litigation – The Authority is currently the defendant in several lawsuits arising principally in the normal course of operations. In the opinion of legal counsel, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements; accordingly, no provision for losses has been recorded.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS 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 business-type activities of the Colorado State Fair Authority (the Authority), as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated December 8, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Findings and Recommendations section, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, and one deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Auditors' Findings and Recommendations section of this report as Recommendation Numbers 2 and 4 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Findings and Recommendations section of this report as Recommendation Number 3 to be a significant deficiency.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's responses to the findings identified in our audit are described in the accompanying Findings and Recommendations section. We did not audit the Authority's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Colorado State Fair Authority Board of Commissioners, others within the entity, members of the Legislative Audit Committee, and the Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties. However, its distribution is not limited.

Wall, Smith, Bateman and Associates, Inc.

WALL, SMITH, BATEMAN AND ASSOCIATES, INC.
Certified Public Accountants

December 8, 2010

December 8, 2010

To the Members of the Legislative Audit Committee
Colorado State Fair Authority

We have audited the financial statements of the business-type activities of the Colorado State Fair Authority (the Authority) for the years ended June 30, 2010 and 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our contract number 2010-43 between our firm and the Office of the State Auditor and during our meeting regarding planning matters dated May 17, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010 or 2009. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Authority's financial statements was:

Management's estimate of the depreciation of capital assets is based on estimated useful lives of the assets. We evaluated the key factors and assumptions used to develop the estimated useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

Staff turnover in the accounting department caused significant difficulties and delays in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements. An audit adjustment was recorded to reclassify nonoperating income recorded as operating income in the amount of \$338,324.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 8, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Legislative Audit Committee and management of the Colorado State Fair 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,

Wall, Smith, Bateman and Associates, Inc.

WALL, SMITH, BATEMAN AND ASSOCIATES, INC.
Certified Public Accountants

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of the State Auditor
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Report Control Number 2087-10