# COLORADO STATE FAIR AUTHORITY

## FINANCIAL AND COMPLIANCE AUDIT
## Fiscal Years Ended June 30, 2016 and 2015

Wall,
Smith,
Bateman Inc.
Certified Public Accountants

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# COLORADO STATE FAIR AUTHORITY
## FINANCIAL AND COMPLIANCE AUDIT
## REPORT SUMMARY
## FISCAL YEARS ENDED JUNE 30, 2016 and 2015

### 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 Fiscal Year 2016 audit was conducted under contract with Wall, Smith, Bateman Inc. The audit was conducted in accordance with audit 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. Audit work was performed during the time period of June through November, 2016.

The purposes and scope of the audit were to:

- § Perform a financial and compliance audit of the Colorado State Fair Authority for the year ended June 30, 2016 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 the Authority's progress in implementing prior audit recommendations.

### Audit Results

Wall, Smith, Bateman Inc. expressed an unmodified opinion on the financial statements for the years ended June 30, 2016 and 2015. Our report, dated December 28, 2016, on the Colorado State Fair Authority's June 30, 2016 financial statements includes an emphasis-of-matter paragraph that describes a going concern uncertainty. The Authority incurred a loss before capital contributions of ($1,053,561) and change in net position of $35,026 for the year ended June 30, 2016. Also, as of that date, the Authority's current liabilities exceeded its current assets by $1,816,845 and it had a deficit unrestricted net position of ($8,452,885).

We issued a report on the Colorado State Fair Authority's internal control over financial reporting and compliance and 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.

**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 two current year findings and recommendations:

- § The Colorado State Fair Authority should utilize the results of the Financial Stability Study conducted pursuant to HB 16-1237, to develop a comprehensive plan for long-term financial stability. This should include establishing realistic five-year projections that demonstrate financial stability and include the consideration of strategies, pricing policies, and efficiencies in operations to eliminate future losses. This may also include continuing to work with the Colorado Department of Agriculture and the Joint Budget Committee to obtain additional appropriations in the State Long Bill to ensure continued operations. These five-year projections should be provided to the Legislative Audit Committee.

- § The Colorado State Fair Authority should work with the Department of Agriculture to implement monthly reconciliation procedures for full-time certified staff payroll initiated by the Department on behalf of the Authority to ensure amounts posted to the general ledger are correctly stated.

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

**Summary of Progress in Implementing Prior Audit Findings**

The implementation status of the recommendations included in the Fiscal Year 2015 audit report are discussed in the Disposition of Prior Audit Recommendations.

| RECOMMENDATION LOCATOR<br>All recommendations are addressed to the Colorado State Fair Authority Fiscal Year 2016 | | | | |
|---|---|---|---|---|
| **Rec. No.** | **Page No.** | **Recommendation Summary** | **Agency Response** | **Implementation Date** |
| 1 | 7 | The Colorado State Fair Authority should utilize the results of the Financial Stability Study conducted pursuant to HB 16-1237, to develop a comprehensive plan for long-term financial stability. This should include establishing realistic five-year projections that demonstrate financial stability and include the consideration of strategies, pricing policies, and efficiencies in operations to eliminate future losses. This may also include continuing to work with the Colorado Department of Agriculture and the Joint Budget Committee to obtain additional appropriati ons in the State Long Bill to ensure continued operations. These five-year projections should be provided to the Legislative Audit Committee. | Agree | November 1, 2016 |
| 2 | 8 | The Colorado State Fair Authority should work with the Department of Agriculture to implement monthly reconciliation procedures for full-time certified staff payroll initiated by the Department on behalf of the Authority to ensure amounts posted to the general ledger are correctly stated. | Agree | August 2016 |

# COLORADO STATE FAIR AUTHORITY
## BACKGROUND
### June 30, 2016 and 2015

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 2016, the Authority was appropriated 26.9 full-time staff to run its year-round operations. In the summer, the Authority adds about 500 temporary staff to run the annual State Fair.

The Fiscal Year 2016 Fair was held during August/September 2015 with an attendance of 500,207. Approximately 80% of governance, administration and facilities management expenditures for July, August and September are allocated to Fair-time activity. The results from the 2016 State Fair which was held during August and September 2016 will be included in the financial statements for the year ended June 30, 2017.

**FISCAL YEAR 2016 FINANCIAL HIGHLIGHTS**

The following presents a summarized statement of revenues, expenses and changes in fund net position of the Authority broken down between Fair-time and Off-season periods. There were two Fair-time events and 420 year round events. The breakdown between Fair-time and year round periods is provided by the Colorado State Fair Authority and has not been audited.

| | Year ended June 30, 2016 Fair-time | Year ended June 30, 2016 Off-season | Year ended June 30, 2016 Total | Year ended June 30, 2015 Total |
|---|---|---|---|---|
| Operating revenues | $ 6,242,904 | $ 1,044,265 | $ 7,287,169 | $ 7,164,708 |
| Operating expenses (excluding depreciation) | 6,451,591 | 3,622,832 | 10,074,423 | 10,031,006 |
| Operating income (loss) before depreciation | $ (208,687) | $ (2,578,567) | (2,787,254) | (2,866,298) |
| Depreciation | | | (750,776) | (824,682) |
| Operating loss | | | (3,538,030) | (3,690,980) |
| Nonoperating revenues (net) | | | 2,484,469 | 2,380,716 |
| Gain (loss) before state capital contributions | | | (1,053,561) | (1,310,264) |
| Capital contributions | | | 1,088,587 | 679,326 |
| Change in net position | | | $ 35,026 | $ (630,938) |

# COLORADO STATE FAIR AUTHORITY
## AUDITORS' FINDINGS AND RECOMMENDATIONS
### Fiscal year Ended June 30, 2016

**CONTINUED DECLINE IN FINANCIAL CONDITION**

The Colorado State Fair Authority was created as a division within the Colorado Department of Agriculture under HB 97-1342. The Authority has continued to experience declining financial position in prior fiscal years despite the funding provided by HB 08-1399, which provides the Authority with 25% of the interest on the Unclaimed Property Tourism Promotion Trust Fund to offset operating losses. HB 08-1399 took effect in February 2009, and since that time the Authority has received interest from the Unclaimed Property Tourism Promotion Trust Fund as follows:

| Fiscal Year Ended | Interest Received |
|---|---|
| 2016 | $ 1,128,648 |
| 2015 | 1,121,842 |
| 2014 | 1,067,034 |
| 2013 | 1,025,794 |
| 2012 | 941,994 |
| 2011 | 877,185 |
| 2010 | 854,908 |
| 2009 | 322,733 |

**What was the purpose of the audit work?**

The purpose of the audit work was to follow up on our June 30, 2015 finding and recommendation related to the continued significant operating losses and negative unrestricted net position of the Authority. At that time, we recommended the Authority develop realistic five-year projections that demonstrate financial stability and consider strategies, pricing policies, efficiencies in operations, and utilize the result of the Financial Stability Study to minimize future losses and work with the Colorado Department of Agriculture and the Joint Budget Committee to obtain additional appropriations in the State Long Bill to ensure continued operations. We also recommended that the five-year projection be provided to the Legislative Audit Committee.

**What audit work was performed and how were results measured?**

We analyzed the operating results of the Authority in Fiscal Year 2016 as well as a ten-year historical trend of those results as follows:

| For Fiscal Year Ended June 30, | Operating Loss Including Depreciation and Amortization | Operating Loss Excluding Depreciation and Amortization | Total State Contributions | Local Contributions | Operating Loss After Cash Contributions | Increase (Decrease) in Net Position |
|---|---|---|---|---|---|---|
| 2016 | $ (3,538,030) | $ (2,787,254) | $ 2,228,648 | $ 300,000 | $ (1,009,382) | $ 35,026 |
| 2015 | (3,690,980) | (2,866,298) | 2,171,842 | 255,792 | (1,263,346) | (630,938) |
| 2014 | (3,299,584) | (2,558,548) | 1,587,347 | 407,631 | (1,304,606) | (928,056) |
| 2013 | (2,784,469) | (2,069,560) | 1,532,074 | 474,590 | (777,805) | (543,524) |
| 2012 | (2,392,982) | (1,856,744) | 1,400,896 | 590,878 | (401,208) | (72,797) |
| 2011 | (2,295,016) | (1,768,642) | 884,332 | 440,000 | (970,684) | (379,070) |
| 2010 | (2,135,781) | (1,716,290) | 854,908 | 445,859 | (835,014) | 291,982 |
| 2009 | (2,812,156) | (2,160,472) | 3,609,952 | 599,693 | 1,397,489 | 1,337,025 |
| 2008 | (2,353,317) | (1,736,988) | 3,988,351 | 385,153 | 2,020,187 | 1,923,815 |
| 2007 | (2,417,273) | (1,825,645) | 4,320,175 | 270,132 | 2,173,034 | 2,018,338 |
| 2006 | (1,748,741) | (1,167,995) | 812,924 | 347,997 | (587,820) | (746,056) |

**What problem did the audit work identify?**

The Authority has continued to experience significant operating losses before state or local contributions every year for at least the last 10 years. As displayed in the table above, the Authority experienced an operating loss of $3.5 million for Fiscal Year 2016, which was $153,000 less than the operating loss of $3.7 million for Fiscal Year 2015. The Authority's unrestricted net position decreased from a negative $8.1 million as of June 30, 2015 to a negative $8.4 million as of June 30, 2016. Although the Authority received in excess of $2.5 million in State and local operating contributions, the contributions were not adequate to offset the Authority's accumulated operating loss. This resulted in the Authority increasing the loan with the Colorado State Treasury from $1.2 million at June 30, 2015 to $1.4 million at June 30, 2016, and therefore continuing to operate with a cash deficit and incurring interest expense of approximately 1% on the Treasury loan. In addition, the current liabilities exceeded the current assets by approximately $1.8 million at June 30, 2016.

The Authority was able to increase operating revenue by $122,000 in Fiscal Year 2016 and experienced an increase in net position of $35,000. In addition, the Authority secured funding of $1.1 million as follows:

- The Department of Agriculture contributed $500,000 for operations.

- The State General Fund contributed $300,000 of Proposition BB, marijuana tax revenue collected by the State, and provided State Long Bill appropriations of $250,000 for 4-H and FFA costs and $50,000 for a financial stability study.

In addition, the Authority, along with the Department of Agriculture, pursued additional funding from the General Assembly during the FY 2016 legislative session. As a result, HB 16-1237, a supplemental appropriation to the Department of Agriculture, included $50,000 for a Financial Stability Study of the Authority, with the intent of the General Assembly to provide a comprehensive plan for long-term financial stability.

The results of the Financial Stability Study were received March 1, 2016, and included recommendations for the Authority to establish clearly defined mission, goals, and strategies; analyze historic and recent staffing structures and strategies; and evaluate the resources available to staff to implement necessary strategies to achieve the goals and mission.

The Authority has agreed with the previously mentioned recommendation and made changes in operations and secured additional funding; however, the negative net position continues and they have not utilized the results of the Financial Stability Study at June 30, 2016.

**Why did the problem occur?**

Despite the implementation of strategies to enhance revenues and control expenses, including the implementation of the cashless fair and changes to the ticketing system, operating losses continue. In addition, the State and local contributions have not been adequate to offset the continued operating losses of the Authority. For example, change in net position increased from negative $630,000 in Fiscal Year 2015 to positive $35,000 in Fiscal Year 2016, after operating transfers totaling $1,100,000 from the State General Fund and the Department of Agriculture; however, this was not enough to recover from accumulated losses from prior years.

Due to turnover in the General Manager position, and the receipt of the report late in the fiscal year, the Authority continued to evaluate the recommendations from the Study to establish long range goals and was unable to utilize those results during Fiscal Year 2016.

**Why does this problem matter?**

The Authority's working capital shortfalls are growing each year, which jeopardizes the continuing operations. The Authority may have to obtain additional financing and continue to incur interest expense to operate in Fiscal Year 2017. The unrestricted net position at June 30, 2016 is negative and unable to absorb future losses; therefore the accompanying financial statements have been prepared assuming doubt that the Authority will continue as a going concern.

(Classification of Finding: Other Matter)

**Recommendation No. 1:**

The Colorado State Fair Authority should utilize the results of the Financial Stability Study conducted pursuant to HB 16-1237, to develop a comprehensive plan for long-term financial stability. This should include establishing realistic five-year projections that demonstrate financial stability and include the consideration of strategies, pricing policies, and efficiencies in operations to eliminate future losses. This may also include continuing to work with the Colorado Department of Agriculture and the Joint Budget Committee to obtain additional appropriations in the State Long Bill to ensure continued operations. These five-year projections should be provided to the Legislative Audit Committee.

**Colorado State Fair Authority's Response:**

Agree. Implementation Date: Immediate and ongoing.

The Colorado State Fair Authority submitted a Strategic Business Plan to the Joint Budget Committee and the Governor's Office of State Planning and Budgeting on November 1, 2016. The Authority will continue to work with the Colorado Department of Agriculture and the Joint Budget Committee yearly to obtain additional appropriations in the State Long Bill. The Authority will review and update the five-year projections yearly. The five-year projection will be submitted to the Legislative Audit Committee in January 2017.

**PERSONAL SERVICE AND BENEFITS EXPENSE MONITORING**

The Authority's payroll transactions are processed by the Colorado Personnel Payroll System (CPPS) and posted to the State's accounting system, Colorado Operations and Resource Engine (CORE).

**What was the purpose of the audit work?**

The purpose of the audit work was to follow up on our Fiscal Year 2015 finding and recommendation related to payroll expense monitoring. At that time, we recommended that the Authority obtain training on the CORE accounting system and CPPS reports and implement monthly reconciliation procedures for payroll processed by CPPS on behalf of the Authority to ensure amounts posted to the general ledger are correctly stated.

**What audit work was performed and how were results measured?**

We evaluated the Authority's internal controls over the payroll transaction cycle. We performed analytical procedures comparing the Fiscal Year 2016 payroll expense, accrued expense balances, number of personnel, and average payroll cost per employee with the prior year.

**What problem did the audit work identify?**

We determined that the Authority partially implemented our Fiscal Year 2015 recommendation by completing training on the InfoAdvantage reporting module of the CORE accounting system during Fiscal Year 2016, and using this module to generate employee specific data reports to reconcile temporary part-time staff payroll initiated by the Authority through the Kronos timekeeping system to proper recording in the CPPS system and finally the general ledger of the Authority for each payroll processed.

However, the Authority did not perform this reconciliation process for the full-time certified staff payroll initiated by the Department of Agriculture throughout the year, which represents approximately two-thirds of the Authority's payroll expense. The Authority continued to rely on the Department of Agriculture's monthly payroll reconciliation procedures throughout Fiscal Year 2016, without obtaining evidence of each reconciliation to monitor the accuracy of payroll expenses recorded in the Authority's general ledger.

**Why did the problem occur?**

The Department of Agriculture and the Authority experienced turnover and vacant positions in the respective accounting offices during Fiscal Year 2016. Therefore, the Authority did not obtain reconciliation information from the Department and did not have the capacity to monitor the accuracy of full-time certified staff payroll expense in a timely manner throughout the year.

**Why does this problem matter?**

Without appropriate internal controls in place over payroll, including reconciliation processes and monitoring procedures, the Authority cannot ensure that it has accurately recorded personal service and benefit expenses for its employees and that employees are paid appropriately.

(Classification of Finding: Significant Deficiency)

**Recommendation No. 2:**

The Colorado State Fair Authority should work with the Department of Agriculture to create and implement processes to obtain evidence of the Department's monthly reconciliation. The Authority should also create and implement processes to monitor and reconcile amounts posted to the general ledger for full-time certified staff payroll initiated by the Department on behalf of the Authority to ensure accuracy, on a monthly basis. These processes should be documented and staff should be cross-trained to ensure the processes continue when turnover occurs.

**Colorado State Fair Authority's Response:**

Agree. Implementation Date: Immediately

In August 2016, the Authority generated monthly labor reports for Fiscal Year 2016 from the InfoAdvantage module for the monthly classified staff. Each month the employees were reviewed to verify the classifieds that were charged to the Authority were the Authority's classified staff. The reports were used to reconcile that what was processed actually posted to the Authority's general ledger.

For Fiscal Year 2017, the Authority is currently using the InfoAdvantage reporting module to generate a monthly labor report that includes temporary part time and classified staff. This report is used to reconcile what was processed by the Authority through the Kronos timekeeping system to proper recording in the CPPS system and finally the general ledger of the Authority for each month. The Department of Agriculture also does a monthly payroll reconciliation to verify what was processed by the Department of Agriculture has balanced through all payroll interfaces to the general ledger for the entire department. The Department of Agriculture is forwarding each months reconciliation to the Authority for review.

## Disposition of Prior Audit Recommendations

Listed below is the recommendation from the Fiscal Year 2015 Colorado State Fair Authority Financial and Compliance audit.

| Recommendation | Disposition |
|---|---|
| 1. The Colorado State Fair Authority should develop realistic five-year projections that demonstrate financial stability and include the consideration of strategies, pricing policies, efficiencies in operations, and utilize the results of the Financial Stability Study to eliminate future losses. This could also include working with the Colorado Department of Agriculture and the Joint Budget Committee to obtain additional appropriations in the State Long Bill to ensure continued operations. These five-year projections should be provided to the Legislative Audit Committee. | Not Implemented. See Recommendation No. 1 |
| 2. The Colorado State Fair Authority should obtain training on the CORE accounting system and CPPS reports and implement monthly reconciliation procedures for payroll processed by CPPS on behalf of the Authority to ensure amounts posted to the general ledger are correctly stated. | Partially Implemented. See Recommendation No. 2 |

# INDEPENDENT AUDITORS' REPORT

Wall,
Smith,
Bateman Inc.

Members of the Legislative Audit Committee:

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Colorado State Fair Authority (the Authority), a division of the Department of Agriculture (the Department) of the State of Colorado, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

*Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of June 30, 2016 and 2015, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Emphasis of Matter Regarding Going Concern*

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 2 to the financial statements, as of June 30, 2016 the Authority's current liabilities exceeded its current assets by $1,816,845 and it had a deficit unrestricted net position of $8,452,885. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding this matter also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

*Emphasis of Matter Regarding Relationship to State of Colorado*

As discussed in Note 1, the financial statements of the Colorado State Fair Authority are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Change in Accounting Principle*

As discussed in Note 1 - Summary of Significant Accounting Policies, in fiscal year 2016 the Authority adopted new accounting guidance, *GASB Statement No. 72, Fair Value Measurement and Application*, and in fiscal year 2015 the Authority adopted *GASB Statement No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27,* and *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date.* Our opinion is not modified with respect to this matter.

*Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the Authority's proportionate share of the net pension liability, and schedule of the Authority's contributions on pages 12–17 and 40-41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by** *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2016, 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 grant 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Wall, Smith, Bateman Inc.

Wall, Smith, Bateman Inc.
Alamosa, Colorado

December 28, 2016

## COLORADO STATE FAIR AUTHORITY
## MANAGEMENT'S DISCUSSION AND ANALYSIS
## Year Ended June 30, 2016 and 2015

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, 2016, and should be read in conjunction with the Authority's financial statements, which begin on page 20. These financial statements reflect only activities of the Colorado State Fair Authority, a division of the 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.

The basic proprietary fund financial statements can be found on pages 20 through 23 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 24 through 40 of this report.

### FINANCIAL ANALYSIS

Net position 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 $3,678,701 at the close of the most recent fiscal year.

The following schedule provides a condensed statement of net position as of June 30, 2016, 2015 and 2014.

**Schedule of Net Position**

| | June 30, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Current assets | $ 345,560 | $ 386,398 | $ 315,285 |
| Capital assets | 13,279,302 | 12,977,652 | 13,217,112 |
| Total assets | 13,624,862 | 13,364,050 | 13,532,397 |
| Deferred Outflows of Resources | 793,506 | 356,776 | - |
| Current liabilities | 2,162,405 | 1,975,587 | 1,708,779 |
| Noncurrent liabilities | 8,070,425 | 8,101,058 | 1,342,463 |
| Total liabilities | 10,232,830 | 10,076,645 | 3,051,242 |
| Deferred Inflows of Resources | 506,837 | 506 | - |
| Net Invested in capital assets | 12,131,586 | 11,751,573 | 11,919,565 |
| Unrestricted (deficit) Net Position | (8,452,885) | (8,107,898) | (1,438,410) |
| Total net position | $ 3,678,701 | $ 3,643,675 | $ 10,481,155 |

**2016**

The largest portion of the Authority's net position (330 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 position is a deficit of $8,452,885.

At the end of the Fiscal Year 2016, the Authority reported a positive balance in the net investment in capital assets. Capital assets increased $1,052,426 of which $52,623 was funded by the Department of Agriculture and a private sponsor to complete a structure in the rodeo arena and a new Ticket Booth and restroom renovation started in fiscal year 2015, $104,219 was funded by Prop BB, marijuana tax revenue collected by the State, to lay asphalt on the floor of the Livestock Pavilion, $53,386 was funded by Colorado State Historical Society to complete two roof renovations that were started in fiscal year 2015, $742,842 was funded by the State for the upgrade of the electrical infrastructure (final phase), $84,633 was funded by the State to repair and replace the sanitary, drain and storm water infrastructure.

The Authority's net position increased by $35,026 during the current fiscal year.

**2015**

The largest portion of the Authority's net position (322.5 percent) reflects its investment in capital assets (e.g., land, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to operate the State Fair and Non-Fair activities held on the premises; consequently, these assets are not available for future spending.

The remaining balance of unrestricted net position is a deficit of $8,107,898.

At the end of the Fiscal Year 2015, the Authority reported a positive balance in the net investment in capital assets. Capital assets increased $610,078 of which $167,503 was funded by the Colorado State Fair Foundation for the renovation of the men's 4-H dormitory, $135,483 was funded by the Department of Agriculture for a new Ticket Booth and restroom renovation, $61,000 for equipment was funded by the Governor's Office Contribution, $127,821 was funded by Colorado State Historical Society for two roof renovations, $85,544 was funded by the State for the upgrade of the electrical infrastructure (final phase).

The Authority's net position was restated by ($6,206,542) as of July 1, 2014 due to GASB 68 implementation and decreased by $630,938 during the current fiscal year.

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

| | FY16 | FY15 | FY14 |
|---|---|---|---|
| Total operating revenues | $ 7,287,169 | $ 7,164,708 | $ 6,439,003 |
| Total operating expenses | 10,825,199 | 10,855,688 | 9,738,587 |
| Operating loss | (3,538,030) | (3,690,980) | (3,299,584) |
| Net nonoperating revenue | 2,484,469 | 2,380,716 | 1,939,004 |
| Loss before capital contributions | (1,053,561) | (1,310,264) | (1,360,580) |
| Capital contributions | 1,088,587 | 679,326 | 432,524 |
| Change in net position | 35,026 | (630,938) | (928,056) |
| Net position, beginning of year, as Previously stated | 3,643,675 | 10,481,155 | 11,409,211 |
| Restatement GASB 68 | - | (6,206,542) | - |
| Net position, beginning of year, Restated | 3,643,675 | 4,274,613 | 11,409,211 |
| Net Position, end of year | $ 3,678,701 | $ 3,643,675 | $ 10,481,155 |

**For the Year Ended June 30, 2016,** net position increased by $35,026. Key elements of this increase are as follows:

- § Operating revenue increased by $122,461 mainly due to an increase in commercial space and concessions, exhibitor fees and rentals.
- § Operating expenses decreased by $30,489 with the largest decrease in personal services and benefits from vacancies is key positions which were not filled immediately.
- § Non-operating revenue and state government capital contributions increased by $513,014, the majority of which was funding received for the secondary electrical project.

**For the Year Ended June 30, 2015,** net position decreased by $6,837,480. Key elements of this decrease are as follows:

- § Operating revenue increased by $725,705 mainly due to an increase in gate admissions, box office sales, private sponsorships, and exhibitor fees.
- § Operating expenses increased by $1,117,101 with the largest increase in personal services and benefits, entertainment and attractions, and repairs and maintenance.
- § Non-operating revenue and state government contributions increased by $688,514.

§ Net Position was negatively restated by $6,206,542 due to GASB 68. It requires cost-sharing employers participating in the PERA program to record their proportionate share of PERA's unfunded pension liability. The Authority has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contributions made by PERA or the General Assembly.

### Further Analysis

The summary of findings and recommendations discusses an operating loss of approximately $3.5 million. However, this figure does not include revenues in excess of $2.48 million earned from state and local sources. The Fair is committed to seeking other revenues to offset decreases in operating revenue. In addition, the Department of Agriculture is committed to providing grant funding to support operating costs of the fair.

The Colorado State Fair is statutorily mandated per 35-65-105(1) C.R.S. (2012). Statute is silent on how this event, or the fairgrounds in general, are to be funded, with the exception of 38-13-116.7(3)(a)(I) C.R.S. (2012), which directs the Treasurer to deposit 25% of the interest from the Unclaimed Property Fund to the State Fair Authority Cash Fund. Year-round operations and maintenance of the fairgrounds is the real challenge since the annual fair event does not bring in enough revenue to support year-round operations. In order for the annual fair to support year-round operations, the Fair would need to drastically increase admissions, concession, and event revenue by raising prices, which would make the annual fair basically unaffordable for many fairgoers. Alternatively, the Fair could decrease expenses for attractions and events, which would adversely affect attendance since a sizeable percentage of fairgoers, attend the fair for the attractions and events offered. Understanding this, the Fair has been working diligently to strike a balance between increasing revenue and reducing expenses while producing a high quality fair.

## SUBSEQUENT EVENTS

### For the Period July 1, 2016 to September 30, 2016

The fiscal year 2017 fair was held August 26th through September 5th, 2016. The following is a comparison of the statistics for the past three fairs.

| | Fiscal Year 2017 | Fiscal Year 2016 | Fiscal Year 2015 |
|---|---|---|---|
| Colorado State Fair Attendance | 466,576 | 500,207 | 498,720 |
| Paid events offered during the Colorado State Fair | 16 | 17 | 16 |
| Colorado State Fair Events* | 2 | 2 | 2 |
| Events that were NOT Colorado State Fair Events** | 74 | 420 | 356 |

*The two events were the Colorado State Fair and the Holiday Bazaar.

**Fiscal Year 2017 is not complete, this reflects a total of events as of September 30, 2016.

## COLORADO STATE FAIR AUTHORITY
## MANAGEMENT'S DISCUSSION AND ANALYSIS
## Year Ended June 30, 2016 and 2015

### 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 $8,925,912 of which $300,000 was General Fund appropriation and $8,625,912 was cash funded. The budgetary amount includes the Colorado State Fair Program Line Item in the Long Bill. Total revenues including local government grants and interest were $9,815,817 and total expenses on a budgetary basis were $8,713,371.

| | |
|---|---|
| Total operating expenses (GAAP basis) | $ 10,825,199 |
| Plus interest expense | 44,179 |
| Less depreciation | (750,776) |
| Less non-budgeted item (compensated absences) | (55,064) |
| Less in-kind match | (1,183,873) |
| Less GASB 68/71 pension expense | (166,294) |
| Total expenses (budgetary basis) | $ 8,713,371 |

### 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 pay off 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. In Fiscal Year 2009 the Authority had a positive cash balance with the Treasury and had paid off the bonds. The Authority has received 25% of the unclaimed property interest since February 2009. The Authority has also been assessed indirect expenses beginning in Fiscal Year 2009. The assessment for Fiscal Year 2016 was $105,681 from Department of Agriculture and $30,516 from the Office of Information Technology. The Department of Agriculture assessment to the Authority is a representation of the support that the Commissioner's Office provides to the Authority for central services, it is based on one and half percent of expenses. The Office of Information Technology assessment to the Authority is based on usage of their services by the Authority. The assessment for Fiscal Year 2017 is expected to be the same.

During Fiscal Year 2015, 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. Management continues to identify and adopt cost savings strategies for the year round events as well as the Colorado State Fair event. The focus of the strategy is to provide a high quality product appealing to a diverse audience at the lowest possible cost. 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. The Fair is committed to seeking other revenues to offset decreases in operating revenue. The Colorado State Fair was approved for a $250,000 general fund appropriation to offset 4-H and FFA costs in Fiscal Year 2015. In Fiscal Year 2016 the Colorado State Fair was approved for a $300,000 general fund appropriation of which $250,000 is to offset 4-H and FFA costs and $50,000 was to have a Management Feasibility Study conducted. The Colorado State Fair was also approved for $300,000 from the PROP BB, marijuana tax revenue collected by the State, funds for 4-H and FFA programs for Fiscal Year 2016. For Fiscal Year 2017, the Colorado State Fair was approved for $1,000,000 in general fund appropriations: $250,000 to offset 4-H and FFA expenses, $450,000 for operating expenses and $300,000 for maintenance expenses. In addition, $300,000 from the Marijuana Tax Cash Fund was appropriated for 4-H and FFA. The Colorado State Fair has prepared and submitted a Strategic Business Plan to the Governor's office and plans to have a facilities audit performed during Fiscal Year 2017. The strategic plan aims to improve fiscal stability, improve facilities, improve team satisfaction, and to perform an organizational rebranding campaign.

## 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 2016 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, 305 Interlocken Parkway, Broomfield, Colorado 80021.

# COLORADO STATE FAIR AUTHORITY
## STATEMENTS OF NET POSITION
### June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| **Unrestricted assets** | | |
| Cash and cash equivalents | $ 228,289 | $ 207,424 |
| Accounts receivable, net of allowance for doubtful accounts | 30,401 | 18,450 |
| Due from local governments | - | 13,422 |
| Prepaid expenses | 86,870 | 147,102 |
| **Total unrestricted assets** | 345,560 | 386,398 |
| **Total current assets** | 345,560 | 386,398 |
| **Noncurrent assets** | | |
| Capital assets, net of accumulated depreciation | 13,279,302 | 12,977,652 |
| **Total noncurrent assets** | 13,279,302 | 12,977,652 |
| **TOTAL ASSETS** | 13,624,862 | 13,364,050 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Pensions | 793,506 | 356,776 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Due to State Treasury | 1,391,299 | 1,200,813 |
| Accrued expenses | 208,963 | 192,650 |
| Unearned revenue | 468,671 | 487,901 |
| Other current liabilities | 8,450 | 3,100 |
| Current portion of accrued compensated absences | - | 12,760 |
| Current portion of capital lease obligations | 85,022 | 78,363 |
| **Total current liabilities** | 2,162,405 | 1,975,587 |
| **Noncurrent liabilities** | | |
| Accrued compensated absences | 76,099 | 118,403 |
| Capital lease obligations payable | 1,062,694 | 1,147,716 |
| Pension liability | 6,931,632 | 6,834,939 |
| **Total noncurrent liabilities** | 8,070,425 | 8,101,058 |
| **TOTAL LIABILITIES** | 10,232,830 | 10,076,645 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Pensions | 506,837 | 506 |
| **NET POSITION** | | |
| Net investment in capital assets | 12,131,586 | 11,751,573 |
| Unrestricted (deficit) | (8,452,885) | (8,107,898) |
| **TOTAL NET POSITION** | $ 3,678,701 | $ 3,643,675 |

The accompanying notes are an integral part of this financial statement.

# COLORADO STATE FAIR AUTHORITY
## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
### June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Commercial space/concessions | $ 1,262,946 | $ 1,183,844 |
| Gate admissions | 1,767,948 | 1,783,164 |
| Box office sales | 925,189 | 981,124 |
| Private sponsorships | 1,730,504 | 1,653,670 |
| Exhibitor fees | 838,573 | 797,444 |
| Building rentals | 687,225 | 645,150 |
| Miscellaneous revenues | 74,784 | 120,312 |
| **Total operating revenues** | 7,287,169 | 7,164,708 |
| **OPERATING EXPENSES** | | |
| Personal service and benefits | 2,521,007 | 2,893,794 |
| Entertainment and attractions | 2,046,474 | 2,167,470 |
| Advertising and promotions | 1,632,355 | 1,345,862 |
| Prizes and awards | 1,048,073 | 895,448 |
| Repairs and maintenance | 396,407 | 431,866 |
| Utilities | 1,107,227 | 1,054,865 |
| Supplies and materials | 389,420 | 417,591 |
| Contractual services | 77,993 | 80,877 |
| Other purchased services | 243,827 | 150,395 |
| Other operating | 384,356 | 356,542 |
| Building, vehicle and equipment rental | 199,556 | 192,276 |
| Travel | 27,728 | 44,020 |
| Depreciation | 750,776 | 824,682 |
| **Total operating expenses** | 10,825,199 | 10,855,688 |
| **Operating loss** | (3,538,030) | (3,690,980) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Unclaimed property fund interest income | 1,128,648 | 1,121,842 |
| Department of Agriculture other contributions | 500,000 | 500,000 |
| General Fund appropriation | 600,000 | 250,000 |
| Governor's Office contribution | - | 300,000 |
| Local government grants | 300,000 | 255,792 |
| Interest expense | (44,179) | (46,918) |
| **Total nonoperating revenues (expenses)** | 2,484,469 | 2,380,716 |
| Gain (loss) before capital contributions | (1,053,561) | (1,310,264) |
| **CAPITAL CONTRIBUTIONS** | | |
| State controlled maintenance | 827,475 | 90,199 |
| Department of Agriculture | 261,112 | 446,480 |
| Colorado State Fair Foundation | - | 142,647 |
| **Total capital contributions** | 1,088,587 | 679,326 |
| **Change in net position** | 35,026 | (630,938) |
| **Net position, beginning of year, as previously stated** | 3,643,675 | 10,481,155 |
| Restatement GASB 68 | - | (6,206,542) |
| **Net position, beginning of year, as restated** | 3,643,675 | 4,274,613 |
| **Net position, end of year** | $ 3,678,701 | $ 3,643,675 |

The accompanying notes are an integral part of this financial statement.

# COLORADO STATE FAIR AUTHORITY
## STATEMENTS OF CASH FLOWS
### June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from fees for services | $ 5,323,528 | $ 5,255,513 |
| Cash received from rental of property | 687,225 | 645,150 |
| Cash received from other sources | 74,784 | 120,312 |
| Cash paid to employees | (2,416,307) | (2,598,844) |
| Cash paid to suppliers | (5,210,667) | (5,293,707) |
| Cash paid to others | (1,070,451) | (939,757) |
| **NET CASH USED IN OPERATING ACTIVITIES** | (2,611,888) | (2,811,333) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Unclaimed property fund interest | 1,128,648 | 1,121,842 |
| Contributions received from the Department of Agriculture | 536,161 | 594,104 |
| General Fund appropriation | 600,000 | 250,000 |
| Contributions received from the Govenor's Office | - | 300,000 |
| Local government grants | 300,000 | 113,144 |
| **NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES** | 2,564,809 | 2,379,090 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Principal payments | (78,363) | (71,468) |
| Interest payments | (44,179) | (46,918) |
| Proceeeds from issuance of loan from State Treasury | 190,486 | 440,653 |
| Contributions received from the Colorado State Fair Foundation | - | 142,647 |
| **NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITES** | 67,944 | 464,914 |
| **NET CASH PROVIDED BY INVESTING ACTIVITIES** | - | - |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 20,865 | 32,671 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 207,424 | 174,753 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 228,289 | $ 207,424 |

The accompanying notes are an integral part of this financial statement.

# COLORADO STATE FAIR AUTHORITY
## STATEMENTS OF CASH FLOWS
### June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **OPERATING LOSS** | $ (3,538,030) | $ (3,690,980) |
| **Adjustments to reconcile net loss to cash used in operating activities:** | | |
| Depreciation | 750,776 | 824,682 |
| (Increase) decrease in accounts receivable | (11,951) | 6,909 |
| (Increase) decrease in due from local governments | 13,422 | - |
| (Increase) decrease in inventory | - | 17,620 |
| (Increase) decrease in prepaid expenses | 60,232 | (62,971) |
| Increase (decrease) in accounts payable | 22,843 | (161,171) |
| Increase (decrease) in compensated absences | (55,064) | (5,852) |
| Increase (decrease) in accrued payroll | (6,530) | 28,674 |
| Increase (decrease) in other payables | 5,350 | (200) |
| Increase (decrease) in unearned revenue | (19,230) | (40,172) |
| Increase (decrease) in pension liability | 166,294 | 272,128 |
| **Total adjustments** | 926,142 | 879,647 |
| **NET CASH USED IN OPERATING ACTIVITIES** | $ (2,611,888) | $ (2,811,333) |
| **NONCASH OPERATING AND FINANCING ACTIVITIES** | | |
| Property and equipment contributions | $ 1,052,426 | $ 585,222 |
| Advertising and promotions provided through private sponsorships | $ 1,183,873 | $ 1,110,470 |

# COLORADO STATE FAIR AUTHORITY
## NOTES TO THE FINANCIAL STATEMENTS
## June 30, 2016 and 2015

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

The Colorado State Fair Authority (Authority) is a division of the 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, 2016 and 2015, 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.

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

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

*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 2016, the Authority's original and final budget as approved by the General Assembly was $8,925,912, of which $300,000 was General Fund appropriations (which includes $50,000 to conduct a financial stability study) and $8,625,912 was cash funded. For Fiscal Year 2015, the Authority's original and final operating budget as approved by the General Assembly was $8,806,576 of which $250,000 was General Fund appropriations and $8,556,576 was cash funded. The Authority allocated the final budget to cover operating expenses, excluding depreciation, change in leave accrual, and GASB 68/71 pension expense.

The Authority also adopts an internal budget for its enterprise fund for management purposes. For Fiscal Year Ended June 30, 2016, the internal budget showed total budgeted revenues of $8,172,000. Total actual operating revenues were $7,287,169 and total revenue including operating revenues, unclaimed property fund interest income, Department of Agriculture contributions, local government grants, and interest were $9,815,817. Total allocated budgeted expenses were $8,173,816 while total actual operating expenses were $8,713,371 on a budgetary basis.

For Fiscal Year Ended June 30, 2015, the internal budget showed total budgeted operating revenues of $7,895,275. Total actual operating revenues were $7,164,708 and total revenue including operating revenues, unclaimed property fund interest income, Department of Agriculture contributions, local government grants, and interest were $9,592,342. Total allocated budgeted operating expenses were $7,844,343 while total actual operating expenses were $8,689,475 on a budgetary basis.

| | 2016 | 2015 |
|---|---|---|
| Total operating expenses (GAAP basis) | $ 10,825,199 | $ 10,855,688 |
| Plus interest expense | 44,179 | 46,918 |
| Less depreciation | (750,776) | (824,682) |
| Less nonbudgeted item (compensated absences) | (55,064) | (5,852) |
| Less in-kind match | (1,183,873) | (1,110,470) |
| Less GASB 68/71 pension expense | (166,294) | (272,127) |
| Total expenses (budgetary basis) | $ 8,713,371 | $ 8,689,475 |

*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.

*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, 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:

| Assets | Estimated Lives |
|---|---|
| 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 Outflows/Inflows of Resources*

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (as either an expense or expenditure) until that period.

In addition to liabilities, the balance sheet reports a separate section of deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to future periods and will not be recognized as an inflow of resources (revenue) until that period.

Certain amounts related to pensions must be deferred.

*Unearned Revenue*

Unearned revenue represents cash received by the Authority in advance of the related revenue being earned by the Authority. Unearned revenue is comprised principally of cash received for events and activities at the Fair that is 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.

*Pensions*

The Authority participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employee' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*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 as of June 30, 2016 and 2015, of $1,183,873 and $1,110,470, respectively, 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.

*Net Position*

The Authority has classified its net position according to the following criteria:

- *Net investment in capital assets* - consists of capital assets, net accumulated depreciation, reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should be included in this component of net position.

- *Restricted* - consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets consist of assets that have limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

- *Unrestricted* - consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

*Use of Estimates*

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

*Changes in Accounting Principle*

*GASB Statement No. 72*

The Authority has adopted the provisions of GASB No. 72, *Fair Value Measurement and Application.* Those requirements result in enhanced comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

*GASB Statement No.68*

During fiscal year 2015, the Authority adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27,* (GASB No. 68). It revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The Authority provides certain employees with pension benefits through the State's multiple employer cost-sharing Public Employees' Retirement Association (PERA) defined benefit retirement program.

GASB No. 68 requires cost-sharing employers participating in the PERA program, such as the Authority, to record their proportionate share, as defined in GASB No. 68, of PERA's unfunded pension liability. The Authority has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA or the General Assembly. The requirement of GASB No. 68 to record a portion of PERA's unfunded liability negatively impacted the Authority's Fiscal Year 2015 beginning net position by $6,322,807. Information regarding PERA's current funding status can be found in its Comprehensive Annual Financial Report.

*GASB Statement No. 71*

Also during 2015, the Authority implemented GASB No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date,* by recognizing contributions from the end of the calendar year to the end of the Authority's fiscal year, January 1 to June 30, as a deferred outflow of resources. The Authority's Fiscal Year 2015 beginning net position was increased by the $116,265 to reflect PERA contributions between January 1 and June 30, 2014.

*Reclassifications*

Certain reclassifications were made to the fiscal year 2015 financial statements in order to conform to the fiscal year 2016 financial statements presentation.

## NOTE 2 GOING CONCERN

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Authority as a going concern. However, the Authority has a loss before capital contributions of ($1,053,561 ) and change in net position of $35,026 for the year ended June 30, 2016.

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

## NOTE 3 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, 2016, the Authority had cash on deposit with the State Treasurer of ($1,188,234), which represented approximately (.02) percent of the total $7,408.5 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 in active markets for identical assets ($230 million and significant other observable inputs ($7,178.5 million) at the 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, 2016, 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, 2016, approximately 83.8 percent of investments of the Treasurer's Pool are subject to credit quality risk reporting. Except for $77,761,610 of corporate bonds rated lower medium, 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, 2016, the weighted average maturity of investments in the Treasurer's Pool is as follows:

| Investment Type | Weighted Average Maturity | Fair Value Amount | Percent of Pool |
|---|---|---|---|
| Asset Backed Securities | 2.585 | $ 1,030,324,633 | 13.9 |
| Corporate Bonds | 1.985 | 1,668,441,771 | 22.5 |
| U.S. Government Securities | 1.343 | 3,633,084,620 | 49.0 |
| Commercial Paper | 0.094 | 846,606,464 | 11.5 |
| Money Market Mutual Funds | 0.000 | 230,000,000 | 3.1 |
| **Total** | | $ 7,408,457,488 | 100.0 |

The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in Fiscal Year 2015-16.

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, 2016.

*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, 2016 and 2015 the Authority had a deficit balance of $1,188,234 and $1,093,457, respectively on deposit with the State Treasurer. As of June 30, 2016 and 2015 the Authority's deposits are as follows:

| | Fiscal Year 2016 | | Fiscal Year 2015 | |
|---|---|---|---|---|
| | Bank Balance | Carrying Balance | Bank Balance | Carrying Balance |
| Cash on hand | $ - | $ 2,200 | $ - | $ 27,520 |
| Cash in bank | 95,233 | 226,089 | 605,563 | 179,904 |
| Total Cash | $ 95,233 | $ 228,289 | $ 605,563 | $ 207,424 |

The entirety of the bank balance was covered with collateral held by the bank or its agent in the Authority's name.

## NOTE 4 DUE TO THE STATE TREASURY

The Authority obtained an authorized loan from the State Treasury in fiscal years 2016 and 2015 permitting the Authority to maintain a deficit cash position at various times in the Treasury up to $2,398,762 in fiscal year 2016 and $4,835,260 in fiscal year 2015. The Treasury charges interest to the Authority at the current earnings rate on pooled cash. As of June 30, 2016 and 2015 the rate was approximately 1.0% and 1.0%, respectively. The balance of $1,391,299 as of June 30, 2016 consists of $1,188,234 deficit cash balance in the Treasury and $203,065 balance in warrants payable. The balance of $1,200,813 as of June 30, 2015 consists of $1,093,457 deficit cash balance in the Treasury and $107,356 balance in warrants payable.

## NOTE 5 CAPITAL ASSETS

At June 30, 2016, capital assets consisted of the following:

| | Balance 6/30/2015 | Additions | Deductions | Balance 6/30/2016 |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land | $ 594,458 | $ - | $ - | $ 594,458 |
| Construction in Progress | 265,032 | 1,024,515 | 267,655 | 1,021,892 |
| Total capital assets not being depreciated | 859,490 | 1,024,515 | 267,655 | 1,616,350 |
| Capital assets being depreciated | | | | |
| Buildings | 13,213,311 | 280,843 | - | 13,494,154 |
| Land Improvements | 12,120,273 | - | - | 12,120,273 |
| Furniture and Equipment | 3,880,028 | 14,723 | - | 3,894,751 |
| Total capital assets being depreciated | 29,213,612 | 295,566 | - | 29,509,178 |
| Less accumulated depreciation | | | | |
| Buildings | (9,460,464) | (198,398) | - | (9,658,862) |
| Land Improvements | (4,934,664) | (356,837) | - | (5,291,501) |
| Furniture and Equipment | (2,700,322) | (195,541) | - | (2,895,863) |
| Total accumulated depreciation | (17,095,450) | (750,776) | - | (17,846,226) |
| Total capital assets being depreciated, net | 12,118,162 | (455,210) | - | 11,662,952 |
| Captial assets, net | $ 12,977,652 | $ 569,305 | $ 267,655 | $ 13,279,302 |

At June 30, 2015, capital assets consisted of the following:

| | Balance 6/30/2014 | Additions | Deductions | Balance 6/30/2015 |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land | $ 594,458 | $ - | $ - | $ 594,458 |
| Construction in Progress | 43,796 | 246,092 | 24,856 | 265,032 |
| Total capital assets not being depreciated | 638,254 | 246,092 | 24,856 | 859,490 |
| Capital assets being depreciated | | | | |
| Buildings | 12,910,324 | 302,987 | - | 13,213,311 |
| Land Improvements | 12,120,273 | - | - | 12,120,273 |
| Furniture and Equipment | 3,819,029 | 60,999 | - | 3,880,028 |
| Total capital assets being depreciated | 28,849,626 | 363,986 | - | 29,213,612 |
| Less accumulated depreciation | | | | |
| Buildings | (9,341,295) | (119,169) | - | (9,460,464) |
| Land Improvements | (4,422,150) | (512,514) | - | (4,934,664) |
| Furniture and Equipment | (2,507,323) | (192,999) | - | (2,700,322) |
| Total accumulated depreciation | (16,270,768) | (824,682) | - | (17,095,450) |
| Total capital assets being depreciated, net | 12,578,858 | (460,696) | - | 12,118,162 |
| Captial assets, net | $ 13,217,112 | $ (214,604) | $ 24,856 | $ 12,977,652 |

Depreciation expense for the years ended June 30, 2016 and 2015 were $750,776 and $824,682, respectively.

## NOTE 6 LONG-TERM LIABILITIES

*Changes in Long-term Liabilities*

Long-term liability balances for the year ended June 30, 2016 were as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Business-type Activities: | | | | | |
| Capital Lease Payable | $ 1,226,079 | $ - | $ 78,363 | $ 1,147,716 | $ 85,022 |
| Compensated Absences | 131,163 | - | 55,064 | 76,099 | - |
| Total Business-type Activities | $ 1,357,242 | $ - | $ 133,427 | $ 1,223,815 | $ 85,022 |

Long-term liability balances for the year ended June 30, 2015 were as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Business-type Activities: | | | | | |
| Capital Lease Payable | $ 1,297,547 | $ - | $ 71,468 | $ 1,226,079 | $ 78,363 |
| Compensated Absences | 137,015 | - | 5,852 | 131,163 | 12,760 |
| Total Business-type Activities | $ 1,434,562 | $ - | $ 77,320 | $ 1,357,242 | $ 91,123 |

*Capital Leases Payable*

The Authority is obligated under a master lease contract signed on January 11, 2011, in the amount of $1,753,794 at an interest rate of 3.69% for equipment used for energy conservation measures at the Colorado State Fair Grounds and for two other Colorado Department of Agriculture facilities (The Insectary in Palisade and two inspection and consumer service buildings located in northwest Denver). Of the $1,753,794 lease proceeds it is estimated that 81% of the proceeds have been spent on energy conservation equipment at the Colorado State Fair Grounds. The remaining funds were used at the other two Colorado Department of Agriculture facilities. As part of the master lease contract the Contractor guarantees that the equipment installed for energy conservation measures will result in savings to the State in the form of reduced energy and water usage and other costs that will be enough to cover the yearly debt obligations. The equipment is included in capital assets at a cost of $1,476,717 with accumulated depreciation of $584,334 and $439,601 as of June 30, 2016 and 2015 respectively. The below debt service requirements for the capital lease payable reflects the Authority's portion of the debt (81%) only.

The annual debt service for the Capital Leases Payable is as follows:

| | Principal | Interest | Totals |
|---|---|---|---|
| 2017 | $ 85,022 | $ 41,196 | $ 126,218 |
| 2018 | 92,042 | 37,963 | 130,005 |
| 2019 | 99,439 | 34,465 | 133,904 |
| 2020 | 107,232 | 30,689 | 137,921 |
| 2021 | 115,439 | 26,620 | 142,059 |
| 2022-2026 | 648,542 | 60,913 | 709,455 |
| | $ 1,147,716 | $ 231,846 | $ 1,379,562 |

## NOTE 7 DEFINED BENEFIT PENSION PLAN

*PERA Pension Plan*

*General Information about the Pension Plan*

*Plan Description.* Eligible employees of the Authority are provided with pensions through the State Division Trust Fund (SDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

*Benefits provided.* PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. State Troopers whose disability is caused by an on-the-job injury are immediately eligible to apply for disability benefits and do not have to meet the five years of service credit requirement. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

*Contributions.* Eligible employees and the Authority are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, et seq. Eligible employees with the exception of State Troopers are required to contribute 8 percent of their PERA-includable salary.

The employer contribution requirements for all employees except State Troopers are summarized in the table below:

| | Fiscal Year 2014 | | Fiscal Year 2015 | | Fiscal Year 2016 | |
|---|---|---|---|---|---|---|
| | 7/1/13 to 12/31/13 | 1/1/14 to 6/30/14 | 7/1/14 to 12/31/14 | 1/1/15 to 6/30/15 | 7/1/15 to 12/31/15 | 1/1/16 to 6/30/16 |
| Employer Contribution Rate[1] | 10.15% | 10.15% | 10.15% | 10.15% | 10.15% | 10.15% |
| Amount of Employer Contribution Apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) [1] | -1.02% | -1.02% | -1.02% | -1.02% | -1.02% | -1.02% |
| Amount Apportioned to the SDTF | 9.13% | 9.13% | 9.13% | 9.13% | 9.13% | 9.13% |
| Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 [1] | 3.40% | 3.80% | 3.80% | 4.20% | 4.20% | 4.60% |
| Supplemental Amortization Equalization (SAED) as specified in C.R.S. § 24-51-411 [1] | 3.00% | 3.50% | 3.50% | 4.00% | 4.00% | 4.50% |
| Total Employer Contribution Rate to the SDTF | 15.53% | 16.43% | 16.43% | 17.33% | 17.33% | 18.23% |

[1]Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the Authority is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from Authority were $312,376 and $324,460 for the years ended June 30, 2016 and 2015, respectively.

*PERA Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2016, the Authority reported a liability of $6,931,632 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The Authority's proportion of the net pension liability was based on Authority contributions to the SDTF for the calendar year 2015 relative to the total contributions of participating employers to the SDTF. At December 31, 2015, the Authority proportion was 0.07 percent, which was a decrease of 0.007 from its proportion measured as of December 31, 2014.

At June 30, 2015, the Authority reported a liability of $6,834,939 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. Standard update procedures were used to roll forward the total pension liability to December 31, 2014. The Authority's proportion of the net pension liability was based on Authority contributions to the SDTF for the calendar year 2014 relative to the total contributions of participating employers to the SDTF. At December 31, 2014, the Authority proportion was 0.07 percent, which was a, increase of 0.002 from its proportion measured as of December 31, 2013.

For the years ended June 30, 2016 and 2015, the Authority recognized pension expense of $166,294, and $272,127, respectively. At June 30, 2016 and 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Fiscal Year 2016 | | Fiscal Year 2015 | |
|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | $ 100,936 | $ 235 | $ - | $ 506 |
| Changes of assumptions or other inputs | - | 82,050 | - | - |
| Net difference between projected and actual earnings on pension plan investments | 532,133 | - | 139,365 | - |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | 45,434 | 424,552 | 97,658 | - |
| Contributions subsequent to the measurment date | 115,003 | - | 119,753 | - |
| Total | $ 793,506 | $ 506,837 | $ 356,776 | $ 506 |

The deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, of $115,003 and $119,753 for Fiscal Year 2016 and 2015, respectively, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30, | |
|---|---|
| 2017 | $ (34,734) |
| 2018 | (42,248) |
| 2019 | 141,744 |
| 2020 | 106,902 |
| 2021 | - |
| Thereafter | - |

*Actuarial assumptions.* The total pension liability in the December 31, 2014 and 2013 actuarial valuation were determined using the following actuarial assumptions and other inputs:

| | |
|---|---|
| Actuarial cost method | Entry age |
| Price inflation | 2.80 percent |
| Real wage growth | 1.10 percent |
| Wage inflation | 3.90 percent |
| Salary increases, including wage inflation | 3.90 – 9.57 percent |
| Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation | 7.50 percent |
| Future post-retirement benefit increases: | |
| PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic) | 2.00 percent |
| PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic) | Financed by the Annual Increase Reserve (AIR) |

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

The actuarial assumptions used in the December 31, 2014 and 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

- The following programming changes were made:
  - Valuation of the full survivor benefit without any reduction for possible remarriage.
  - Reflection of the employer match on separation benefits for all eligible years.
  - Reflection of one year of service eligibility for survivor annuity benefit.
  - Refinement of the 18 month annual increase timing.
  - Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.
- The following methodology changes were made:
  - Recognition of merit salary increases in the first projection year.
  - Elimination of the assumption that 35% of future disabled members elect to receive a refund.
  - Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
  - Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

The SDTF's long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent analysis of the long-term expected rate of return, presented to the PERA Board on November 15, 2013, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | 10 Year Expected Geometric Real Rate of Return |
|---|---|---|
| U.S. Equity- Large Cap | 26.76% | 5.00% |
| U.S. Equity- Small Cap | 4.40% | 5.19% |
| Non U.S. Equity- Developed | 22.06% | 5.29% |
| Non U.S. Equity- Emerging | 6.24% | 6.76% |
| Core Fixed Income | 24.05% | 0.98% |
| High Yield | 1.53% | 2.64% |
| Long Duration Gov't/Credit | 0.53% | 1.57% |
| Emerging Market Bonds | 0.43% | 3.04% |
| Real Estate | 7.00% | 5.09% |
| Private Equity | 7.00% | 7.15% |
| Total | 100.00% | |

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

*Discount rate for Fiscal Year 2016.* The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.90%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

*Discount rate for Fiscal Year 2015.* The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the fixed statutory rates specified in law, including current and future AED and SAED, until the Actuarial Value Funding Ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Based on those assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

Based on the above actuarial cost method and assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

*Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate.* The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

| | **1% Decrease (6.50%)** | **Current Discount Rate (7.50%)** | **1% Increase (8.50%)** |
|---|---|---|---|
| Proportionate share of the net pension liability | 8,757,143 | 6,931,632 | 5,404,653 |

*Pension plan fiduciary net position.* Detailed information about the SDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

## NOTE 8 OTHER RETIREMENT PLANS

*Defined Contribution Retirement Plan (DC Plan)*

*Plan Description.* Employees of the State of Colorado that were hired on or after January 1, 2006 and employees of certain community colleges that were hired on or after January 1, 2008 which were eligible to participate in the SDTF, a cost-sharing multiple-employer defined benefit pension plan, have the option to participate in the SDTF or the Defined Contribution Retirement Plan (PERA DC Plan). The PERA DC Plan is an Internal Revenue Code Section 401(a) governmental profit-sharing defined contribution plan. Title 24, Article 51, Part 15 of the C.R.S., as amended, assigns the authority to establish Plan provisions to the PERA Board of Trustees. The DC Plan is also included in PERA's comprehensive annual financial report as referred to above.

*Funding Policy* – All participating employees in the PERA DC Plan, with the exception of State Troopers, are required to contribute 8.00 percent of their PERA-includable salary and the State of Colorado is required to contribute 10.15 percent of PERA-includable salary on behalf of these employees. All participating State Troopers are required to contribute 10.00 percent of their PERA-includable salary and the State of Colorado is required to contribute 12.85 percent of PERA-includable salary on behalf of these employees.

Additionally, the State of Colorado is required to contribute AED and SAED to the SDTF as follows:

| | Fiscal Year 2014 | | Fiscal Year 2015 | | Fiscal Year 2016 | |
|---|---|---|---|---|---|---|
| | 7/1/13 to 12/31/13 | 1/1/14 to 6/30/14 | 7/1/14 to 12/31/14 | 1/1/15 to 6/30/15 | 7/1/15 to 12/31/15 | 1/1/16 to 6/30/16 |
| Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 [1] | 3.40% | 3.80% | 3.80% | 4.20% | 4.20% | 4.60% |
| Supplemental Amortization Equalization (SAED) as specified in C.R.S. § 24-51-411 [1] | 3.00% | 3.50% | 3.50% | 4.00% | 4.00% | 4.50% |
| Total Employer Contribution Rate to the SDTF | 6.40% | 7.30% | 7.30% | 8.20% | 8.20% | 9.10% |

[1]Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Contribution requirements are established under Title 24, Article 51, Section 1505 of the C.R.S., as amended. Participating employees of the PERA DC Plan are immediately vested in their own contributions and investment earnings and are immediately 50 percent vested in the amount of employer contributions made on their behalf. For each full year of participation, vesting of employer contributions increases by 10 percent. Forfeitures are used to pay expenses of the PERA DC Plan in accordance with PERA Rule 16.08 as adopted by the PERA Board of Trustees in accordance with Title 24, Article 51, Section 204 of the C.R.S. As a result, forfeitures do not reduce pension expense.

*401(k) Defined Contribution Plan*

*Plan Description*. Employees of the Authority that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the Program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

*Funding Policy*. The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions -and investment earnings.

*457 Deferred Compensation Plan*

The 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 for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2015, 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 $18,000. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional $6,000 contribution in 2015, for total contributions of $24,000. In calendar year 2014, 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 $17,500. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional $5,500 contribution in 2014, for total contributions of $23,000. Contributions and earnings are tax deferred. The number of plan participants at December 31, 2015 and 2014 was 17,814 and 17,738, respectively.

## NOTE 9 OTHER POST-EMPLOYMENT BENEFITS

*Health Care Trust Fund*

*Plan Description*. The Authority contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

*Funding Policy*. The Authority is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Authority are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2016, 2015, and 2014, the Authority contributions to the HCTF were $18,051, $19,461 and $19,876 respectively, equal to their required contributions for each year.

## NOTE 10 RISK MANAGEMENT

The State currently self-insures its agencies, including the Authority, officials, and employees for the risk of losses to which they are exposed (general liability, motor vehicle liability, worker's compensation, and medical claims). Additional information regarding the State's risk management programs is included in the State's comprehensive annual financial report. There have been no significant reductions in insurance coverage from coverage in the prior year and the amount of settlements has not exceeded insurance coverage for any of the past three fiscal years.

## NOTE 11 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, 2016 and 2015. As a result, in fiscal years ended 2016 and 2015 the Authority was included in the State TABOR District.

## NOTE 12 RELATED PARTY

The Colorado State Fair Foundation, a 501(c)(3), was created to support, benefit, and raise funds or monies for capital and equipment expenditures for the Colorado State Fair. Additionally, the Foundation may also provide financial support to Colorado State Fair programs and initiatives that further the purposes of the Colorado State Fair upon reasonable request. As of June 30, 2016, one board member of the Colorado State Fair Authority as well as the General Manager of the Authority are also board members of the Colorado State Fair Foundation. During Fiscal Year 2016 and 2015, $0 and $142,647, respectively, was given to the Authority. The Foundation is not included as a component unit, as it is not financially significant to the Authority. The Authority will continue to evaluate the Foundation on an annual basis as a potential component unit with the hope that it will be significant in the future.

## NOTE 13 COMMITMENTS AND CONTINGENCIES

*Claims and Litigation*

In the normal course of its operations, the Authority is involved in various litigation matters. 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.

# COLORADO STATE FAIR AUTHORITY

## REQUIRED SUPPLEMENTARY INFORMATION

# COLORADO STATE FAIR AUTHORITY
## SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
## PERA SDTF PENSION PLAN
## For the Years ended June 30,

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Authority's proportion of the net pension liability | 0.0658210097% | 0.0726617608% | 0.0709792101% |
| Authority's proportionate share of the net pension liability (asset) | $ 6,931,632 | $ 6,834,939 | $ 6,322,807 |
| Authority's covered-employee payroll | $ 1,769,756 | $ 1,865,845 | $ 1,948,594 |
| Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 392% | 366% | 324% |
| Plan fiduciary net position as a percentage of the total pension liability | 56.1% | 62.8% | 64.1% |

*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year is compiled the Authority presents information of those years for which information is available.

**Notes to Required Supplementary Information:**

See Note 8 in the accompanying Notes to the Financial Statements for changes to assumptions or other inputs.

# COLORADO STATE FAIR AUTHORITY
## SCHEDULE OF AUTHORITY CONTRIBUTIONS
## PERA SDTF PENSION PLAN
## For the Years ended June 30,

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Contractually required contribution | $ 312,376 | $ 324,526 | $ 331,261 | $ 268,913 | $ 220,111 | $ 205,133 | $ 233,366 | $ 219,555 | $ 272,320 | $ 229,753 |
| Contributions in relation to the contractually required contribution | (312,376) | (324,526) | (331,261) | (268,913) | (220,111) | (205,133) | (233,366) | (219,555) | (272,320) | (229,753) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Authority's covered-employee payroll | 1,769,756 | 1,865,845 | 1,948,594 | 1,670,267 | 1,733,157 | 1,738,415 | 1,741,537 | 1,756,440 | 2,347,586 | 2,107,826 |
| Contributions as a percentage of covered-employee payroll | 17.65% | 17.39% | 17.00% | 16.10% | 12.70% | 11.80% | 13.40% | 12.50% | 11.60% | 10.90% |

**Notes to Required Supplementary Information:**

See Note 8 in the accompanying Notes to the Financial Statements for changes to assumptions or other inputs.

Wall, Smith, Bateman Inc.

**INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of the business-type activities of Colorado State Fair Authority (the Authority), a division of the Department of Agriculture of the State of Colorado, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 28, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 and correct, 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, as described in the accompanying Auditors' Findings and Recommendations, that we consider to be a significant deficiency. (Recommendation No. 2)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Auditors' Findings and Recommendations. (Recommendation No. 1)

**Colorado State Fair Authority's Response to the Findings**

The Authority's response to the findings identified in our audit are described in the accompanying Auditors' Findings and Recommendations. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, upon release by the Legislative Audit Committee this report is a public document.

Wall, Smith, Bateman Inc.

Wall, Smith, Bateman Inc.
Alamosa, Colorado

December 28, 2016

Wall,
Smith,
Bateman Inc.

December 28, 2016

Members of the Legislative Audit Committee:

We have audited the financial statements of the business-type activities of Colorado State Fair Authority (the Authority), a division of the Department of Agriculture of the State of Colorado, for the years ended June 30, 2016 and 2015. 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 letter to you dated May 5, 2016. 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. As described in Note 1, the Authority changed accounting policies by adopting Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurements and Application* during Fiscal Year 2016. Additional disclosures have been included in the notes to the financial statements as required by this standard. In addition, the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No.* 27, during Fiscal Year 2015. The requirement to record a portion of PERA's unfunded liability negatively impacted the Authority's beginning net position in the government wide financial statements as of June 30, 2015 by $6,322,807. Along with GASB No. 68, the Authority has implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* by recognizing contributions from the end of the calendar year to the end of the Authority's fiscal year, January to June, as deferred outflow of resources. The Authority's beginning net position was increased by $116,265 to reflect PERA contributions between January 1 and June 30, 2014. 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 net pension liability, deferred outflow of resources, and deferred inflow of resources at June 30, 2016, and total pension expense recognized in the government-wide financial statements during FY2016 are based on the Authority's proportionate share of the collective net pension liability, deferred outflows of resources, and deferred inflows of resources reported by the Public Employee's Retirement Association of Colorado (PERA) at December 31, 2015 and the collective pension expense for the year then ended. The Authority's proportion has been adjusted for pension contributions between PERA's reporting date of December 31, 2015 and the District's fiscal year end of June 30, 2016.

> Management's estimate of the depreciation of capital assets is based on the 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.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosure affecting the financial statements was:

> The disclosure of the defined benefit pension plan in Note 7 to the financial statements describes the Authority's participation in the State Division Trust Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employee's Retirement Association of Colorado (PERA).

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management 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 clearly trivial, and communicate them to the appropriate level of management. The attached schedule titled "Posted Adjusting Journal Entries" is a summary of the material misstatements detected as a result of the audit procedures that were corrected by management.

The attached schedule titled "Passed Audit Adjusting Journal Entries" summarizes uncorrected misstatements of the financial statements. Management has determined their effects to be immaterial, both individually and in the aggregate, to each opinion unit's financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' 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 28, 2016.

*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.

Other Matters

We applied certain limited procedures to management's discussion and analysis, the schedule of the Authority's proportionate share of the net pension liability, and the schedule of the Authority's contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Very truly yours,

Wall, Smith, Bateman Inc.

Wall, Smith, Bateman Inc.
Alamosa, Colorado

Colorado State Fair Authority
Posted Adjusting Journal Entries
6/30/2016

| Reference | Type | Date | Account Number | Description | Debit | Credit |
|---|---|---|---|---|---|---|
| AJE1 | Adjusting | 6/30/2016 | 1860 | Construction in Progress | $ 104,219 | |
| | | | 2220 | Bldg Main RS | | $ 104,219 |
| To reclassify asphalt work on the pavillion to CIP as of 6/30/2016. | | | | | | |
| AJE2 | Adjusting | 6/30/2016 | 1626 | Pension Expense | 69,141 | |
| | | | 5031 | Deferred Inflows - Pension Experience | 271 | |
| | | | 4031 | Deferred Outflows - Pension Experience | 270 | |
| | | | 4032 | Deferred Outflows - Pension Investment | | 34,841 |
| | | | 5032 | Deferred Inflows - Pension Investment | | 34,841 |
| To correct errors in Office of the State Controller's PERA computation. | | | | | | |
| | | | | **Total** | $ 173,901 | $ 173,901 |

Colorado State Fair Authority
Passed Audit Adjusting Journal Entries
6/30/2016

| Reference | Type | Date | Account Number | Description | Debit | Credit |
|---|---|---|---|---|---|---|
| PAJE1 | Passed | 6/30/2016 | 1810 | CombAbs AnlLea | $ 13,000 | |
| | | | 2910 | LT Comp Abs A | | $ 13,000 |
| To pass on the accrual of benefits associated with accrued annual leave. | | | | | | |
| PAJE2 | Passed | 6/30/2016 | 3940 | Electricity | 6,736 | |
| . | | | 2110 | Water and Sewer | 7,357 | |
| | | | 2100 | Vouchers Payable | | 14,093 |
| To properly accrue fiscal year 2016 expenses. | | | | | | |
| | | | | **Total** | $ 27,093 | $ 27,093 |