

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

Colorado State Fair Authority

June 30, 2004 and 2003

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Contract Auditors

September 30, 2004

Members of the Legislative Audit Committee:

We have completed the financial statement audit of the Colorado State Fair Authority as of and for the year ended June 30, 2004. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America.

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



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COLORADO STATE FAIR AUTHORITY
REPORT SUMMARY
FINANCIAL AND COMPLIANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2004

Authority, Purpose and Scope

This audit was conducted under the authority of Section 2-3-103 et seq., C.R.S., which authorizes the Office of the State Auditor to conduct audits of all departments, institutions, and agencies of state government.

The purpose of this audit was to express an opinion on the financial statements of the Colorado State Fair Authority for the Fiscal Year Ended June 30, 2004.

The audit was conducted in accordance with auditing standards generally accepted in the United States of America. We obtained the information by reviewing documents, interviewing staff, analyzing data, and performing other audit procedures as we deemed necessary.

Financial Audit Opinion

Our report dated July 30, 2004 on the Colorado State Fair Authority's June 30, 2004 financial statements includes an explanatory paragraph that describes a going concern uncertainty.

Current Year Findings and Recommendations

There are four current year findings and recommendations:

- The Authority's enterprise fund has sustained operating losses for a number of years that have required continued State subsidization. We recommend that the Authority develop a detailed five-year business plan with strategies and pricing policies designed to bring the Authority to a break-even point, without State subsidization, within the five-year period covered by the plan.
- Secondly, the Authority has tax exempt refunding revenue bonds outstanding (note F to the accompanying financial statements). The Internal Revenue Code provides that, with certain exceptions, proceeds from tax exempt bond issues cannot be invested at a greater return than that provided to the investors under the bond yield, or an arbitrage liability is created. The Authority has neither performed an arbitrage liability calculation or retained consultants trained in such calculations to perform an arbitrage liability calculation. We recommend the Authority have an arbitrage calculation completed during Fiscal Year 2005.
- Thirdly, provisions of the Refunding Revenue Bonds, Series 1992 bond resolution require that a bond fund be maintained into which deposits must be made monthly in amounts sufficient to pay the interest and principal due and payable on the next succeeding interest and principal payment dates, respectively. The Authority has not always maintained adequate funds in the bond fund. The bond resolution does provide for use of reserve fund deposits if the bond fund balance is not sufficient to make the required principal and interest payments. We recommend the Authority maintain the bond fund balance in accordance with the bond resolution without relying on the balance in the bond reserve fund.

- Lastly, the Authority has not consistently applied useful life assignments to fixed assets in accordance with State guidelines, has not applied the \$5,000 minimum capitalization threshold consistently and has not formatted deletions in its fixed asset detail depreciation schedules in a manner that easily allows matching of the deletion with the original asset in the detail. We recommend the Authority perform a detailed review of its fixed asset detail in order to correct inconsistencies noted during our audit procedures in assigning useful lives to assets, in recording assets below the \$5,000 capitalization threshold and also to improve the formatting of asset deletions to better match such deletions to the original asset entry.

Summary of Progress in Implementing Prior Year Audit Recommendations

The following is the implementation status of the Colorado State Fair Authority Financial and Compliance Audit Findings and Recommendations for the year ended June 30, 2003:

Implemented	2
Not implemented	<u>1</u>
Total	<u>3</u>

See page 9 for a discussion regarding the disposition of the prior audit recommendations.

RECOMMENDATION LOCATOR

All recommendations are addressed to the Colorado State Fair Authority

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	7	Develop a detailed five-year business plan with strategies and pricing policies designed to bring the Authority to a break-even point, without State subsidization, within the five-year period covered by the plan.	Partially agree.	November 15, 2004
2	7	Perform or retain consultants to perform an arbitrage liability calculation for the Authority's outstanding refunding revenue bonds.	Agree.	June 30, 2005
3	8	Monitor the bond covenant detail to ensure compliance with required bond fund balance without reliance on the bond reserve fund balance.	Agree.	June 30, 2005
4	8	Perform a detailed review of the Authority's fixed asset detail for accuracy and consistency in assigning useful lives, applying its existing capitalization threshold policy and in matching asset deletions against the original asset in the detail.	Agree.	March 31, 2005

COLORADO STATE FAIR AUTHORITY

BACKGROUND

The Colorado State Fair has been in existence for over 125 years. Over the years, the Colorado State Fair has undergone a number of organizational changes. In 1983 the General Assembly created the Colorado State Fair Authority (Authority) as a separate political subdivision of the State. House Bill 97-1342 abolished the existing Authority and its Board of Commissioners and created the new Colorado State Fair Authority as a division within the State Department of Agriculture effective June 30, 1997. The current Board of Commissioners consists of eleven members. Of the eleven members, one member must be a certified public accountant, one member must have current management-level banking experience and expertise in finance, and one member must have agriculture or 4-H club experience. The Commissioner of Agriculture or the Commissioner's designee also serves as a voting member of the Board.

The Authority operates on the State Fairgrounds in Pueblo on approximately 80 acres of land. The grounds and facilities are owned by the State and include exhibition halls, four permanent restaurants, permanent stalls for horse shows, three 4-H buildings, an amphitheater, six pavilions, and a covered grandstand. The facilities also include an indoor arena (the Events Center) which was constructed at a cost of approximately \$7.5 million. The Events Center began operating in 1995. Most of the Authority's revenue is generated during the annual State Fair from admissions, parking, food and beverage sales, concessions, commercial space rental, sponsorships, and carnival ticket sales. Additional revenue is generated from events that are held on a year-round basis at the Events Center and other facilities on the State Fairgrounds. For Fiscal Year 2004, the Authority was appropriated 27 full-time staff plus contract employees to run its year-round operations. In the summer, the Authority adds about 800 temporary staff to run the annual State Fair.

FISCAL YEAR 2004 FINANCIAL HIGHLIGHTS

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

	Year ended June 30, 2004 <u>Fair-time*</u>	Year ended June 30, 2004 <u>Off-season</u>	Year ended June 30, 2004 <u>Total</u>	Year ended June 30, 2003 <u>Total</u>
Operating revenues	\$ 6,001,048	\$ 1,313,634	\$ 7,314,682	\$ 7,367,447
Operating expenses (excluding depreciation)	<u>5,947,346</u>	<u>2,007,187</u>	<u>7,954,533</u>	<u>7,942,217</u>
Operating income (loss) before depreciation	\$ 53,702	\$ (693,553)	\$ (639,851)	\$ (574,770)
Depreciation			<u>615,236</u>	<u>600,249</u>
Operating loss			(1,255,087)	(1,175,019)
Nonoperating revenues (net)			<u>845,814</u>	<u>332,114</u>
Net loss			(409,273)	(842,905)
State capital contributions			<u>109,674</u>	<u>577,685</u>
Change in net assets			<u>\$ (299,599)</u>	<u>\$ (265,220)</u>

*Fair held during August/September 2003. The Authority allocates approximately 97% of governance and administration and facilities management expenditures for July, August and September to Fair-time activity. The amount allocated for Fiscal Year 2004 was \$803,353.

According to the Authority, the most recent State Fair (held in August/September 2004) resulted in an operating profit excluding depreciation. The 2004 State Fair results will be included in the financial statements for the year ended June 30, 2005.

The Authority experienced a net operating cash outflow of \$815,508 and \$192,816, respectively, for the years ended June 30, 2004 and 2003.

Although the Fair-time activities have positive financial results after allocations made by management, the Authority continues to show operating losses when Fair-time and Off-season are totaled together. The loss for the year ended June 30, 2004 resulted in a negative change in net assets of \$409,273 before State capital contributions.

FINDINGS AND RECOMMENDATIONS

Development of Five-Year Business Plan

The Authority's enterprise fund has incurred operating losses for several years. Specifically, the Authority has incurred losses and subsidization from the State as follows:

<u>For Fiscal Year Ended</u>	<u>Operating Loss Including Depreciation and Amortization</u>	<u>Operating Loss Excluding Depreciation and Amortization</u>	<u>Total State Contributions</u>	<u>Local Contributions</u>
June 30, 2004	\$(1,255,087)	\$(639,851)	\$ 109,674	\$ 228,734
June 30, 2003	(1,175,019)	(574,770)	577,685	458,012
June 30, 2002	(1,104,553)	(397,826)	3,480,328	545,147
June 30, 2001	(1,165,565)	(340,475)	1,280,963	368,872

One of the criteria in determining if a fund should be treated as an enterprise fund under Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, is that “the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).” Accordingly, generally accepted governmental accounting standards presume that enterprise funds will at some point reach break-even or better operationally and that subsidization of activities conducted by the enterprise will be the exception rather than the norm.

The Fiscal Year 1998 audit recommended that the Authority develop a long-range business plan. The plan was to include a comprehensive review of revenue and expense, projected operating results and cash flows for future years, and the Authority was to monitor projections-to-actual results. It was also recommended that the plan include an evaluation of the types of events held and specific revenue that the Authority projected it would receive. The Authority agreed with the recommendation, however, the Authority did not implement the recommendation, and in Fiscal Year 2002 and 2003, this recommendation was repeated due to the Authority's ongoing losses. Additionally, in January 2002, an agreed-upon-procedures report was issued relating to the Authority's cost center structure that emphasized the need for significant improvements in the procedures used in capturing accurate financial information by cost center. The purpose of this agreed-upon procedures engagement, which was conducted by Grant Thornton LLP with the assistance of Authority staff, was to help the Authority identify meaningful cost centers and methods for allocating all direct and indirect costs to these centers and to thereby identify which cost centers were making or losing money. The report recommended that the Authority standardize the program cost center allocation process and use this as a basis for developing a financial plan for the future of the Authority. Under Footnote 3 in the Fiscal Year 2003 Long Appropriations Bill (House Bill 02-1240), the General Assembly required that the Authority provide a report to the Joint Budget Committee by October 1, 2002, that contained a detailed analysis of each event and a plan to make each event self-sustaining; steps to be taken to avoid the need for a General Fund appropriation to the Authority; comparisons between the Fair's practices and those of other state fairs, including any subsidy those fairs receive; and a history of General Fund appropriations for operations and capital construction since 1997.

During our Fiscal Year 2003 audit, our review of the October 2002 report provided to the Joint Budget Committee indicates that the Authority did not provide all the information requested, such as detailed financial information on various events or analysis of its activities on the basis of the cost centers developed during Fiscal Year 2002 or a plan to make each event or cost center self-sustaining. In its report, the Authority stated that some activities incur a loss and requested that the General Assembly consider making an annual General Fund appropriation for operations of \$1.2 million. During Fiscal Year 2004, we found the Authority still had not fully implemented a standardized program cost center allocation process. As a result, the business plan compiled by the Authority in the fall of 2003 did not include meaningful analysis of its activity by cost center or a plan for achieving self-sufficiency. The Authority did submit a five-year plan to the OSPB and the JBC in Fiscal Year 2004. That plan, however, did not address its staffing needs, incorporate a comprehensive cost allocation process or reflect an assessment of revenue streams with the intent of increasing revenues.

Recommendation No. 1

The Authority should complete a five-year business plan designed to bring the Authority's enterprise fund operations to a break-even point, without State subsidization, within the five-year period covered by the plan. Implementation of a reliable cost center allocation process is critical to this process as well as performance of financial analysis and planning performed at a detailed level by cost center in order to properly identify areas of concern and where efficiencies can be achieved.

Colorado State Fair Authority Response: Partially agree. The State Fair Board and Management agree that a five-year business plan is essential to the financial success of the fair. In the fall of 2004, the board and management developed and implemented a strategic five-year plan. However, the plan does include State subsidization in the form of income tax check-off funds (HB 04-1358) and revenues from the unclaimed property fund (SB 04-256). While the plan is being used as a foundation for day-to-day operations of the fair, there is no guarantee as to its success as the fair is vulnerable to outside events over which they have no control. The agricultural economy, animal disease and weather have a significant impact on the operation of the fair. On July 1, 2004, a redesigned accounting system featuring budgeting and accountability by cost centers was implemented.

Calculation of Arbitrage

The Authority has issued tax exempt Refunding Revenue Bonds Series 1992, which had an outstanding balance of \$1,545,000 as of June 30, 2004 (note F to the accompanying financial statements). The Internal Revenue Code provides that, with certain exceptions, proceeds from tax exempt bond issues cannot be invested at a greater return than that provided to the investors under the bond yield or an arbitrage liability is created. The Authority has neither performed an arbitrage liability calculation or retained consultants trained in such calculations to perform an arbitrage liability calculation. Therefore, the Authority may not be in compliance with IRS regulations.

Recommendation No. 2

The Authority should have an arbitrage liability calculation completed during Fiscal Year 2005 to determine whether any liability exists, and if so, ensure that it is properly reflected in its financial statements.

Colorado State Fair Authority Response: Agree.

Bond Fund Balance

Provisions of Refunding Revenue Bonds, Series 1992 bond resolution require that a bond fund be maintained into which deposits must be made monthly in amounts sufficient to pay the interest and principal due and payable on the next succeeding interest and principal payment dates, respectively. The Authority has not always maintained adequate funds in the bond fund. The bond resolution does provide for use of reserve fund deposits if the bond fund balance is not sufficient to make the required principal and interest payments.

On June 30, 2004, the Authority had a balance of \$34 in the bond fund. The balance of the bond fund remained at \$34 until a transfer was made on July 19, 2004 in the amount of \$31,127.

The next payment on the bonds is due December 1, 2005, consisting of \$135,000 principal plus \$52,148 interest for a total payment of \$187,148. The amount that should have been in the bond fund at July 1, 2004 is \$78,750 for principal and \$8,691 for interest, or a total of \$87,441. Making the periodic payments into the bond fund will help ensure that the Authority is able to meet the requirements of its bond covenants and make required bond payments on a timely basis. We did note that the Authority's debt service reserve account was overfunded by \$91,706. However, this does not relieve the Authority of the requirement to make the needed payments into the bond fund.

Recommendation No. 3

The Authority should monitor the bond covenant detail to ensure compliance by making monthly transfers to the bond fund to ensure the balance in the bond fund is equal to or greater than the required monthly deposits.

Colorado State Fair Authority Response: Agree.

Review of Fixed Asset Detail

In performing our audit procedures with respect to the Authority's fixed assets, which represent \$10.8 million or 91.4% of the Authority's total assets as of June 30, 2004, we noted the following:

- application of useful life assignments to assets is not always consistent with State guidelines which, by policy, are to be used by the Authority, thus resulting in inconsistencies in calculating depreciation. As an example, the State Fiscal Procedures Manual recommends useful lives of 10 years for equipment (nonoffice), 3 years for computer equipment, 6 years for office equipment, and 16 years for land improvements. The Authority has a 4 to 7 year life for various asset items within the asset categories of equipment (nonoffice), computer equipment, and office equipment and a range of 16 to 20 years for various land improvements.
- application of the \$5,000 minimum capitalization threshold is not always applied consistently, thus resulting in assets being recorded on the fixed asset detail costing under the \$5,000 minimum. As an example, per the State Fiscal Procedures Manual, land improvements have a capitalization threshold of \$50,000 and an estimated useful life of 20 years. Landscaping completed in July 1989 at an original cost of \$8,081 is being depreciated over 16 years. The capitalization threshold for furniture and equipment per the State Fiscal Procedures Manual is \$5,000. The Authority capitalized a computer in March 2004 with an original cost of \$1,255 and a sweeper in August 2003 with an original cost of \$3,175.
- formatting of deletions in the fixed asset detail depreciation schedules is cumbersome, thus making it difficult to match asset deletions with the original asset entry.

Recommendation No. 4

The Authority should perform a detailed review of the fixed asset detail for accuracy and consistency in assigning useful lives, applying its existing capitalization threshold policy and in matching asset deletions against the original asset in the detail. Adjustments should be made to the accounting system as appropriate.

Colorado State Fair Authority Response: Agree.

**DISPOSITION OF PRIOR
AUDIT RECOMMENDATIONS**

The following recommendations are from the Fiscal Year 2003 Colorado State Fair Authority Financial and Compliance Audit.

<u>Rec. No.</u>	<u>Recommendation</u>	<u>Disposition</u>
1.	The Authority should complete a five-year business plan designed to bring the Authority's enterprise fund operations to a break-even point, without State subsidization, within the five-year period covered by the plan. Implementation of prior year Recommendation No. 2, concerning cost center allocations, is critical for the development of accurate pricing policies to achieve break-even.	Not implemented – See current year recommendation No. 1
2.	The Authority should propose a statutory change to Section 35-65-401(9)(f), C.R.S. to eliminate the Authority's limitation on the receipt of local government grants.	Implemented. Senate Bill 04-9 was approved on March 23, 2004.
3.	The Authority should review all projects held in construction in progress and transfer assets placed in service to an appropriate depreciable asset category when placed in service.	Implemented.

Report of Independent Certified Public Accountants

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the Colorado State Fair Authority (Authority), a division of the State Department of Agriculture of the State of Colorado (Department), as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note A, the financial statements of the Authority are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the Department that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2004 and 2003, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in note B, the Authority incurred a loss before State capital contributions of \$(409,273) and change in net assets of \$(299,599) during the year ended June 30, 2004 and as of that date, the Authority's current liabilities exceeded its current assets by \$566,826 and it had deficit unrestricted net assets of \$(748,933). These factors, among others, as discussed in note B to the financial statements, raise substantial doubt about the Authority's ability to continue as a going concern. Management's plans in regard to these matters are also described in note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2004, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis presented on pages 12 through 18 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Colorado Springs, Colorado
July 30, 2004

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Colorado State Fair Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2004 and 2003

This discussion and analysis of the Colorado State Fair Authority's financial performance is a required component of financial reporting under governmental accounting standards and was prepared by Colorado State Fair Authority Management. It provides an overview of financial activities for the year ended June 30, 2004 and should be read in conjunction with the Authority's financial statements, which begin on page 19. These financial statements reflect only activities of the Colorado State Fair Authority, a division of the State Department of Agriculture of the State of Colorado.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The basic proprietary fund financial statements can be found on pages 19 through 21 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 22 through 35 of this report.

FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority's enterprise fund, assets exceeded liabilities by \$8,522,350 at the close of the most recent fiscal year.

The following schedule provides a condensed statement of net assets as of June 30, 2004, 2003 and 2002.

Colorado State Fair Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2004 and 2003

Schedule of Net Assets

	June 30		
	2004	2003	2002
Current assets	\$ 979,040	\$ 1,189,587	\$ 1,281,351
Other assets	40,461	47,179	53,897
Capital assets	<u>10,787,934</u>	<u>11,225,546</u>	<u>11,169,547</u>
Total assets	11,807,435	12,462,312	12,504,795
Current liabilities	1,545,866	3,232,832	1,437,964
Non-current liabilities	<u>1,739,219</u>	<u>407,531</u>	<u>1,979,662</u>
Total liabilities	3,285,085	3,640,363	3,417,626
Net assets:			
Invested in capital assets, net of related debt	9,025,043	9,304,277	9,128,531
Restricted	246,240	275,220	272,997
Unrestricted (deficit)	<u>(748,933)</u>	<u>(757,548)</u>	<u>(314,359)</u>
Total net assets	<u>\$ 8,522,350</u>	<u>\$ 8,821,949</u>	<u>\$ 9,087,169</u>

2004

By far the largest portion of the Authority's net assets (105.9 percent) reflects its investment in capital assets (e.g., land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to operate the State Fair and Non-Fair activities held on the premises; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion (2.9 percent) of the Authority's net assets as of June 30, 2004 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is a negative \$748,933, which indicates that over time the State Fair's expenses have exceeded its revenue.

At the end of the current fiscal year, the Authority reported positive balances in the investment in capital assets net of related debt and restricted net assets, but was left with a negative balance in unrestricted net assets. The negative balance decreased \$8,615 from June 30, 2003.

The Authority's net assets decreased by \$299,599 during the current fiscal year. This decrease primarily relates to the decline in charges for services earned for box office entertainment and attractions.

As of June 30, 2003, the entire amount of principal outstanding on the Authority's refunding revenue bonds was classified as a current liability because the Authority was in violation of a debit covenant (note D to the accompanying statements). As of June 30, 2004, the Authority was not in violation of the covenant and the principal is classified according to the bond repayment terms.

Colorado State Fair Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2004 and 2003

2003

Investment in capital assets as of June 30, 2003, less any related debt used to acquire those assets that is still outstanding, represented 105.5 percent of the Authority's net assets as of that date.

An additional portion (3.1 percent) of the Authority's net assets as of June 30, 2003 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is a negative \$757,548, which indicates that over time the State Fair's expenses have exceeded its revenue.

At the end of Fiscal Year 2003, the Authority reported positive balances in the investment in capital assets net of related debt and restricted net assets, but was left with a negative balance in unrestricted net assets. The negative balance increased \$443,189 from June 30, 2002.

The Authority's net assets decreased by \$265,220 during Fiscal Year 2003. This decrease primarily relates to the decline in charges for services earned for box office entertainment and attractions.

2002

The Authority's net assets increased by \$2,718,863 during the Fiscal Year 2002. This increase primarily relates to a capital contribution of \$3,232,991 from the State less State Fair operations expense in excess of revenue of \$514,128.

The following schedule provides a condensed statement of changes in fund net assets for the years ended June 30, 2004, 2003 and 2002.

Colorado State Fair Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2004 and 2003

Schedule of
Changes in Fund Net Assets

	Year ended June 30		
	2004	2003	2002
Operating revenues:			
Commercial space/ concession	\$ 2,117,468	\$ 2,110,730	\$ 2,089,721
Gate admissions	1,195,765	1,320,596	1,509,655
Box office sales	1,613,597	1,617,888	1,836,443
Private sponsorships	1,036,217	889,531	816,434
Exhibitor fees	720,561	717,773	629,343
Building rentals	520,308	544,614	517,318
Miscellaneous revenues	<u>110,766</u>	<u>166,315</u>	<u>171,756</u>
Total operating revenues	<u>7,314,682</u>	<u>7,367,447</u>	<u>7,570,670</u>
Operating expenses:			
Personal service and benefits	1,761,695	1,787,043	1,761,853
Entertainment and attractions	1,868,206	1,978,186	2,066,110
Advertising and promotions	1,126,476	954,398	1,023,800
Prizes and awards	645,836	645,354	691,896
Depreciation	615,236	600,249	706,727
Other	<u>2,552,320</u>	<u>2,577,236</u>	<u>2,424,837</u>
Total operating expenses	<u>8,569,769</u>	<u>8,542,466</u>	<u>8,675,223</u>
Operating loss	<u>(1,255,087)</u>	<u>(1,175,019)</u>	<u>(1,104,553)</u>
Nonoperating revenues (expenses):			
Federal grants	785,000	-	-
Local government grants	228,734	458,012	545,147
State appropriations	-	-	155,720
Private donations	3,000	-	-
Investment income (loss)	(15,057)	26,344	42,569
Interest expense	<u>(155,863)</u>	<u>(152,242)</u>	<u>(153,011)</u>
Net nonoperating revenue	<u>845,814</u>	<u>332,114</u>	<u>590,425</u>
Decrease in net assets before State capital contributions	(409,273)	(842,905)	(514,128)
State capital contributions	109,674	577,685	3,232,991
Change in net assets	<u>\$ (299,599)</u>	<u>\$ (265,220)</u>	<u>\$ 2,718,863</u>

Colorado State Fair Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2004 and 2003

For the Year Ended June 30, 2004 net assets decreased by \$299,599. Key elements of this decrease are as follows:

- State capital contributions increased net assets by \$109,674, thereby reducing the decrease in net assets to \$299,599. The Authority had a decrease in net assets of \$409,273 before State capital contributions. The decrease of \$409,273 reflects the State Fair Authority's losses prior to the State capital contributions.
- Charges for services decreased by \$52,765 (0.7 percent) from the prior year. Most of this decrease is the result of a decrease in gate admissions of \$124,831 (9.5 percent decrease in gate admissions) for the year from the prior year.
- The Authority received a one-time federal grant of \$785,000 which was used for projects and operations for the year.
- Local grants to the Authority for operating expenses decreased by \$229,278 over the prior year.

Total expenses (operating expenses plus interest expense) for the current year increased by \$30,924 (0.4 percent).

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

- State capital contributions increased net assets by \$577,685 thereby reducing the decrease in net assets to \$265,220. The Authority had a decrease in net assets of \$842,905 before State capital contributions. The decrease of \$842,905 reflects the State Fair Authority's losses prior to the State capital contributions.
- Charges for services decreased by \$203,223 (2.7 percent) from the prior year. Most of this decrease is the result of a decrease in box office sales of \$218,555 (11.9 percent decrease in box office sales) for the year from the prior year.
- Local grants to the Authority for operating expenses decreased by \$87,135 over the prior year.

For the Year Ended June 30, 2002 net assets increased by \$2,718,863. This increase primarily relates to a capital contribution of \$3,232,991 from the State less State Fair operations expense in excess of revenue of \$514,128.

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

Colorado State Fair Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2004 and 2003

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

Colorado State Fair Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2004 and 2003

BUDGETARY HIGHLIGHTS

The Authority's budget is determined by a variety of methods. The majority of the budget is set by the annual appropriations bill (called the Long Bill—enacted by the General Assembly and signed by the Governor), which determines budgets for every agency within the State. The Long Bill and centrally appropriated funds are approved shortly before the start of each fiscal year. Agencies may also request a supplemental appropriation during the fiscal year to cover unexpected expenses as well as year-end transfers of spending authority, if needed. The final method of funding is special legislation. In Fiscal Year 2004, there was no special legislation that affected the Authority.

The approved original and final budget for the Authority's activities was a cash spending authority appropriation of \$8,906,856. Total revenues including local government grants and interest were \$8,316,359 and total expenses on a budgetary basis were \$8,170,313. The Authority spent \$146,046 under revenues.

Total operating expenses (GAAP basis)	\$ 8,569,769
Plus interest expense	155,863
Less depreciation	(615,236)
Less nonbudgeted item (compensated absences)	(11,430)
Plus capital outlay	72,380
Plus nonbudgeted item (adjustment)	<u>(1,033)</u>
Total expenses (budgetary basis)	<u>\$ 8,170,313</u>

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 2004 and to demonstrate the Authority's accountability for its use of State resources. If you have questions about the MD&A or need additional information, contact the Department of Agriculture Administrative Services, 700 Kipling Street, Suite 4000, Lakewood, Colorado 80215-8000.

Colorado State Fair Authority
STATEMENTS OF NET ASSETS
June 30,

	2004	2003
ASSETS		
CURRENT ASSETS		
Unrestricted assets		
Cash and cash equivalents	\$ 514,981	\$ 631,154
Accounts receivable, net	46,052	42,723
Due from local governments	-	41,030
Interest receivable	-	210
Inventory	19,320	46,152
Prepaid expenses	<u>152,447</u>	<u>153,098</u>
Total unrestricted assets	<u>732,800</u>	<u>914,367</u>
Restricted assets		
Bond fund	34	30,161
Reserve fund	<u>246,206</u>	<u>245,059</u>
Total restricted assets	<u>246,240</u>	<u>275,220</u>
Total current assets	<u>979,040</u>	<u>1,189,587</u>
NONCURRENT ASSETS		
Capital assets, net of accumulated depreciation	10,787,934	11,225,546
Unamortized financing costs	<u>40,461</u>	<u>47,179</u>
Total noncurrent assets	<u>10,828,395</u>	<u>11,272,725</u>
Total assets	<u>11,807,435</u>	<u>12,462,312</u>
LIABILITIES		
CURRENT LIABILITIES		
Current portion of bonds and capital lease obligations	237,717	1,756,473
Accounts payable	158,166	293,838
Accrued interest payable	13,499	6,960
Damage deposits	2,800	23,104
Deferred revenue	<u>1,133,684</u>	<u>1,152,457</u>
Total current liabilities	<u>1,545,866</u>	<u>3,232,832</u>
NONCURRENT LIABILITIES		
Bonds payable	1,415,000	-
Accrued compensated absences	214,045	242,735
Capital lease obligations payable	<u>110,174</u>	<u>164,796</u>
Total noncurrent liabilities	<u>1,739,219</u>	<u>407,531</u>
Total liabilities	<u>3,285,085</u>	<u>3,640,363</u>
NET ASSETS		
Invested in capital assets, net of related debt	9,025,043	9,304,277
Restricted for debt service	246,240	275,220
Unrestricted (deficit)	<u>(748,933)</u>	<u>(757,548)</u>
Total net assets	<u>\$8,522,350</u>	<u>\$ 8,821,949</u>

The accompanying notes are an integral part of these statements.

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

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Commercial space/concessions	\$ 2,117,468	\$ 2,110,730
Gate admissions	1,195,765	1,320,596
Box office sales	1,613,597	1,617,888
Private sponsorships	1,036,217	889,531
Exhibitor fees	720,561	717,773
Building rentals	520,308	544,614
Miscellaneous revenues	<u>110,766</u>	<u>166,315</u>
Total operating revenues	<u>7,314,682</u>	<u>7,367,447</u>
OPERATING EXPENSES		
Personal service and benefits	1,761,695	1,787,043
Entertainment and attractions	1,868,206	1,978,186
Advertising and promotions	1,126,476	954,398
Prizes and awards	645,836	645,354
Repairs and maintenance	379,948	433,616
Utilities	576,158	490,590
Supplies and materials	336,258	338,490
Contractual services	688,248	708,567
Other operating	308,304	278,945
Building, vehicle and equipment rental	246,167	313,965
Travel	17,237	13,063
Depreciation	<u>615,236</u>	<u>600,249</u>
Total operating expenses	<u>8,569,769</u>	<u>8,542,466</u>
Operating loss	<u>(1,255,087)</u>	<u>(1,175,019)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants	785,000	-
Local government grants	228,734	458,012
Private donations	3,000	-
Investment income (loss)	(15,057)	26,344
Interest expense	<u>(155,863)</u>	<u>(152,242)</u>
Total nonoperating revenues (expenses)	<u>845,814</u>	<u>332,114</u>
Loss before State capital contributions	(409,273)	(842,905)
State capital contributions	<u>109,674</u>	<u>577,685</u>
CHANGE IN NET ASSETS	(299,599)	(265,220)
Total net assets, beginning	<u>8,821,949</u>	<u>9,087,169</u>
Total net assets, ending	<u>\$ 8,522,350</u>	<u>\$ 8,821,949</u>

The accompanying notes are an integral part of these statements.

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

	2004	2003
Cash flows from operating activities		
Cash received from:		
Fees for services	\$ 5,635,508	\$ 6,131,612
Sale of products	84,417	18,483
Rental of property	500,004	549,663
Other sources	346,225	451,620
Cash payments to:		
Employees	(1,774,808)	(1,670,939)
Suppliers	(4,877,279)	(4,961,929)
Other	(729,575)	(711,326)
Net cash used in operating activities	(815,508)	(192,816)
Cash flows from capital and related financing activities		
Decrease in restricted assets	28,980	2,223
Local government grants	50,118	100,362
Debt service principal payments	(217,366)	(193,042)
Interest payments	(141,559)	(149,007)
Purchase of property and equipment	(13,636)	(12,872)
Net cash used in capital and related financing activities	(293,463)	(252,336)
Cash flows from noncapital and related financing activities		
Local government grants	219,646	344,548
Federal grants	785,000	-
Net cash provided by noncapital and related financing activities	1,004,646	344,548
Cash flows from investing activities		
Interest and dividend income	2,114	23,443
Change in Colotrust fair value	(16,962)	6,703
Private donations	3,000	-
Net cash provided by (used in) investing activities	(11,848)	30,146
Net decrease in cash and cash equivalents	(116,173)	(70,458)
Cash and cash equivalents, beginning of year	631,154	701,612
Cash and cash equivalents, end of year	\$ 514,981	\$ 631,154
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (1,255,087)	\$ (1,175,019)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation of property and equipment	615,236	600,249
Loss on disposal of fixed assets	3,628	6,557
Net changes in assets and liabilities relating to operating activities		
(Increase) decrease in accounts receivable	(3,329)	64,007
(Increase) decrease in inventory	26,832	(19,840)
(Increase) decrease in prepaid expenses	651	(14,737)
Increase (decrease) in accounts payable	(135,672)	72,083
Increase (decrease) in compensated absences	(28,690)	116,045
Increase (decrease) in damage deposits	(20,304)	5,050
Increase (decrease) in deferred revenue	(18,773)	152,789
Net cash used in operating activities	\$ (815,508)	\$ (192,816)
<u>Noncash investing and financing activities:</u>		
Property and equipment added through State contributed capital	\$ 109,675	\$ 577,685
Unrealized gain (loss) on restricted assets	(6,968)	3,234
Property and equipment financed under capital lease	57,941	72,248

The accompanying notes are an integral part of these statements.

Colorado State Fair Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. *Organization*

The Colorado State Fair Authority (Authority) is a division of the State Department of Agriculture of the State of Colorado (Department). It operates under the jurisdiction of the Colorado State Fair Authority Board of Commissioners (Board) whose members are appointed by the Governor of the State. The financial statements of the Authority are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the Department that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority operates on the state fairgrounds in Pueblo, Colorado. The grounds and facilities include exhibition halls, four permanent restaurants, permanent stalls for horse shows, three 4-H buildings, an amphitheater, six pavilions, a covered grandstand, and an indoor arena. Most of the Authority's revenue is generated during the annual 16-day Colorado State Fair and Exposition (State Fair) from admissions, parking, food and beverage concessions, commercial space rental, sponsorships and carnival ticket sales. Additional revenue is generated from events that are held on a year-round basis in the indoor arena and other facilities on the state fairgrounds.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The following is a summary of the more significant policies.

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

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

Colorado State Fair Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

3. 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 2004, the Authority's original and final operating budget as approved by the General Assembly was \$8,906,856. The Authority allocated the final budget to cover operating expenses, excluding depreciation and change in leave accrual. For Fiscal Year 2003, the Authority's original and final operating budget as approved by the General Assembly was \$8,243,653 which was subsequently reduced by \$64,359 for a final operating budget of \$8,179,294.

The Authority also adopts an internal budget for its enterprise fund for management purposes. For Fiscal Year Ended June 30, 2004, the internal budget showed total budgeted operating

Colorado State Fair Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. *Budgetary Process - continued*

revenues of \$8,906,856. Total actual operating revenues were \$7,314,682, and total revenue including operating revenues, local and federal government grants, private donations and interest were \$8,316,359. Total allocated budgeted operating expenses were \$8,906,856 while total actual operating expenses were \$8,170,313, excluding depreciation expense and change in leave accrual, which are non-budgeted operating expenses. The Authority spent \$146,046 under actual revenues.

For Fiscal Year Ended June 30, 2003, the internal budget showed total budgeted operating revenues of \$8,179,294. Total actual operating revenues were \$7,367,447, and total revenue including operating revenues, local government grants and interest were \$7,851,803. Total allocated budgeted operating expenses were \$8,179,294 while total actual operating expenses were \$8,166,030, excluding depreciation expense and change in leave accrual, which are non-budgeted operating expenses. The Authority spent \$314,227 in excess of actual revenues.

	2004	2003
Total operating expenses (GAAP basis)	\$ 8,569,769	\$ 8,542,466
Plus interest expense	155,863	152,242
Less depreciation	(615,236)	(600,249)
Less nonbudgeted item (compensated absences)	(11,430)	(13,804)
Nonbudgeted item (adjustment) - other	(1,033)	255
Plus capital outlay (budgeted)	72,380	85,120
Total expenses (budgetary basis)	\$ 8,170,313	\$ 8,166,030

4. *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.

5. *Inventory*

Inventory, consisting of facilities maintenance supplies, concession supplies and souvenirs, is stated at the lower of cost (first-in, first-out method) or market.

Colorado State Fair Authority
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004 and 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

6. *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 plus computer equipment and buildings and land improvements with an initial cost of more than \$50,000. Such assets are recorded at historical cost if purchased or constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized when projects are materially complete. Streets, sidewalks, and water and drainage systems located on the fairgrounds are recorded as land improvements.

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

<u>Assets</u>	<u>Years</u>
Buildings (transferred from state)	20
Buildings (constructed)	40
Land improvements (streets, sidewalks, and water drainage systems)	50
Land improvements (other)	16
Furniture and equipment	5-7

7. *Deferred revenue*

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

8. *Accrued Compensated Absences Liability*

Effective July 1, 1988, all employees in classified permanent positions within the State Personnel System accrue sick leave at the rate of 6.66 hours per month. Total sick leave per employee is limited to their respective accrued balance on July 1, 1988, plus 360 additional hours. Annual leave is earned on an annual basis, with the amount varying between 10 and 21 days per year depending on the level of, and number of years of continuous service provided by the employee. Annual leave rights are vested after one year of continuous service and the accumulation of annual leave is limited to 42 days at the end of the fiscal year. The compensated absence liability accrual is recorded as a liability.

9. *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.

Colorado State Fair Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE B – 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 State capital contributions of (\$409,273) and (\$842,905) and change in net assets of \$(299,599) and \$(265,220) for the years ended June 30, 2004 and 2003, respectively. In addition, the Authority has negative working capital balances of \$566,826 and \$2,043,245 as of June 30, 2004 and 2003, respectively.

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

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

NOTE C – CASH DEPOSITS

1. *Cash*

Cash includes petty cash, change funds, imprest funds, and cash on deposit with the State Treasurer. Moneys deposited with the Treasury are invested until the cash is needed. The State Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, C.R.S. The Authority reports its share of the Treasurer's unrealized gains and losses based on its participation in the State Treasurer's pool only at fiscal year end. Effective July 1, 1997, with the Authority's initial adoption of Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

2. *Categorization of Deposits*

The Authority is authorized to deposit funds in bank accounts outside the custody of the Treasury. Colorado statutes require protection of public moneys in banks beyond that provided by the federal insurance corporations. The Public Deposit Protection Act in Section 11-10.5-107(5), C.R.S., requires all eligible depositories holding public deposits to pledge designated eligible collateral having market values at least 102 percent of the deposits exceeding those amounts insured by federal insurance. The Authority categorizes its cash into three categories on the basis of credit risk:

Colorado State Fair Authority
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004 and 2003

NOTE C – CASH DEPOSITS – Continued

- Category 1 is federally insured deposits or deposits fully collateralized with securities held by the Authority or its agent in the Authority's name.
- Category 2 is deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.
- Category 3 is uncollateralized deposits. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Authority's name.

As of June 30, 2004, the Authority's deposits are categorized as follows:

	<u>Bank balance</u>	<u>Carrying balance</u>
Cash on hand	\$ -	\$ 3,700
Categorized deposits		
Deposits covered by Federal insurance – Category 1	81,513	74,930
Deposits required to be collateralized in a single institution pool(s) – Category 2	-	-
Cash on deposit with State Treasurer	<u>436,351</u>	<u>436,351</u>
 Total Cash	 <u>\$ 517,864</u>	 <u>\$ 514,981</u>

For cash on deposit with State Treasurer, the State Treasurer's investments as of June 30, 2004 are Category 1 investments and its cash deposits are principally Category 2 deposits.

As of June 30, 2003, the Authority's deposits are categorized as follows:

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

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

Colorado State Fair Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE D – RESTRICTED ASSETS

In connection with the refunding revenue bonds issued in 1992 (note F), the Authority was required to establish a bond fund. The bond fund is comprised of monthly deposits sufficient to provide for the next maturing installments of bond principal and interest and for bond payments made in June and December of each year. The balance in the sinking fund at June 30, 2004 and 2003, was \$34 and \$30,161, respectively. As of July 1, 2004 and 2003, the amount of funds in the bond fund was not sufficient to meet the requirements of the bond resolution. The balance is collateralized with securities held by the pledging financial institution’s trust department as of June 30, 2004 and 2003.

The Authority was also required to establish a reserve fund to be used in the event of deficiencies in the bond fund. The balance in the reserve fund must be equal to the lesser of (i) 10% of the outstanding principal amount of the refunding revenue bonds, (ii) the maximum annual debt service requirement, as defined in the bond resolution, or (iii) 125% of the average amount of all required principal and interest payments which come due in any fiscal year. The Authority has complied with the reserve fund requirements for the years ended June 30, 2004 and 2003.

The Authority is also required to generate sufficient revenue to cover general operating expenses plus 125% of the annual requirements of principal and interest on the outstanding bonds. Gross operating revenues, as defined by the bond document, includes operating revenue and other revenue except amounts appropriated by the General Assembly of the State and designated for capital purposes or other purposes not including payment of general operating expenses or the payment of principal, interest or premiums on the bonds. The Authority was in compliance with this requirement for the year ended June 30, 2004. The Authority was not in compliance with this requirement for the year ended June 30, 2003.

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

	2004	2003
Phoenix Money Market Fund	\$ 19,351	\$ 245,059
Federal Home Loan Mortgage Corporation Multiclass CMO (Monthly principal and interest payments CPN 5.5% due October 15, 2033, \$232,516 cost basis)	\$ 226,855	\$ -

The Authority’s investment is insured by an agency of the federal government and is an investment allowed under State statute to be held by the Authority. The Authority recognized an unrealized loss of \$6,968 and unrealized gain of \$3,234 on the investment during the years ended June 30, 2004 and 2003, respectively.

Colorado State Fair Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE E – CAPITAL ASSETS

At June 30, 2004, capital assets consisted of the following:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions and</u> <u>reclassifications</u>	<u>Balance</u> <u>June 30, 2004</u>
Capital assets, not being depreciated				
Land	\$ 594,458	\$ -	\$ -	\$ 594,458
Construction in progress	<u>-</u>	<u>109,674</u>	<u>(109,674)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>594,458</u>	<u>109,674</u>	<u>(109,674)</u>	<u>594,458</u>
Capital assets, being depreciated:				
Buildings	12,086,940	-	-	12,086,940
Land improvements	6,320,456	109,674	-	6,430,130
Furniture and equipment	<u>2,138,469</u>	<u>72,380</u>	<u>(36,665)</u>	<u>2,174,184</u>
Total capital assets, being depreciated	20,545,865	182,054	(36,665)	20,691,254
Less accumulated depreciation for:				
Buildings	(6,568,496)	(317,661)	-	(6,886,157)
Land improvements	(1,464,133)	(207,475)	-	(1,671,608)
Furniture and equipment	<u>(1,882,148)</u>	<u>(90,100)</u>	<u>32,235</u>	<u>(1,940,013)</u>
Total accumulated depreciation	<u>(9,914,777)</u>	<u>(615,236)</u>	<u>32,235</u>	<u>(10,497,778)</u>
Total capital assets, being depreciated, net	<u>10,631,088</u>	<u>(433,182)</u>	<u>(4,430)</u>	<u>10,193,476</u>
Capital assets, net	<u>\$ 11,225,546</u>	<u>\$ (323,508)</u>	<u>\$ (114,104)</u>	<u>\$ 10,787,934</u>

Depreciation expense for the years ended June 30, 2004 and 2003 was \$615,236 and \$600,249, respectively.

Colorado State Fair Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE E – CAPITAL ASSETS - Continued

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

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

NOTE F – BOND AND CAPITAL LEASE OBLIGATIONS

1. *Refunding Revenue Bonds*

The Refunding Revenue Bonds, Series 1992, in the original amount of \$2,520,000 mature annually in varying amounts from December 1, 1993 through December 1, 2012. Interest is payable semi-annually at varying interest rates from 3.6% to 7.4%. The bonds are secured by a first lien on the net revenue of the Authority. See Note D for bond reserve and sinking fund requirements. The 1992 Bonds maturing on and after December 1, 2003, are subject to redemption prior to maturity at the option of the Authority on and after December 1, 2002 at the following redemption prices (expressed as a percentage of the principal amount so redeemed) plus interest thereon to the redemption date:

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

Colorado State Fair Authority
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004 and 2003

NOTE F – BOND AND CAPITAL LEASE OBLIGATIONS - Continued

1. *Refunding Revenue Bonds - continued*

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

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 130,000	\$ 108,910
2006	135,000	99,435
2007	145,000	89,283
2008	155,000	78,255
2009	170,000	66,230
2010-2012	<u>810,000</u>	<u>125,430</u>
Subtotals	1,545,000	567,543
Unamortized bond discount	<u>(8,372)</u>	<u>-</u>
Total	<u>\$1,536,628</u>	<u>\$ 567,543</u>

As discussed in note D, the Authority was in violation of one of its bond covenants as of June 30, 2003. According to the bond resolution for the bonds, such violation is considered an event of default. Per the bond resolution, upon the happening and continuance of any Event of Default, then in every case the Owner or Owners of not less than 25% in principal amount of the bonds then outstanding may proceed against the Authority to protect and enforce their rights. Accordingly, the entire principal amount of bonds outstanding as of June 30, 2003 in the amount of \$1,665,000 has been classified as current. As of June 30, 2004, the Authority was in compliance with this covenant and the Authority has classified the principal amount of bonds outstanding as of that date according to the existing repayment terms for the bonds.

2. *Capital Leases*

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

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

	<u>2004</u>	<u>2003</u>
Asset:		
Buildings	\$ 66,357	\$ 66,357
Furniture and equipment	<u>760,114</u>	<u>712,418</u>
Subtotal	826,471	778,775
Less : Accumulated depreciation	<u>(680,351)</u>	<u>(653,467)</u>
Total	<u>\$ 146,120</u>	<u>\$ 125,308</u>

Colorado State Fair Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE F – BOND AND CAPITAL LEASE OBLIGATIONS – Continued

2. *Capital Leases - continued*

The future minimum lease obligations and the net present value of these lease payments as of June 30, 2004 were as follows:

<u>Fiscal year</u>	<u>Amount</u>
2005	\$ 121,020
2006	60,434
2007	29,253
2008	26,878
2009	8,643
2010-2014	<u>3,318</u>
Total minimum lease payments	249,546
Less: amount representing interest	<u>(23,283)</u>
Present value of minimum lease payments	<u>\$ 226,263</u>

3. *Changes in long-term liabilities*

Long-term liability activity for the Fiscal Year Ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Refunding revenue bonds	\$1,665,000	\$ -	\$(120,000)	\$1,545,000	\$ 130,000
Less deferred amounts -					
On refunding	<u>(9,420)</u>	<u>-</u>	<u>1,048</u>	<u>(8,372)</u>	<u>-</u>
Total bonds payable	1,655,580	-	(118,952)	1,536,628	130,000
Capital leases	<u>265,689</u>	<u>57,941</u>	<u>(97,367)</u>	<u>226,263</u>	<u>107,717</u>
Total	<u>\$1,921,269</u>	<u>\$ 57,941</u>	<u>\$(216,319)</u>	<u>\$1,762,891</u>	<u>\$ 237,717</u>

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

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

Colorado State Fair Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE G – DEFINED BENEFIT PENSION PLANS

Plan Description – The Authority contributes to the Combined State and School Division Trust Fund (CSSDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The CSSDTF provides retirement and disability, annual increases, and death benefits for members or their beneficiaries. All employees of the Authority are members of the CSSDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the CSSDTF. That report may be obtained by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

Funding Policy – Plan members and the Authority are required to contribute to the CSSDTF at a rate set by statute. The contribution requirements of plan members and the Authority are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members is 8.0% and 8.0% and for the Authority is 10.15% and 10.04% of covered salary for the Fiscal Years ended June 30, 2004 and 2003, respectively. Beginning with payroll periods ending after January 1, 2001, the employer contribution paid to the CSSDTF were reduced by an employer match on members' voluntary contributions to a defined contribution plan. The match, set by the Board of Trustees of PERA, is 100% of a member's eligible tax-deferred retirement program contributions limited by a per payroll whole percentage of PERA-includable salary limit (percentage set for 2002 was 3.0% and for 2003 was 2.0%). Any unused DC match money is forwarded to the CSSDTF. Also, a portion of the Authority's contribution (1.64% of covered salary July 1, 2002, through December 31, 2002, 1.10% of covered salary January 1, 2003, through June 30, 2004) is allocated for the Health Care Trust Fund (See note H).

The Authority's contributions to CSSDTF for the years ended June 30, 2004, 2003, and 2002 were \$132,696, \$129,559, and \$120,237, respectively, equal to their required contributions for each year.

NOTE H – POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description – The Authority contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by PERA. The HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

Colorado State Fair Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE H – POSTEMPLOYMENT HEALTHCARE BENEFITS - Continued

Funding Policy – The Authority is required to contribute at a rate of 1.64% of covered salary from July 1, 2002, through December 31, 2002, and 1.10% from January 1, 2003, through June 30, 2004, 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 CRS, as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208 of the Colorado Revised Statutes, as amended. The Authority's contributions to HCTF for the years ended June 30, 2004, 2003, and 2002 were \$44,837, \$48,031, and \$51,046, respectively, equal to their required contributions for each year.

NOTE I – DEFINED CONTRIBUTION PENSION PLAN

Plan Description – The (CSSDTF) members (See Note G) of the Authority may voluntarily contribute to the Voluntary Investment Program (401(k) Plan) an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Plan participation is voluntary, and contributions are separate from others made to PERA. Title 24, Article 51, Part 14 of the CRS, as amended, assigns the authority to establish the 401(k) Plan provisions to the State Legislature.

Funding Policy – The 401(k) Plan is funded by voluntary member contributions of up to a maximum limit set by the IRS (\$11,000 in 2002, \$12,000 in 2003, and \$13,000 in 2004). Beginning in January 1, 2001, an employer match was legislated, which would match 100% of a member's eligible tax-deferred retirement program contributions limited by 3.0% in 2002, 2.0% in 2003, and 1.0% in 2004 per payroll of the PERA-includable salary. The contribution requirements for the Authority are established under Title 24, Article 51, Section 1402 of the CRS, as amended. The 401(k) Plan member contributions from the Authority for the years ended June 30, 2004, 2003 and 2002 were \$20,174, \$19,329, and \$20,360, respectively. The employer contributions to the 401(k) Plan from the Authority for the years ended June 30, 2004, 2003, and 2002 were \$10,215, \$15,751, and \$25,963, respectively.

NOTE J – RISK MANAGEMENT

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

Colorado State Fair Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE K – TABOR (Taxpayers Bill of Rights)

For the Fiscal Year Ended June 30, 2004, the Authority did qualify for exclusion from the provisions of Article X, Section 20 (TABOR) of the State of Colorado's constitution.

For the Fiscal Year Ended June 30, 2003, the Authority did not qualify for exclusion from the provisions of Article X, Section 20 (TABOR) of the State of Colorado's constitution because it did not qualify as an enterprise as defined by TABOR. Therefore, the Authority was included in the State district for TABOR purposes. The reserve for declared emergencies, required by TABOR, is determined at the State level. In addition, the Authority received \$458,012 in grants from the City of Pueblo and Pueblo County and \$577,685 of capital contributed by the State of Colorado. In Fiscal Year 2003, the Authority was in violation of Section 35-65-401(9)(f), C.R.S., which states in part: "except that in any budget year that the Colorado state fair authority would otherwise qualify as an enterprise pursuant to section 35-65-405(1), the board shall not accept any nonstate contributions that would cause the authority to exceed the limitations prescribed in Section 35-65-405(1)." On March 23, 2004, Senate Bill 04-9 was approved which repealed the prohibition on the acceptance of contributions by the Colorado State Fair Authority from nonstate entities in any budget year that the Authority would qualify as an enterprise under Section 20 of Article X of the state constitution (TABOR) if acceptance of the contributions affects the Authority's enterprise status by causing the Authority to receive 10% or more of its annual revenues from all Colorado state and local governments combined.

Report of Independent Certified Public Accountants
on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards

Members of the Legislative Audit Committee:

We have audited the financial statements of the Colorado State Fair Authority (the Authority) as of and for the year ended June 30, 2004, and have issued our report thereon dated July 30, 2004. Our report contains an explanatory paragraph for a going concern uncertainty. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, professional style.

Colorado Springs, Colorado
July 30, 2004

REQUIRED COMMUNICATIONS
COLORADO STATE FAIR AUTHORITY
FINANCIAL AND COMPLIANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2004

The following specific matters are required to be discussed with the Legislative Audit Committee in accordance with Statement on Auditing Standard No. 61, *Communication with Audit Committees*. The matters discussed herein are those that we have noted as of July 30, 2004, and we have not updated our procedures regarding these matters since that date to the current date. Accordingly, we advise you of the following with respect to the Colorado State Fair Authority (Authority) for the year ended June 30, 2004:

Auditors' Responsibility Under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

Our responsibility, as prescribed by auditing standards generally accepted in the United States of America promulgated by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors or fraud if they exist, have not been detected. Such standards also require that we obtain a sufficient understanding of the Authority's internal controls to plan the audit. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

Our Responsibility for Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, the auditors' responsibility for other information in documents containing the Authority's audited financial statements does not extend beyond the financial information identified in the audit report, and the auditor is not required to perform procedures to corroborate such other information. However, in accordance with such standards, we are required to read the information in such documents and consider whether such information, or the manner of its presentation, is materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information which we believe is a material misstatement of fact.

Significant Audit Adjustments

For purposes of these required communications, professional standards define an audit adjustment, whether or not recorded, as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The definition includes adjustments that were not recorded by the Authority because they are not material to the current financial statements but might be potentially material to future financial statements. There were five uncorrected misstatements noted during our audit that would have increased the Authority's net assets by \$21,643 as of June 30, 2004 had they been recorded in the financial statements. The Authority's management has represented to us that they believe the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and we concur with management's conclusion.

Disagreements with Management

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

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

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

Very truly yours,

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

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

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

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

Report Control No. 1626