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

Colorado State Fair Authority

June 30, 2005 and 2004

LEGISLATIVE AUDIT COMMITTEE
2006 MEMBERS

Senator Jack Taylor
Chair

Senator Stephanie Takis
Vice-Chair

Representative Fran Coleman
Senator Deanna Hanna
Representative David Schultheis
Senator Nancy Spence
Representative Val Vigil
Representative Al White

Office of the State Auditor Staff

Joanne Hill
State Auditor

Sally Symanski
Deputy State Auditor

David Agee
Legislative Auditor

Grant Thornton LLP
Contract Auditors

Grant Thornton

Accountants and Business Advisors

October 31, 2005

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, 2005. 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.

Grant Thornton LLP

90 South Cascade Avenue
Suite 1200
Colorado Springs, CO 80903
T 719.667.5000
F 719.520.0350
W www.grantthornton.com

Grant Thornton LLP
US member of Grant Thornton International

TABLE OF CONTENTS

COLORADO STATE FAIR AUTHORITY
REPORT SUMMARY
FINANCIAL AND COMPLIANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2005

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, 2005.

The audit was conducted 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*. 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 October 31, 2005 on the Colorado State Fair Authority's June 30, 2005 financial statements includes an explanatory paragraph that describes a going concern uncertainty. The Authority incurred a loss before State capital contributions of ($1,020,203) and change in net assets of ($942,851) during the year ended June 30, 2005 and as of that date, the Authority's current liabilities exceeded its current assets by $2,551,970 and it had deficit unrestricted net assets of ($1,508,204).

Current Year Findings and Recommendations

There are five 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 update its detailed five-year business plan and refine its strategies and pricing polices in order to minimize the amount of required future subsidizations.

- Secondly, 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 made unequal payments to and has underfunded the bond fund. We recommend the Authority make even monthly payments in accordance with the bond resolution.

- Thirdly, the Authority has not consistently applied useful life assignments to fixed assets in accordance with State guidelines 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 and also to improve the formatting of asset deletions to better match such deletions to the original asset entry.

- Fourthly, the Authority is not currently performing reconciliations of departmental schedules (schedules supporting revenue accounts). The Authority should perform monthly reconciliations of departmental schedules to the general ledger to assure accuracy and completeness of amounts recorded in the general ledger.

- Lastly, the Authority's controls over remittances received in the mail do not include a procedure requiring the preparation of a detailed listing of remittances that is ultimately compared to the deposit. The Authority should implement such a procedure to mitigate the risk of misappropriation of assets.

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, 2004:

Implemented	1
Partially implemented	2
Not implemented	1
Total	4

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	6	Update the Authority's detailed five-year business plan and refine its strategies and pricing policies in order to minimize the amount of required future subsidization by the State.	Agree	August 1, 2006
2	7	Monitor the bond covenant detail to ensure compliance with required bond fund balance without reliance on the bond reserve fund balance.	Agree	February 1, 2006
3	7	Perform a detailed review of the Authority's fixed asset detail for accuracy and consistency in assigning useful lives and in matching asset deletions against the original asset in the detail.	Agree	June 30, 2006
4	8	Perform monthly reconciliations of departmental schedules supporting revenue accounts to the general ledger.	Agree	March 1, 2006
5	8	Implement internal controls over remittances received by mail to mitigate the risk of misappropriation of assets.	Agree	Not economically feasible to implement

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 2005, the Authority was appropriated 20 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 2005 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, 2005 Fair-time*	Year ended June 30, 2005 Off-season	Year ended June 30, 2005 Total	Year ended June 30, 2004 Total
Operating revenues	$ 5,725,013	$ 1,635,509	$ 7,360,522	$ 7,314,682
Operating expenses (excluding depreciation)	5,105,108	2,992,775	8,097,883	7,954,533
Operating income (loss) before depreciation	$ 619,905	$(1,357,266)	(737,361)	(639,851)
Depreciation			(613,727)	(615,236)
Operating loss			(1,351,088)	(1,255,087)
Nonoperating revenues (net)			330,885	845,814
Loss before state capital contributions			(1,020,203)	(409,273)
State capital contributions			77,352	109,674
Change in net assets			$ (942,851)	$ (299,599)

*Fair held during August/September 2004. The Authority allocates approximately 75% of governance and administration and facilities management expenditures for July, August and September to Fair-time activity. The amount allocated for Fiscal Year 2005 was $3,383,349.

The 2005 State Fair (held in August/September 2005) results will be included in the financial statements for the year ended June 30, 2006.

The Authority experienced a net operating cash outflow of $1,227,934 and $815,508, respectively, for the years ended June 30, 2005 and 2004.

The loss for the year ended June 30, 2005 resulted in a negative change in net assets of $1,020,203 before State capital contributions.

FINDINGS AND RECOMMENDATIONS

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:

For Fiscal Year Ended	Operating Loss Including Depreciation and Amortization	Operating Loss Excluding Depreciation and Amortization	Total State Contributions	Local Contributions
June 30, 2005	$ (1,351,088)	$ (737,361)	$ 77,352	$ 441,757
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.

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). The Authority estimates that it will receive approximately $25,000 in revenue from the income tax check-off funds and $250,000 from the unclaimed property fund during 2006.

During fiscal year 2005, cash flow continued to be an issue for the Authority. The Authority obtained a loan from the State Treasury which permits it to maintain a deficit cash position up to $1,125,000. As of June 30, 2005, there was a balance due to the Treasury of $905,040 which had not been repaid as of the end of our audit. The Authority reports that by June 30, 2006, the deficit cash position is expected to reach $2.4 million.

Recommendation No. 1

The Authority should update its five-year business plan and refine its strategies and pricing policies in order to minimize the amount of required future subsidization by the State.

Colorado State Fair Authority Response: Agree. Implementation date: August 1, 2006. This date coordinates with the beginning of the Governor's Office budget review process and will allow the Authority the opportunity to accommodate for budget direction established by the Legislature during the 2006 session.

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.

At June 30, 2005 the bond fund was not adequate to make the principal and interest payment as required, and monthly deposits into the fund were not being made consistently. For example, in October no deposits were made, but in November two deposits were made and in December no deposits were made. However, the Authority made all required bond obligation principal and interest payments to the bondholders during 2005.

This was also a finding in the Year Ended June 30, 2004.

Recommendation No. 2

The Authority should monitor the bond covenant detail to ensure compliance by making timely 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. In the past there have been concerns with the timing of payments. Please note, there have never been issues with payment being made. The Authority will work to ensure these payments are made on a monthly basis. Implementation date: February 1, 2006.

Review of Fixed Asset Detail

In performing our audit procedures with respect to the Authority's fixed assets, which represent $10.4 million or 94% of the Authority's total assets as of June 30, 2005, 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 obtained two depreciable capital assets during 2005, one classified as equipment (nonoffice), but assigned a five-year life and another classified as a land improvement, but assigned a twenty-year life.

- 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.

These were also findings in the Year Ended June 30, 2004.

Recommendation No. 3

The Authority should perform a detailed review of the fixed asset detail for accuracy and consistency in assigning useful lives and in matching asset deletions against the original asset in the detail and make any necessary corrections.

Colorado State Fair Authority Response: Agree. The Authority is currently making the necessary adjustments to the depreciation schedule. Implementation date: June 30, 2006.

Reconciliation of Revenue Accounts

In performing audit procedures with respect to the Authority's revenue accounts it was noted that eleven of the departmental schedules from the Authority's fourteen departments did not reconcile to the general ledger accounts. For example, the departmental schedule listing private sponsorship revenue contained over $700,000 of in-kind revenue, which was not recorded in the accounting records. Accordingly, an adjustment was posted to adjust in-kind revenue to actual for the Year Ended June 30, 2005 in the amount of $719,371. There were no other adjustments related to revenue reconciliations posted during the audit.

Monthly reconciliations between all departmental schedules and the general ledger would help ensure records are accurate and minimize the need for year end adjustments.

Recommendation No. 4

The Authority should assign an individual at the management level to perform timely monthly reconciliations of departmental schedules to the general ledger to ensure errors, misallocations and omissions do not exist in the accounting records.

Colorado State Fair Authority Response: Agree. The Authority is currently hiring an additional accounting technician. This hire will free up the current on-site accountant from receivable duties to provide the appropriate oversight and attention to revenue and general ledger reconciliations. Implementation date: March 1, 2006.

Controls over Cash Receipts

In performing audit procedures in the area of cash, we noted that cash receipts received through the mail are opened by the executive assistant, then manually transported across the Fairgrounds and delivered to the department heads for coding into the accounting system. After coding, the remittances are then transported back across the Fairgrounds to the accountant for deposit in the bank. However, the mail opener does not prepare a detailed listing of receipts upon initial receipt of the cash. As a result, there is a risk of errors and irregularities going undetected. Cash receipts received through the mail are primarily payments for entry fees related to events, such as the horse show and livestock exhibits, fees and deposits for commercial exhibits, rental fees, and amounts received from the city lodging tax. The receipts are significant, averaging $50,000 to $100,000 a month during the off-season and $200,000 a month during Fair-time.

Recommendation No. 5

The Authority should improve controls over cash receipts by requiring that the person opening the remittances prepare a list documenting the payer, amount and check number for each remittance. After the deposit is made, an individual with neither record keeping or custody of assets responsibilities should compare the total deposit from the deposit slip to the total from the remittance listing to mitigate the risk that remittances are misappropriated.

Colorado State Fair Authority Response: Disagree. The Authority does not have the resources or personnel to provide the oversight suggested here to appropriately accommodate this recommendation. The Authority has prioritized the hiring of an additional accounting technician to accommodate recommendation No. 4 and the Authority is, also, conscious of minimizing additional burdens on the State's General Fund. The Authority does not plan to implement this recommendation, until the Authority determines that it can handle the additional costs to implement within annual revenues and within any state General Fund support.

Auditor Addendum: Establishing basic controls to minimize the risk of fraud is essential to any well managed accounting operation. At a minimum, a handwritten list of receipts could be maintained for little cost.

DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

The following recommendations are from the Fiscal Year 2004 Colorado State Fair Authority Financial and Compliance Audit.

Rec. No.	Recommendation	Disposition
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.	Partially implemented. See current year recommendation No. 1.
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.	Implemented. State of Colorado Department of the Treasury performed the analysis.
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 or greater than the required monthly deposits.	Not implemented. See current year recommendation No. 2.
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.	Partially implemented. The Authority posted adjusting entries during 2005 to remove fixed assets with an original cost below the capitalization threshold policy from the accounting records, but continues to inconsistently assign useful lives and match asset deletions against the original asset in the detail. See current year recommendation No. 3.

Grant Thornton

Accountants and Business Advisors

Report of Independent Certified Public Accountants

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the Colorado State Fair Authority (Authority), a division of the State Department of Agriculture of the State of Colorado (Department), as of and for the years ended June 30, 2005 and 2004, 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, 2005 and 2004, 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, 2005 and 2004, 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.

As discussed in note M, the Authority adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures,* effective July 1, 2004.

90 South Cascade Avenue
Suite 1200
Colorado Springs, CO 80903
T 719.667.5000
F 719.520.0350
W www.grantthornton.com

Grant Thornton LLP
US member of Grant Thornton International

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 ($1,020,203) and change in net assets of ($942,851) during the year ended June 30, 2005 and as of that date, the Authority's current liabilities exceeded its current assets by $2,551,970 and it had deficit unrestricted net assets of ($1,508,204). 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 October 31, 2005, 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 17 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.

Grant Thornton LLP

Colorado Springs, Colorado
October 31, 2005

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, 2005 and should be read in conjunction with the Authority's financial statements, which begin on page 18. 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 is 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 18 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 $7,579,499 at the close of the most recent fiscal year.

The following schedule provides a condensed statement of net assets as of June 30, 2005, 2004 and 2003.

Schedule of Net Assets

	June 30		
	2005	2004	2003
Current assets	$ 632,224	$ 979,040	$ 1,189,587
Other assets	33,743	40,461	47,179
Capital assets	10,376,908	10,787,934	11,225,546
Total assets	11,042,875	11,807,435	12,462,312
Current liabilities	3,184,194	1,545,866	3,232,832
Non-current liabilities	279,182	1,739,219	407,531
Total liabilities	3,463,376	3,285,085	3,640,363
Net assets:			
Invested in capital assets, net of related debt	8,855,876	9,025,043	9,304,277
Restricted	231,827	246,240	275,220
Unrestricted (deficit)	(1,508,204)	(748,933)	(757,548)
Total net assets	$ 7,579,499	$ 8,522,350	$ 8,821,949

2005

By far the largest portion of the Authority's net assets (117 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 (3 percent) of the Authority's net assets as of June 30, 2005 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is a negative $1,508,204, which indicates that over time the State Fair's expenses have exceeded its revenue.

At the end of the current fiscal year, the Authority reported positive balances in the investment in capital assets net of related debt and restricted net assets, but was left with a negative balance in unrestricted net assets. The negative balance increased $759,271 from June 30, 2004.

The Authority's net assets decreased by $942,851 during the current fiscal year. This decrease primarily relates to increased operating expenses and flat operating revenues.

As of June 30, 2005, 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 debt covenant (note F to the accompanying statements). As of June 30, 2004, the Authority was not in violation of the covenant and the principal was classified according to the bond repayment terms. Additionally, the Authority implemented cost center accounting and budgeting, whereby expenditures and revenues were booked to established cost centers. Revenues and expenditures are now tracked by month, by cost center, and by Fair-time or non–Fair time. This improvement has provided the Board and management with better financial tools for decision making.

2004

By far the largest portion of the Authority's net assets (106 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 (3 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 Fiscal Year 2004, 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 Fiscal Year 2004. This decrease primarily relates to the decline in charges for services earned for box office entertainment and attractions.

2003

Investment in capital assets as of June 30, 2003, less any related debt used to acquire those assets that is still outstanding, represented 106 percent of the Authority's net assets as of that date.

An additional portion (3 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.

The following schedule provides a condensed statement of changes in fund net assets for the years ended June 30, 2005, 2004 and 2003.

Schedule of
Changes in Fund Net Assets

	Year ended June 30		
	2005	2004	2003
Operating revenues:			
Commercial space/concession	$ 1,279,606	$ 1,392,468	$ 1,485,301
Gate admissions	2,047,689	1,920,765	1,946,025
Box office sales	1,640,820	1,613,597	1,617,888
Private sponsorships	1,260,883	1,036,217	889,531
Exhibitor fees	544,136	720,561	717,773
Building rentals	447,321	520,308	544,614
Miscellaneous revenues	140,067	110,766	166,315
Total operating revenues	7,360,522	7,314,682	7,367,447
Operating expenses:			
Personal service and benefits	1,792,256	1,761,695	1,787,043
Entertainment and attractions	1,933,650	1,868,206	1,978,186
Advertising and promotions	1,236,988	1,126,476	954,398
Prizes and awards	686,297	645,836	645,354
Depreciation	613,727	615,236	600,249
Other	2,448,692	2,552,320	2,577,236
Total operating expenses	8,711,610	8,569,769	8,542,466
Operating loss	(1,351,088)	(1,255,087)	(1,175,019)
Nonoperating revenues (expenses):			
Federal grants	-	785,000	-
Local government grants	441,757	228,734	458,012
Private donations	24,601	3,000	-
Investment income (loss)	11,715	(15,057)	26,344
Interest expense	(147,188)	(155,863)	(152,242)
Net nonoperating revenue	330,885	845,814	332,114
Loss before State capital contributions	(1,020,203)	(409,273)	(842,905)
State capital contributions	77,352	109,674	577,685
Change in net assets	$ (942,851)	$ (299,599)	$ (265,220)

For the Year Ended June 30, 2005 net assets decreased by $942,851. Key elements of this decrease are as follows:

- State capital contributions increased net assets by $77,352, thereby reducing the decrease in net assets to $942,851. The Authority had a decrease in net assets of $1,020,203 before State capital contributions. The decrease of $1,020,203 reflects the State Fair Authority's losses prior to the State capital contributions.
- Charges for services increased by $45,840 (0.6 percent) from the prior year. The Authority witnessed increases in Gate Admissions, Box Office Sales, and Private Sponsorships.
- Local grants to the Authority for operating expenses increased by $213,023 over the prior year.

Total expenses (operating expenses plus interest expense) for the current year increased by $133,166 (1.5 percent).

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 commercial space/concessions of $92,833 (6.3 percent decrease in commercial space/concessions) 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.

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 2005, 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 $8,136,957. Total revenues including local government grants, private donations, and interest were $7,838,595 and total expenses on a budgetary basis were $7,583,218. The Authority spent $255,377 under revenues.

Total operating expenses (GAAP basis)	$ 8,711,610
Plus interest expense	147,188
Less depreciation	(613,727)
Less nonbudgeted item (compensated absences)	(12,518)
Plus capital outlay	20,818
Less in-kind match	(719,371)
Plus nonbudgeted item (adjustment)	49,218
Total expenses (budgetary basis)	$ 7,583,218

FUTURE OUTLOOK

The duration of the Colorado State Fair was reduced from sixteen days for years prior to the 2005 Colorado State Fair to eleven days for the 2005 Colorado State Fair. The Authority plans to continue with the eleven-day format.

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 2005 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,

	2005	2004
ASSETS		
CURRENT ASSETS		
Unrestricted assets		
Cash and cash equivalents	$ 105,017	$ 514,981
Accounts receivable, net	68,824	46,052
Due from local governments	57,808	-
Inventory	37,206	19,320
Prepaid expenses	131,542	152,447
Total unrestricted assets	400,397	732,800
Restricted assets		
Bond fund	81,912	34
Reserve fund	149,915	246,206
Total restricted assets	231,827	246,240
Total current assets	632,224	979,040
NONCURRENT ASSETS		
Capital assets, net of accumulated depreciation	10,376,908	10,787,934
Unamortized financing costs	33,743	40,461
Total noncurrent assets	10,410,651	10,828,395
Total assets	11,042,875	11,807,435
LIABILITIES		
CURRENT LIABILITIES		
Due to State Treasurer	905,040	-
Current portion of bonds and capital lease obligations	1,460,888	237,717
Accounts payable	114,857	158,166
Accrued interest payable	9,796	13,499
Damage deposits	5,716	2,800
Deferred revenue	687,897	1,133,684
Total current liabilities	3,184,194	1,545,866
NONCURRENT LIABILITIES		
Bonds payable	-	1,415,000
Accrued compensated absences	219,038	214,045
Capital lease obligations payable	60,144	110,174
Total noncurrent liabilities	279,182	1,739,219
Total liabilities	3,463,376	3,285,085
NET ASSETS		
Invested in capital assets, net of related debt	8,855,876	9,025,043
Restricted for debt service	231,827	246,240
Unrestricted (deficit)	(1,508,204)	(748,933)
Total net assets	$ 7,579,499	$ 8,522,350

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,

	2005	2004
OPERATING REVENUES		
Commercial space/concessions	$ 1,279,606	$ 1,392,468
Gate admissions	2,047,689	1,920,765
Box office sales	1,640,820	1,613,597
Private sponsorships	1,260,883	1,036,217
Exhibitor fees	544,136	720,561
Building rentals	447,321	520,308
Miscellaneous revenues	140,067	110,766
Total operating revenues	7,360,522	7,314,682
OPERATING EXPENSES		
Personal service and benefits	1,792,256	1,761,695
Entertainment and attractions	1,933,650	1,868,206
Advertising and promotions	1,236,988	1,126,476
Prizes and awards	686,297	645,836
Repairs and maintenance	291,240	379,948
Utilities	605,987	576,158
Supplies and materials	322,246	336,258
Contractual services	623,977	688,248
Other operating	322,311	308,304
Building, vehicle and equipment rental	249,404	246,167
Travel	33,527	17,237
Depreciation	613,727	615,236
Total operating expenses	8,711,610	8,569,769
Operating loss	(1,351,088)	(1,255,087)
NONOPERATING REVENUES (EXPENSES)		
Federal grants	-	785,000
Local government grants	441,757	228,734
Private donations	24,601	3,000
Investment income (loss)	11,715	(15,057)
Interest expense	(147,188)	(155,863)
Total nonoperating revenues (expenses)	330,885	845,814
Loss before State capital contributions	(1,020,203)	(409,273)
State capital contributions	77,352	109,674
CHANGE IN NET ASSETS	(942,851)	(299,599)
Total net assets, beginning	8,522,350	8,821,949
Total net assets, ending	$ 7,579,499	$ 8,522,350

The accompanying notes are an integral part of these statements.

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

	2005	2004
Cash flows from operating activities		
Cash received from:		
Fees for services	$ 5,132,708	$ 5,635,508
Sale of products	51,051	84,417
Rental of property	450,237	500,004
Other sources	539,072	346,225
Cash payments to:		
Employees	(1,787,263)	(1,774,808)
Suppliers	(4,840,090)	(4,877,279)
Other	(773,649)	(729,575)
Net cash used in operating activities	(1,227,934)	(815,508)
Cash flows from capital and related financing activities		
Decrease in restricted assets	9,840	28,980
Local government grants	171,757	50,118
Debt service principal payments	(236,720)	(217,366)
Interest payments	(144,174)	(141,559)
Purchase of property and equipment	(140,854)	(13,636)
Net cash used in capital and related financing activities	(340,151)	(293,463)
Cash flows from noncapital and related financing activities		
Local government grants	212,192	219,646
Federal grants	-	785,000
Proceeds from issuance of loan from State Treasurer	905,040	-
Net cash provided by noncapital and related financing activities	1,117,232	1,004,646
Cash flows from investing activities		
Interest and dividend income	19,019	2,114
Change in Colotrust fair value	(2,731)	(16,962)
Private donations	24,601	3,000
Net cash provided by (used in) investing activities	40,889	(11,848)
Net decrease in cash and cash equivalents	(409,964)	(116,173)
Cash and cash equivalents, beginning of year	514,981	631,154
Cash and cash equivalents, end of year	$ 105,017	$ 514,981

(Continued)

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

	2005	2004
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (1,351,088)	$ (1,255,087)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation of property and equipment	613,727	615,236
Loss on disposal of fixed assets	10,367	3,628
Net changes in assets and liabilities relating to operating activities		
Increase in accounts receivable	(22,771)	(3,329)
(Increase) decrease in inventory	(17,886)	26,832
Decrease in prepaid expenses	20,905	651
Decrease in accounts payable	(43,309)	(135,672)
Increase (decrease) in compensated absences	4,993	(28,690)
Increase (decrease) in damage deposits	2,916	(20,304)
Decrease in deferred revenue	(445,788)	(18,773)
Net cash used in operating activities	$ (1,227,934)	$ (815,508)
Noncash investing and financing activities:		
Property and equipment added through State contributed capital	$ 77,352	$ 109,675
Unrealized loss on restricted assets	(4,573)	(6,968)
Property and equipment financed under capital lease	-	57,941
Property and equipment written off due to obsolescence	(58,729)	-
Property and equipment written off per compliance with capitalization policy	(91,232)	-
Capital lease obligation written off per compliance with capitalization policy	(5,138)	-

The accompanying notes are an integral part of these statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. *Organization*

The Colorado State Fair Authority (Authority) is a division of the State Department of Agriculture of the State of Colorado (Department). It operates under the jurisdiction of the Colorado State Fair Authority Board of Commissioners (Board) whose members are appointed by the Governor of the State. The financial statements of the Authority are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the Department that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2005 and 2004, 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 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 duration of the 2005 Colorado State Fair was reduced to eleven days in contrast to the sixteen day duration in previous years.

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.

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 2005, the Authority's original and final operating budget as approved by the General Assembly was $8,136,957. The Authority allocated the final budget to cover operating expenses, excluding depreciation and change in leave accrual. 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.

The Authority also adopts an internal budget for its enterprise fund for management purposes. For Fiscal Year Ended June 30, 2005, the internal budget showed total budgeted operating revenues of $8,136,957. Total actual operating revenues were $7,360,522, and total revenue including operating revenues, local government grants, private donations and interest were $7,838,595. Total allocated budgeted operating expenses were $8,136,957 while total actual operating expenses were $7,583,218, on a budgetary basis. The Authority spent $255,377 under actual revenues.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. *Budgetary Process - continued*

For Fiscal Year Ended June 30, 2004, the internal budget showed total budgeted operating 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.

	2005	2004
Total operating expenses (GAAP basis)	$ 8,711,610	$ 8,569,769
Plus interest expense	147,188	155,863
Less depreciation	(613,727)	(615,236)
Less nonbudgeted item (compensated absences)	(12,518)	(11,430)
Less in-kind match	(719,371)	-
Nonbudgeted item (adjustment) - other	49,218	(1,033)
Plus capital outlay (budgeted)	20,818	72,380
Total expenses (budgetary basis)	$ 7,583,218	$ 8,170,313

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.

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:

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

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.

10. *Reclassifications*

Certain financial information for the year ended June 30, 2004 has been reclassified to conform with the presentation for the current year.

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 ($1,020,203) and ($409,273) and change in net assets of $(942,851) and $(299,599) for the years ended June 30, 2005 and 2004, respectively. In addition, the Authority has negative working capital balances of $2,551,970 and $566,826 as of June 30, 2005 and 2004, respectively. As of June 30, 2005, the Authority was not in compliance with a bond covenant requiring general operating revenue to exceed general operating expenses, as defined in the bond document, plus 125% of the annual principal plus interest payment and including any required credit to the Reserve Fund and the Rebate Fund.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying statement of 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. *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 federal insurance.

NOTE C – CASH DEPOSITS – Continued

2. *Deposits - continued*

As of June 30, 2005, the Authority's deposits are as follows:

	Bank balance	Carrying balance
Cash on hand	$ -	$ 2,600
Deposits covered by depository insurance - Federal insurance	100,000	100,000
Deposits collateralized under PDPA	10,447	2,417
Cash on deposit with State Treasurer (see note L)	-	-
Total Cash	$ 110,447	$ 105,017

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

	Bank balance	Carrying balance
Cash on hand	$ -	$ 3,700
Deposits covered by depository insurance – Federal insurance	81,513	74,930
Cash on deposit with State Treasurer	436,351	436,351
Total Cash	$ 517,864	$ 514,981

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under GASB 40, deposits collateralized under PDPA are deemed subject to custodial credit risk.

As of June 30, 2005 the Authority was exposed to custodial credit risk in the amount of $10,447.

The Authority has no investments as of June 30, 2005 other than those discussed in note D.

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, 2005 and 2004, was $81,912 and $34, respectively, and is invested in cash and money market accounts. These amounts are covered by depository insurance. As of July 1, 2005 and 2004, the amount of funds in the bond fund was not sufficient to meet the requirements of the bond resolution. The fund was insufficient by $5,529 as of July 1, 2005, and $85,260 as of July 1, 2004.

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, 2005 and 2004.

The Authority is also required to generate sufficient revenue to cover general operating expenses plus 125% of the annual requirements of principal and interest on the outstanding bonds. Gross operating revenues, as defined by the bond document, includes operating revenue and other revenue except amounts appropriated by the General Assembly of the State and designated for capital purposes or other purposes not including payment of general operating expenses or the payment of principal, interest or premiums on the bonds. The Authority was not in compliance with this requirement for the year ended June 30, 2005.

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

	2005	2004
Phoenix Money Market Fund	$ 12,507	$ 19,351
Federal Home Loan Mortgage Corporation Multiclass CMO (Monthly principal and interest payments CPN 5.5% due October 15, 2033, $138,884 cost basis)	$ 137,408	$ 226,855

The Authority's investment in the money market fund is insured by depository insurance and the fixed income securities are issued by the federal government, both of which are investments allowed under State statute to be held by the Authority. The Authority recognized unrealized losses of $4,573 and $6,968 on the investment during the years ended June 30, 2005 and 2004, respectively.

NOTE E – CAPITAL ASSETS

At June 30, 2005, capital assets consisted of the following:

	Balance July 1, 2004	Additions	Deletions and reclassifications	Balance June 30, 2005
Capital assets, not being depreciated				
Land	$ 594,458	$ -	$ -	$ 594,458
Construction in progress	-	77,352	-	77,352
Total capital assets, not being depreciated	594,458	77,352	-	671,810
Capital assets, being depreciated:				
Buildings	12,086,940	-	(37,662)	12,049,278
Land improvements	6,430,130	131,189	-	6,561,319
Furniture and equipment	2,174,184	9,665	(149,961)	2,033,888
Total capital assets, being depreciated	20,691,254	140,854	(187,623)	20,644,485
Less accumulated depreciation for:				
Buildings	(6,886,157)	(312,403)	37,662	(7,160,898)
Land improvements	(1,671,608)	(215,136)	-	(1,886,744)
Furniture and equipment	(1,940,013)	(86,188)	134,456	(1,891,745)
Total accumulated depreciation	(10,497,778)	(613,727)	172,118	(10,939,387)
Total capital assets, being depreciated, net	10,193,476	(472,873)	(15,505)	9,705,098
Capital assets, net	$ 10,787,934	$ (395,521)	$ (15,505)	$ 10,376,908

Depreciation expense for the years ended June 30, 2005 and 2004 was $613,727 and $615,236, respectively.

NOTE E – CAPITAL ASSETS - Continued

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

	Balance July 1, 2003	Additions	Deletions and reclassifications	Balance June 30, 2004
Capital assets, not being depreciated				
Land	$ 594,458	$ -	$ -	$ 594,458
Construction in progress	-	109,674	(109,674)	-
Total capital assets, not being depreciated	594,458	109,674	(109,674)	594,458
Capital assets, being depreciated:				
Buildings	12,086,940	-	-	12,086,940
Land improvements	6,320,456	109,674	-	6,430,130
Furniture and equipment	2,138,469	72,380	(36,665)	2,174,184
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	(1,882,148)	(90,100)	32,235	(1,940,013)
Total accumulated depreciation	(9,914,777)	(615,236)	32,235	(10,497,778)
Total capital assets, being depreciated, net	10,631,088	(433,182)	(4,430)	10,193,476
Capital assets, net	$ 11,225,546	$ (323,508)	$ (114,104)	$ 10,787,934

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.

NOTE F – BOND AND CAPITAL LEASE OBLIGATIONS - Continued

1. *Refunding Revenue Bonds - continued*

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

Fiscal year	Principal	Interest
2006	$ 135,000	$ 99,435
2007	145,000	89,283
2008	155,000	78,255
2009	170,000	66,230
2010	180,000	53,280
2011-2013	630,000	72,150
Subtotals	1,415,000	458,633
Unamortized bond discount	(7,326)	-
Total	$ 1,407,674	$ 458,633

As discussed in note D, the Authority was in violation of one of its bond covenants as of June 30, 2005. 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, 2005 in the amount of $1,415,000 has been classified as current. As of June 30, 2004, the Authority was in compliance with this covenant and the Authority 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.

NOTE F – BOND AND CAPITAL LEASE OBLIGATIONS – Continued

2. *Capital Leases - continued*

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

	2005	2004
Asset:		
Buildings	$ 66,357	$ 66,357
Furniture and equipment	727,951	760,114
Subtotal	794,308	826,471
Less : Accumulated depreciation	(696,373)	(680,351)
Total	$ 97,935	$ 146,120

The future minimum lease obligations and the net present value of these lease payments as of June 30, 2005 were as follows:

Fiscal year	Amount
2006	$ 58,488
2007	27,400
2008	25,011
2009	8,525
2010	1,659
2011-2015	1,659
Total minimum lease payments	122,742
Less: amount representing interest	(9,384)
Present value of minimum lease payments	$ 113,358

3. *Changes in long-term liabilities*

Long-term liability activity for the Fiscal Year Ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Refunding revenue bonds	$1,545,000	$ -	$ (130,000)	$ 1,415,000	$ 1,415,000
Less deferred amounts - On refunding	(8,372)	-	1,046	(7,326)	(7,326)
Total bonds payable	1,536,628	-	(128,954)	1,407,674	1,407,674
Capital leases	226,263	-	(112,905)	113,358	53,214
Total	$1,762,891	$ -	$ (241,859)	$ 1,521,032	$ 1,460,888

NOTE F – BOND AND CAPITAL LEASE OBLIGATIONS – Continued

3. *Changes in long-term liabilities - continued*

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

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

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 for the Authority is 10.15% of covered salary for the Fiscal Years ended June 30, 2005 and 2004. 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 2003 was 2.0% and for January through May 31, 2004 was 1.0%). Any unused Defined Contribution Pension Plan (note I) match money is forwarded to the CSSDTF. With the passage and signing of Senate Bill 04-132 the employer match was suspended on June 1, 2004. Also, a portion of the Authority's contribution (1.02% for the Year Ended June 30, 2005 and 1.10% for the Year Ended June 30, 2004) is allocated for the Health Care Trust Fund (See note H).

NOTE G – DEFINED BENEFIT PENSION PLANS - Continued

The Authority's contributions to CSSDTF for the years ended June 30, 2005, 2004, and 2003 were $144,180, $132,696, and $129,559, 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 HCFT 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).

Funding Policy – The Authority is required to contribute at a rate of 1.02% for the Year Ended June 30, 2005 and 1.10% for the Year Ended 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, 2005, 2004, and 2003 were $42,349, $44,837, and $48,031, 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 ($12,000 in 2003, $13,000 in 2004 and $14,000 in 2005). 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 2.0% in 2003, and 1.0% in 2004 per payroll of the PERA-includable salary through May 31, 2004. As of June 1, 2004, there is no employer match available for 2005. 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, 2005, 2004 and 2003 were $21,176, $20,174, and $19,329, respectively. The employer contributions to the 401(k) Plan from the Authority for the years ended June 30, 2005, 2004, and 2003 were $0, $10,215, and $15,751, 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.

NOTE K – TABOR (Taxpayers Bill of Rights)

For the Fiscal Years Ended June 30, 2005 and 2004, the Authority did qualify for exclusion from the provisions of Article X, Section 20 (TABOR) of the State of Colorado's constitution.

NOTE L – DUE TO STATE TREASURER

The Authority obtained an authorized loan from the State Treasury permitting the Authority to maintain a deficit cash position at various times in the Treasury up to $1,125,000. The Treasury charges interest to the Authority at the current earnings rate on pooled cash. As of June 30, 2005 the rate was 3.5%. The balance of $905,040 as of June 30, 2005 consists of a $867,527 deficit cash balance in the Treasury and $37,513 balance in warrants payable. The agreement has no stated due date.

NOTE M – ADOPTION OF NEW ACCOUNTING STANDARD

Effective July 1, 2004, the Authority adopted Governmental Accounting Standards Board Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures.* GASB 40 establishes and modifies disclosure requirements related to investment risk: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. It also establishes and modified disclosure requirements for deposit risks, custodial credit risk and foreign currency risk. Adoption of GASB 40 had no effect on beginning net assets as of July 1, 2003 or July 1, 2004 or on change in net assets for the years ended June 30, 2005 or 2004.

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, 2005, and have issued our report thereon dated October 31, 2005. Our report contains an explanatory paragraph for a going concern uncertainty. As also noted in our report, the Authority adopted GASB 40 effective July 1, 2004. We conducted our audit 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.

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. Accordingly, we express no such opinion. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the Findings and Recommendations section of this report as Recommendation No. 4.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

90 South Cascade Avenue
Suite 1200
Colorado Springs, CO 80903
T 719.667.5000
F 719.520.0350
W www.grantthornton.com

Grant Thornton LLP
US member of Grant Thornton International

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.*

We noted certain additional matters that we reported in the Findings and Recommendations section of this report as Recommendations No. 1, No. 2, No. 3 and No. 5.

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

Grant Thornton LLP

Colorado Springs, Colorado
October 31, 2005

COLORADO STATE FAIR AUTHORITY
FINANCIAL AND COMPLIANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2005

Legislative Audit Committee:

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 October 31, 2005, 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, 2005:

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.

90 South Cascade Avenue
Suite 1200
Colorado Springs, CO 80903
T 719.667.5000
F 719.520.0350
W www.grantthornton.com

Grant Thornton LLP
US member of Grant Thornton International

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 four uncorrected misstatements noted during our audit that would have increased the Authority's change in net assets by $1,571 for the Fiscal Year Ended June 30, 2005 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,

Grant Thornton LLP

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

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

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

Report Control No. 1729