COLORADO STATE FAIR AUTHORITY

FINANCIAL AND COMPLIANCE AUDIT
Fiscal Years Ended June 30, 2007 and 2006

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FINANCIAL AND COMPLIANCE AUDIT
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Authority, Purpose and Scope

The audit of the Colorado State Fair Authority was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all State agencies. The 2007 audit was conducted under contract with Wall, Smith, Bateman and Associates, Inc. The audit was conducted in accordance with audit standards generally accepted in the United States of America. Audit work was performed July through September, 2007.

The purposes and scope of the audit were to:

- Perform a financial and compliance audit of the Colorado State Fair Authority for the year ended June 30, 2007, and to express an opinion on the financial statements. This included a review of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

- Evaluate progress in implementing prior audit recommendations.

Audit Results and Summary of Major Audit Findings

Our report, dated November 7, 2007, on the Colorado State Fair Authority's June 30, 2007 financial statements includes an explanatory paragraph that describes a going concern uncertainty. The Authority incurred a gain before capital contributions of $962,921 and change in net assets of $2,018,338 during the year ended June 30, 2007. Also as of that date, the Authority's current liabilities exceeded its current assets by $1,783,389 and it had deficit unrestricted net assets of $(1,054,015).

We issued a report on the Colorado State Fair Authority's internal control over financial reporting and compliance with other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. We noted five matters involving the internal control over financial reporting and its operation that we consider to be significant deficiencies. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented ore detected by the entity's internal control. Three of the significant deficiencies are considered to be material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Required Auditor Communications to the Legislative Audit Committee

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

SUMMARY OF FINDINGS AND RECOMMENDATIONS

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

There are 5 current year findings and recommendations:

- The Authority's enterprise fund has sustained operating losses for a number of years that have required continued State subsidization. House Bill 06-1384 will provide funding to pay off the debt to the State Treasury and the loan for the Events Center as well as provide $550,000 of operating funds per year, although it is possible that the Authority will continue to operate at a loss. We recommend that the Authority continue to refine its strategies and pricing policies and also search for efficiencies in its operations to minimize future losses.
- The Authority currently is not performing monthly reconciliations of certain accounting records. We recommend that the Authority perform timely monthly reconciliations of accounting records to ensure errors, misallocations and omissions do not exist in the accounting records.
- 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.
- The Authority currently does not always complete daily Box Office reconciliations. The Authority should ensure that all daily sales report reconciliations of Box Office revenue are completed and differences are resolved in order to reduce the risk of errors and fraud.
- The Authority currently does not have a comprehensive written accounting policies and procedures manual. We recommend that the Authority develop a comprehensive accounting policies and procedures manual.

Recommendations and Authority Responses

A summary of the recommendations for the above comments is included in the Recommendation Locator included at the end of this summary. The Recommendation Locator also shows the Authority's responses to the audit recommendations. A detailed description of the audit comments and recommendations is contained in the findings and recommendations section of the report.

Summary of Progress in Implementing Prior Audit Findings

There were six recommendations made in the prior year audit. Two recommendations were implemented and four recommendations were partially implemented. Detailed descriptions and the dispositions are contained in the disposition of prior year audit recommendations.

RECOMMENDATION LOCATOR All recommendations are addressed to the Colorado State Fair Authority Fiscal Year 2007				
Rec. No.	**Page No.**	**Recommendation Summary**	**Agency Response**	**Implementation Date**
1	6	Continue to refine strategies and pricing policies and also search for efficiencies in operations to minimize future losses.	Agree	Ongoing
2	8	Perform timely monthly reconciliations of accounting records to ensure accuracy in reporting and minimize errors, misallocations and omissions.	Agree	September 30, 2007
3	9	Implement internal controls over remittances received by mail to mitigate the risk of misappropriation of assets.	Agree	June 15, 2007
4	9	Perform daily reconciliations of Box Office revenue to reduce the risk of errors and fraud.	Agree	August 15, 2007
5	10	Complete a comprehensive accounting policies and procedures manual.	Agree	Ongoing

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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 2007, the Authority was appropriated 21 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 2007 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, 2007 Fair-time*	Year ended June 30, 2007 Off-season	Year ended June 30, 2007 Total	Year ended June 30, 2006 Total
Operating revenues	$ 5,645,323	$ 1,253,850	$ 6,899,173	$ 6,766,061
Operating expenses (excluding depreciation)	5,598,585	3,126,233	8,724,818	7,934,056
Operating income (loss) before depreciation	$ 46,738	$ (1,872,383)	(1,825,645)	(1,167,995)
Depreciation			(591,628)	(580,746)
Operating loss			(2,417,273)	(1,748,741)
Nonoperating revenues (net)			3,380,194	453,173
Gain (loss) before state capital contributions			962,921	(1,295,568)
Capital contributions			1,055,417	549,512
Change in net assets			$ 2,018,338	$ (746,056)

*Fair held during August/September 2006. Included in the breakdown is approximately 75% of governance and administration and facilities management expenditures for July, August and September to Fair-time activity.

The 2007 State Fair (held August/September 2007) results will be included in the financial statements for the year ended June 30, 2008.

The Authority experienced a net operating cash outflow of $1,813,649 and $863,057, respectively, for the years ended June 30, 2007 and 2006.

The gain for the year ended June 30, 2007 resulted in a positive change in net assets of $962,921 before capital contributions.

The loss for the year ended June 30, 2006 resulted in a negative change in net assets of $1,295,568 before capital contributions.

Five-Year Business Plan

The Authority's enterprise fund has incurred operating losses for a number of 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, 2007	$ (2,417,273)	$ (1,825,645)	$ 4,320,175	$ 270,132
June 30, 2006	(1,748,741)	(1,167,995)	812,924	347,997
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

In October of 2006 the board approved a five-year business plan. First, the business plan continued the reduced number of days of Fair operation from a 16 day Fair to an 11 day Fair, which was started for the fiscal year ended June 30, 2005. The Authority hopes to improve the quality of the Fair with better attractions in fewer days. Second, the business plan is to increase revenue by hiring an entertainment and venue management company to assist in marketing the Events Center. Third, the plan cites HB 06-1384 which will provide sufficient funds to payoff a loan with the State Treasury in the amount estimated at $2.1 million, payoff a loan on construction of the Events Center for $1.4 million and provide $550,000 per year for operating expenses.

For June 30, 2005 the auditors recommended that the Authority should update its five-year plan and refine its strategies and pricing policies in order to minimize the amount of required future subsidization by the State. Based on the updated five-year plan, the Authority will continue to rely on State subsidization for at least the next five years. Although the State has committed funding to the Authority, the Authority reports that it may continue to experience cash flow problems based on projections. Historically, since fiscal year 2003, the aforementioned $550,000 per year would not be enough to cover the operating loss excluding depreciation and amortization.

RECOMMENDATION NO. 1

The Authority should continue to refine its strategies and pricing policies and also search for efficiencies in its operations to minimize future losses.

Colorado State Fair Authority Response:

Agree. The Colorado State Fair Authority agrees that it is a prudent business practice to continually refine strategies and pricing policies and search for efficiencies to minimize future losses. The Colorado State Fair Authority staff, in cooperation with its Board of Commissioners, evaluates the five year plan periodically and makes changes as necessary. Some of the recent changes we have made include increasing the price of carnival tickets, increasing the price of beer and revising the pricing structure for rentals in the non-fair season. Implementation date: Ongoing.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the following control deficiencies constitute material weaknesses in internal control over financial reporting.

Reconciliation of Accounting Records

During our audit we noted that the inter-fund receivable account is not periodically reconciled and the Authority was not able to provide us with information to support the balance. The Authority's inter-fund receivable account is used to record cash and credit card receipts until they are deposited and recorded into the operating bank account. The balance of this inter-fund receivable account was $202,241 as of June 30, 2007.

While performing audit procedures with respect to the Authority's credit card sales, we noted that the Authority does not periodically reconcile credit card sales recorded in the general ledger to the amounts being collected. The Authority maintains a separate bank account where credit card sales are deposited, but the Authority could not provide to the auditor a reconciliation showing that all actual sales were being collected. During fiscal year 2007 approximately $798,000 was received from credit card sales per the bank statement. Without a reconciliation of the credit card account the Authority has no way of knowing if it is receiving the correct payments from the credit card companies.

While performing audit procedures with respect to the Authority's operating cash account, we noted that the Authority's cash reconciliation contained a reconciling amount of $87,622 as of June 30, 2007 which the Authority attributes to misposted credit card transactions. Since the credit card account has not been reconciled we were unable to verify that the reconciling item is attributable to the credit card transactions. The operating account is the account the Authority uses to deposit the majority of its revenue as well as all payments from the State Treasury.

Monthly reconciliations of the inter-fund accounts receivable and credit card account will assist to ensure that all cash and credit card receipts are being deposited into the operating bank account. Management is currently implementing reconciliation procedures, however these procedures are not scheduled to be implemented until fiscal year 2008.

The second paragraph was also a finding in the Year Ended June 30, 2006.

RECOMMENDATION NO. 2

The Authority should perform timely monthly reconciliations of accounting records to ensure accuracy and completeness in financial reporting and minimize the risk of errors, irregularities, misallocations and omissions.

Colorado State Fair Authority Response:

Agree. Monthly timely reconciliations should be performed to minimize errors. The inter-fund receivable account is being reconciled on a monthly basis currently. The fiscal year 2006 audit and recommendations were received late in fiscal year 2007 making the recommendation impossible to fully implement in fiscal year 2007. Implementation date: 9/30/07. By fiscal year end June 30, 2008, the Authority expects to be in full compliance with this recommendation.

Controls over Cash Receipts

We consider the following control deficiency to be a material weakness.

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 detail 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.

This was also a finding in the Years Ended June 30, 2006 and June 30, 2005. The Authority disagreed with the recommendation in both years because it believed it would be too costly to implement. Subsequent to the release of the June 30, 2006 audit report the Authority agreed to implement controls, however these new controls are not scheduled to be implemented until fiscal year 2008.

In performing audit procedures in the area of cash, we also noted that the accounts receivable clerk receives cash from box office, parking sales and other departments, prepares the deposit slip, occasionally makes the deposit and also records the revenue into the general ledger. Good internal control requires that no one person handle all elements of a single transaction. We recommend that the accounts receivable clerk's duty of preparing and making the bank deposit and making entries into the accounting records be assigned to some other employee in order to establish adequate control over cash receipts.

RECOMMENDATION NO. 3

The Authority should improve controls over cash receipts by requiring that the person opening the remittances to 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 or that errors go undetected.

Colorado State Fair Authority Response:

Agree. The Authority implemented new controls the last two weeks of fiscal year 2007, based on input from the previous audit, which was released June 12, 2007. The Fair's new controls include two persons opening the mail and making a list together of all checks received in the mail. When checks change hands, a signature is required by the receiver. In addition, the accounts receivable clerk is receiving deposits from individual organization managers but the deposits are then verified by another employee before being deposited into the bank. We feel that these controls are sufficient to mitigate risk while also considering the efficiencies of the organization. Implementation date 6/15/07.

Controls over Box Office Cash Receipts

We consider the following control deficiency to be a material weakness.

The Box Office revenue for fiscal year 2007 was $1.4 million. In performing audit procedures in the area of Box Office revenue, we noted that cashiers were not always completing and signing the daily sales reports which show a reconciliation of daily cash and revenue activity to the Ticketmaster reports. Failure to complete daily reconciliations of cash and revenue could prevent management from detecting errors or fraud in a timely manner.

RECOMMENDATION NO. 4

The Authority should ensure that all daily sales report reconciliations of Box Office revenue are completed and differences are resolved in order to reduce the risk of errors and fraud.

Colorado State Fair Authority Response:

Agree. Established procedures will be followed by Box Office personnel. The Box Office manager has been counseled as to the importance of documentation from the cashiers and daily reconciliation. In addition, the accounting office is assisting in checking for this documentation daily as well as in the monthly reconciliation process. Implementation date 8/15/07.

Accounting Policies and Procedures Manual

The Accounting Office is currently in the process of completing a comprehensive written policies and procedures manual. Such a manual is necessary to document accounting policies and procedures, provide consistent guidance and reinforcement of job duties to current employees, and assist in training new employees on procedures to be followed. Among other things, a comprehensive manual should address the accounting cycles and the process to accurately record and reconcile certain general ledger accounts, segregation of duties, and due dates for reporting purposes. A written manual should prevent tasks from being overlooked or not performed in a timely manner.

This was also a finding in the Year Ended June 30, 2006.

RECOMMENDATION NO. 5

The Authority should continue efforts to complete the comprehensive accounting policies and procedures manual.

Colorado State Fair Authority Response:

Agree. The Colorado State Fair Authority is continuing to update the accounting policies and procedures manual to accommodate for all of the improvements in the system. A manual was constructed in fiscal year 2007 in response to this recommendation. The Authority also anticipates that the manual will be updated and improved on a regular basis. Implementation date: Ongoing.

Disposition of Prior Audit Recommendations

Listed below are the recommendations from the Fiscal Year 2006 Colorado State Fair Authority Financial and Compliance audit.

Recommendation	Disposition
1. The Authority should continue to refine its strategies and pricing policies and also search for efficiencies in its operations to minimize future losses.	Partially implemented. See current year recommendation No. 1.
2. The Authority should perform timely monthly reconciliations of accounting records to ensure accuracy in reporting and minimize the risk of errors, irregularities, misallocations and omissions.	Partially implemented. See current year recommendation No. 2.
3. The Authority should improve controls over cash receipts by requiring that the person opening the remittances to 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.	Partially implemented. See current year recommendation No. 3.
4. The Authority should develop a comprehensive accounting policies and procedures manual.	Partially implemented. See current year recommendation No. 5.
5. The Authority should locate and maintain the complete bond documents. Periodically the Authority's management should review these documents and monitor requirements to ensure the Authority is in compliance with the designated bond covenants.	Implemented.
6. The Authority should maintain sufficient documentation to support all amounts recorded as in-kind support.	Implemented.

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INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business type activities of the Colorado State Fair Authority (the Authority), a division of the State Department of Agriculture (the Department) of the State of Colorado, as of June 30, 2007 and 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the Department that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2007, and 2006, 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, 2007 and 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 2, as of June 30, 2007 the Authority's current liabilities exceeded its current assets by $1,783,389 and it had deficit unrestricted net assets of ($1,054,015).

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2007 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 14 through 19 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wall, Smith, Bateman and Associates, Inc.

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

November 7, 2007

Colorado State Fair Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2007 and 2006

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, 2007 and should be read in conjunction with the Authority's financial statements, which begin on page 20. These financial statements reflect only activities of the Colorado State Fair Authority, a division of the State Department of Agriculture of the State of Colorado.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Notes to the financial statements.
The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 24 through 37 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 $8,851,780 at the close of the most recent fiscal year.

The following schedule provides a condensed statement of net assets as of June 30, 2007, 2006 and 2005.

Schedule of Net Assets

	June 30 2007	June 30 2006	June 30 2005
Current assets	$ 740,572	$ 582,019	$ 632,224
Other assets	25,307	29,525	33,743
Capital assets	10,877,170	10,405,973	10,376,908
Total assets	11,643,049	11,017,517	11,042,875
Current liabilities	2,523,961	3,915,507	3,184,194
Non-current liabilities	267,308	268,567	279,182
Total liabilities	2,791,269	4,184,074	3,463,376
Net assets:			
Invested in capital assets, net of related debt	9,714,139	9,071,645	8,855,876
Restricted	191,656	187,754	231,827
Unrestricted (deficit)	(1,054,015)	(2,425,956)	(1,508,204)
Total net assets	$ 8,851,780	$ 6,833,443	$ 7,579,499

2007

The largest portion of the Authority's net assets (110 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 $191,656 (2.2 percent) of the Authority's net assets as of June 30, 2007 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is a negative $1,054,015, which indicates that over time the State Fair's expenses have exceeded its revenue.

At the end of the Fiscal Year 2007, 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 Authority's net assets increased by $2,018,338 during the fiscal year 2006.

As of June 30, 2007, 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 6 to the accompanying statements).

2006

By far the largest portion of the Authority's net assets (133 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.

An additional portion (2.7 percent) of the Authority's net assets as of June 30, 2006 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is a negative $2,425,956 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 $917,752 from June 30, 2005.

The Authority's net assets decreased by $746,056 during the fiscal year ended 2006.

As of June 30, 2006, 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 6 to the accompanying statements).

Colorado State Fair Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2007 and 2006

Schedule of Changes in Fund Net Assets

Year ended June 30

	FY 07	FY 06	FY 05
Operating revenues:			
Commercial space/concession	$ 1,231,714	$ 1,226,772	$ 1,279,606
Gate admissions (pledged revenues of $1,543,339 in 2007 and $0 in 2006)	1,836,919	1,888,427	2,047,689
Box office sales	1,429,681	1,441,935	1,640,820
Private sponsorships	1,249,943	1,099,135	1,260,883
Exhibitor fees	449,058	484,134	544,136
Building rentals	506,713	516,018	447,321
Miscellaneous revenues	195,145	109,640	140,067
Total operating revenues	6,899,173	6,766,061	7,360,522
Operating expenses:			
Personal service and benefits	1,971,955	1,715,215	1,792,256
Entertainment and attractions	1,460,682	1,737,581	1,933,650
Advertising and promotions	1,384,959	1,293,836	1,236,988
Prizes and awards	733,089	677,824	686,297
Depreciation	591,628	580,746	613,727
Other	3,174,133	2,509,600	2,448,692
Total operating expenses	9,316,446	8,514,802	8,711,610
Operating loss	(2,417,273)	(1,748,741)	(1,351,088)
Nonoperating revenues (expenses):			
Local government grants	270,132	347,997	441,757
Unclaimed property fund interest income	3,264,758	263,412	-
Private donations	12,203	13,091	24,601
Investment income (loss)	3,287	4,504	11,715
Interest expense	(170,186)	(175,831)	(147,188)
Net nonoperating revenue	3,380,194	453,173	330,885
Increase in net assets before State capital contributions	962,921	(1,295,568)	(1,020,203)
State capital contributions	1,055,417	549,512	77,352
Change in net assets	$ 2,018,338	$ (746,056)	$ (942,851)

For the Year Ended June 30, 2007 net assets increased by $2,018,338. Key elements of this increase are as follows:

- State capital contributions increased net assets by $1,055,417. Additionally, the Fair received $3,264,758 of interest earned on the Unclaimed Property fund. These two contributions helped accomplish the increase in net assets to $2,018,338.

- Operating revenue increased by $133,112 mainly due to increases in commercial space/concessions, private sponsorships and miscellaneous revenue.

- Operating expenses increased by $801,644 with the largest increases in the areas of personal services and benefits ($256,740), contractual services ($246,951), repairs and maintenance ($112,346) and utilities (82,454). There was notable decrease in entertainment and attractions ($276,899).

For the Year Ended June 30, 2006 net assets decreased by $746,056. Key elements of this decrease are as follows:

- State capital contributions increased net assets by $549,512. Additionally, the Fair received $263,412 of interest earned on the Unclaimed Property fund. These two contributions helped reduce the decrease in net assets to $746,056.

- With the exception of building rentals, the Fair witnessed decreases in all operating revenue categories compared to FY 05.

Total expenses (operating expenses plus interest expense) for the current year decreased by $168,165 (2.3 percent).

BUDGETARY HIGHLIGHTS

The Authority's budget is determined by a variety of methods. The majority of the budget is set by the annual appropriations bill (called the Long Bill—enacted by the General Assembly and signed by the Governor), which determines budgets for every agency within the State. The Long Bill and centrally appropriated funds are approved shortly before the start of each fiscal year. Agencies may also request a supplemental appropriation during the fiscal year to cover unexpected expenses as well as year-end transfers of spending authority, if needed. The final method of funding is special legislation.

The approved original and final budget for the Authority's activities was a cash spending authority appropriation of $11,387,165. The budgetary amount includes the Colorado State Fair Program Line Item and budget allocations for the Fair's portion of Risk Management and Worker's Compensation insurances in the Long Bill, and $3,163,978 cash spending authority through HB 06-1384. Total revenues including local government grants and interest were $9,587,626 and total expenses on a budgetary basis were $8,066,379, or $1,521,247 below revenues.

Total operating expenses (GAAP basis)	$ 9,316,446
Plus interest expense	170,186
Less depreciation	(591,628)
Less nonbudgeted item (compensated absences)	16,477
Plus capital outlay	16,825
Less In-Kind Match	(861,927)
Plus nonbudgeted item (adjustment)	-
Total expenses (budgetary basis)	$ 8,066,379

FUTURE OUTLOOK

On June 5, 2006 House Bill 1384 was passed by the State Legislature which provided valuable financial assistance to the Authority. The financial assistance was provided to the Authority for the purpose of funding to payoff the debt to the State Treasury in the amount estimated at $2.1 million and to pay a loan on the construction of the Events Center in the amount of $1.4 million. It also will provide the Authority with $550,000 per year for operations once the debts are paid off. In fiscal year 2007 the Authority reduced its debt to the treasury by $1,212,477. It is projected that the State Treasury will be paid off in fiscal year 2008 and the bonds will be paid off in fiscal year 2008 as well.

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 2007 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
STATEMENT OF NET ASSETS
June 30, 2007 and 2006

	2007	2006
ASSETS		
Current assets		
Unrestricted assets		
Cash and cash equivalents	$ 263,633	$ 100,051
Accounts receivable, net of allowance for doubtful accounts	87,711	80,217
Due from local governments	5,400	9,532
Inventory	51,404	36,848
Prepaid expenses	140,768	167,617
Total unrestricted assets	548,916	394,265
Restricted assets		
Bond fund	35,677	33,832
Reserve fund	155,979	153,922
Total restricted assets	191,656	187,754
Total current assets	740,572	582,019
Noncurrent assets		
Capital assets, net of accumulated depreciation	10,877,170	10,405,973
Unamortized financing costs	25,307	29,525
Total noncurrent assets	10,902,477	10,435,498
TOTAL ASSETS	11,643,049	11,017,517
LIABILITIES		
Current liabilities		
Due to State Treasury	302,325	1,514,802
Current portion of bonds and capital lease obligations	1,149,494	1,296,877
Accounts payable	227,168	277,825
Accrued interest payable	6,680	7,882
Deferred revenue	829,243	797,441
Other current liabilities	9,051	20,680
Total current liabilities	2,523,961	3,915,507
Noncurrent liabilities		
Accrued compensated absences	253,771	231,116
Capital lease obligations payable	13,537	37,451
Total noncurrent liabilities	267,308	268,567
TOTAL LIABILITIES	2,791,269	4,184,074
NET ASSETS		
Invested in capital assets, net of related debt	9,714,139	9,071,645
Restricted for:		
Debt service	191,656	187,754
Unrestricted (deficit)	(1,054,015)	(2,425,956)
TOTAL NET ASSETS	$ 8,851,780	$ 6,833,443

The accompanying notes are an integral part of these statements.

COLORADO STATE FAIR AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Commercial space/concessions	$ 1,231,714	$ 1,226,772
Gate admissions (pledged revenues of $1,543,339 in 2007 and $0 in 2006)	1,836,919	1,888,427
Box office sales	1,429,681	1,441,935
Private sponsorships	1,249,943	1,099,135
Exhibitor fees	449,058	484,134
Building rentals	506,713	516,018
Miscellaneous revenue	195,145	109,640
Total operating revenues	6,899,173	6,766,061
OPERATING EXPENSES		
Personal service and benefits	1,971,955	1,715,215
Entertainment and attractions	1,460,682	1,737,581
Advertising and promotions	1,384,959	1,293,836
Prizes and awards	733,089	677,824
Repairs and maintenance	495,924	383,578
Utilities	778,173	695,719
Supplies and materials	376,259	277,041
Contractual services	827,457	580,506
Other operating	406,559	293,225
Building, vehicle and equipment rental	249,639	235,170
Travel	40,122	44,361
Depreciation	591,628	580,746
Total operating expenses	9,316,446	8,514,802
Operating loss	(2,417,273)	(1,748,741)
NONOPERATING REVENUES (EXPENSES)		
Private donations	12,203	13,091
Unclaimed property fund interest income	3,264,758	263,412
Local government grants	270,132	347,997
Investment income (loss)	3,287	4,504
Interest expense	(170,186)	(175,831)
Total nonoperating revenues (expenses)	3,380,194	453,173
Gain (loss) before state capital contributions	962,921	(1,295,568)
Capital contributions	1,055,417	549,512
Change in net assets	2,018,338	(746,056)
Net assets, beginning of year	6,833,442	7,579,499
Net assets, end of year	$ 8,851,780	$ 6,833,443

The accompanying notes are an integral part of these statements.

COLORADO STATE FAIR AUTHORITY
STATEMENTS OF CASH FLOWS
June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from fees for services	$ 6,225,755	$ 6,286,830
Cash received from rental of property	506,713	516,018
Cash received from other sources	195,145	109,640
Cash paid to employees	(1,949,300)	(1,703,137)
Cash paid to suppliers	(5,598,983)	(5,135,256)
Cash paid to others	(1,199,655)	(937,152)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(1,820,325)	(863,057)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Decrease in restricted assets	(3,902)	44,073
Local governmental grants	1,055,417	549,512
Debt service principal payments	(171,297)	(186,704)
Interest payments	(171,388)	(177,745)
Sale of property and equipment	17,000	-
Purchase of property and equipment	(1,079,826)	(609,811)
NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	(353,996)	(380,675)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Local governmental grants	270,132	347,997
State revenue	3,264,758	263,412
Payments to State Treasurer for loan	(1,212,477)	-
Proceeds from issuance of loan from State Treasurer	-	609,762
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	2,322,413	1,221,171
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividend income	3,287	4,504
Private donations	12,203	13,091
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	15,490	17,595
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	163,582	(4,966)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	100,051	105,017
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 263,633	$ 100,051

The accompanying notes are an integral part of these statements.

COLORADO STATE FAIR AUTHORITY
STATEMENTS OF CASH FLOWS
June 30, 2007 and 2006

	2007	2006
OPERATING LOSS	$ (2,417,273)	$ (1,748,741)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	591,628	580,746
Amortization of bonds	4,218	4,218
(Increase) decrease in accounts receivable	(7,494)	(11,393)
(Increase) decrease in due from others	4,132	48,276
(Increase) decrease in inventory	(14,556)	358
(Increase) decrease in prepaid expenses	26,849	(36,075)
Increase (decrease) in accounts payable	(50,657)	162,968
Increase (decrease) in compensated absences	22,655	12,078
Increase (decrease) in other payables	(11,629)	14,964
Increase (decrease) in deferred revenue	31,802	109,544
Total adjustments	596,948	885,684
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ (1,820,325)	$ (863,057)
NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment added through contributed capital	$ 1,055,417	$ 549,512

The accompanyng notes are an integral part of these statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Colorado State Fair Authority (Authority) is a division of the State Department of Agriculture of the State of Colorado (Department). It operates under the jurisdiction of the Colorado State Fair Authority Board of Commissioners (Board) whose members are appointed by the Governor of the State. The financial statements of the Authority are intended to present the financial position, and changes in financial position and cash flows, of only that portion of the business-type activities of the Department that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2007 and 2006, and changes in its financial position and its cash flows, where applicable, for the years 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 Colorado State Fair was reduced to eleven days in contrast to the sixteen day duration which started for the fiscal year ended June 30, 2005.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

Budgetary Process

The financial operations of the Authority are controlled by an annual appropriation made by the Colorado General Assembly and signed into law by the Governor as part of the annual Long Appropriations Act or other special bill.

For Fiscal Year 2007, the Authority's original and final budget as approved by the General Assembly was $11,387,165. The Authority allocated the final budget to cover operating expenses, excluding depreciation and change in leave accrual. For fiscal year 2006, the Authority's original and final operating budget as approved by the General Assembly was $8,098,598. 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, 2007, the internal budget showed total budgeted operating revenues of $10,334,637. Total actual operating revenues were $6,899,173 total revenue including operating revenues, unclaimed property fund interest income, local government grants, private donations and interest were $10,449,553. Total allocated budgeted operating expenses were $8,276,844 while total actual operating expenses were $8,066,379, on a budgetary basis.

For Fiscal Year Ended June 30, 2006, the internal budget showed total budgeted operating revenues of $8,406,010. Total actual operating revenues were $6,766,061 and total revenue including operating revenues, local government grants, private donations and interest were $7,395,065. Total allocated budgeted operating expenses were $7,263,315 while total actual operating expenses were $7,413,308, on a budgetary basis.

	2007	2006
Total operating expenses (GAAP basis)	$ 9,316,446	$ 8,514,802
Plus interest expense	170,186	175,831
Less depreciation	(591,628)	(580,746)
Less nonbudgeted item (compensated absences)	16,477	9,319
Less in-kind match	(861,927)	(766,197)
Plus capital outlay (budgeted)	16,825	60,299
Total expenses (budgetary basis)	$ 8,066,379	$ 7,413,308

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.

Inventory

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

Capital Assets

Capital assets include property, plant and equipment. Capital assets are defined by the Authority as equipment with an initial, individual cost of more that $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 materiality extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized when projects are materially complete. Streets, sidewalks, and water and drainage systems located on the fairgrounds are recorded as land improvements.

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

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

Deferred Revenue

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

Accrued Compensated Absences Liability

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

Statement of Cash Flows

For the purpose of the statement of cash flows, the Authority considers unrestricted, highly liquid temporary investments maturing within three months of the acquisition to be cash equivalents.

NOTE 2 GOING CONCERN

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Authority as a going concern. However, the Authority has a loss before capital contributions of ($1,295,568) and change in net assets of ($746,056) for the year ended June 30, 2006. In addition, the Authority has negative working capital balances of $1,783,389 and $3,333,488 as of June 30, 2007 and 2006, respectively. As of June 30, 2007 and 2006, 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 financial 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 State of Colorado has passed House Bill 06-1384 which will provide funding to pay off debt to the State Treasury and the construction loan for the Events Center as well as provide $550,000 of operating funds per year. The Authority's management is also implementing a new marketing plan to assist in increasing Events Center use and attendance.

NOTE 3 CASH DEPOSITS

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.

Deposits

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

As of June 30, 2007, the Authority's deposits are as follows:

	Bank Balance	Carrying Balance
Cash on hand	$ -	$ 2,800
Deposits covered by depository insurance - Federal Insurance	100,000	260,833
Deposits collateralized under PDPA	65,138	-
Total Cash	$ 165,138	$ 263,633

As of June 30, 2006, the Authority's deposits are as follows:

	Bank Balance	Carrying Balance
Cash on hand	$ -	$ 2,500
Deposits covered by depository insurance - Federal Insurance	98,367	97,551
Total Cash	$ 98,367	$ 100,051

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 not deemed subject to custodial credit risk.

The Authority has no investments as of June 30, 2007 other than those discussed in Note 4.

NOTE 4 RESTRICTED ASSETS

In connection with the refunding revenue bonds issued in 1992 (Note 6), 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, 2007 and 2006 was $35,677 and $33,832, respectively, and is invested in cash and money market accounts. These amounts are covered by depository insurance. As of July 1, 2007 and 2006, the amount of funds in the bond fund was sufficient to meet the requirements of the bond resolution.

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, 2007 and 2006.

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 years ended June 30, 2007 and 2006.

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

	2007	2006
Phoenix Money Market Fund	$ 155,979	$ 153,922

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 statue to be held by the Authority. The Authority recognized unrealized losses of $-0- and $-0- on the investment during the years ended June 30, 2007 and 2006, respectively.

NOTE 5 CAPITAL ASSETS

At June 30, 2007, capital assets consisted of the following:

	Balance 06/30/06	Additions	Deletions	Balance 06/30/07
Capital assets not being depreciated				
Land	$ 594,458	$ -	$ -	$ 594,458
Construction in progress	626,864	1,059,057	742,128	943,793
Total capital assets not being depreciated	1,221,322	1,059,057	742,128	1,538,251
Capital assets being depreciated				
Buildings	12,049,278	-	-	12,049,278
Land improvements	6,561,319	738,487	-	7,299,806
Furniture and equipment	2,094,187	16,825	10,000	2,101,012
Total capital assets being depreciated	20,704,784	755,312	10,000	21,450,096
Less accumulated depreciation for:				
Buildings	(7,473,301)	(312,401)	-	(7,785,702)
Land improvements	(2,101,880)	(227,647)	-	(2,329,527)
Furniture and equipment	(1,944,952)	(51,580)	(584)	(1,995,948)
Total accumulated depreciation	(11,520,133)	(591,628)	(584)	(12,111,177)
Total capital assets being depreciated, net	9,184,651	163,684	9,416	9,338,919
Capital assets, net	$ 10,405,973	$ 1,222,741	$ 751,544	$ 10,877,170

Depreciation expense for the years ended June 30, 2007 and 2006 was $591,628 and $580,746, respectively.

At June 30, 2006, capital assets consisted of the following:

	Balance 06/30/05	Additions	Deletions	Balance 06/30/06
Capital assets not being depreciated				
Land	$ 594,458	$ -	$ -	$ 594,458
Construction in progress	77,352	549,512	-	626,864
Total capital assets not being depreciated	671,810	549,512	-	1,221,322
Capital assets being depreciated				
Buildings	12,049,278	-	-	12,049,278
Land improvements	6,561,319	-	-	6,561,319
Furniture and equipment	2,033,888	60,299	-	2,094,187
Total capital assets being depreciated	20,644,485	60,299	-	20,704,784
Less accumulated depreciation for:				
Buildings	(7,160,898)	(312,403)	-	(7,473,301)
Land improvements	(1,886,744)	(215,136)	-	(2,101,880)
Furniture and equipment	(1,891,745)	(53,207)	-	(1,944,952)
Total accumulated depreciation	(10,939,387)	(580,746)	-	(11,520,133)
Total capital assets being depreciated, net	9,705,098	(520,447)	-	9,184,651
Capital assets, net	$ 10,376,908	$ 29,065	$ -	$ 10,405,973

NOTE 6 BOND AND CAPITAL LEASE OBLIGATIONS

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 rates from 3.6% to 7.4%. The bonds are secured by a first lien on the net revenue of the Authority. See Note 4 for bond reserve and sinking fund requirements.

Fiscal Year	Principal	Interest	Total
2008	$ 155,000	$ 78,255	$ 233,255
2009	170,000	66,230	236,230
2010	180,000	53,280	233,280
2011	195,000	39,405	234,405
2012	210,000	24,420	234,420
2013	225,000	8,325	233,325
Subtotals	1,135,000	269,915	1,404,915
Unamortized bond discount	(9,420)	-	(9,420)
Total	$ 1,125,580	$ 269,915	$ 1,395,495

As discussed in Note 4, the Authority was in violation of one of its bond covenants as of June 30, 2007 and 2006. 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 the bonds outstanding as of June 30, 2007 and 2006 in the amount of $1,135,000 and $1,280,000, respectively, has been classified as current.

Capital Leases

The Authority has entered into several capital lease agreements as lessee for financing the acquisition of various maintenance equipment, concession buildings and various office equipment. None of the principal payments are over $10,000 for the year 2008.

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

	2007	2006
Assets:		
Buildings	$ 66,357	$ 66,357
Furniture and equipment	119,944	119,944
Subtotal	186,301	186,301
Less: accumulated depreciation	(123,583)	(93,659)
Total	$ 62,718	$ 92,642

The future minimum lease obligations and the net present value of these lease payment as of June 30, 2007 were as follows:

Fiscal Year	Amount
2008	$ 27,009
2009	8,517
2010	1,659
2011	1,659
2012	1,659
Total minimum lease payments	40,503
Less: amount representing interest	(3,052)
Present value of minimum lease payments	$ 37,451

Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds payable:					
Refunding revenue bonds	$ 1,280,000	$ -	$ (145,000)	$ 1,135,000	$ 1,135,000
Less deferred amounts on refunding	(9,420)	-	-	(9,420)	(9,420)
Total bonds payable	1,270,580	-	(145,000)	1,125,580	1,125,580
Capital leases	63,748	-	(26,297)	37,451	23,914
Total	$ 1,334,328	$ -	$ (171,297)	$ 1,163,031	$ 1,149,494

Long-term liability activity for the fiscal year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds payable:					
Refunding revenue bonds	$ 1,415,000	$ -	$ (135,000)	$ 1,280,000	$ 1,280,000
Less deferred amounts on refunding	(7,326)	-	(2,094)	(9,420)	(9,420)
Total bonds payable	1,407,674	-	(137,094)	1,270,580	1,270,580
Capital leases	113,358	-	(49,610)	63,748	26,297
Total	$ 1,521,032	$ -	$ (186,704)	$ 1,334,328	$ 1,296,877

NOTE 7 PENSION PLAN OBLIGATIONS

A. PERA Plan Description

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

Non-higher education employees hired by the state after January 1, 2006, are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the state's Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan.

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

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

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

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

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

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5 percent times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15 percent increase between periods. For retirements after January 1, 2009 or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually based on their original hire date as follows:

- Hired before July 1, 2005 – 3.5 percent, compounded annually.
- Hired between July 1, 2005 and December 31, 2006 – the lesser of 3 percent or the actual increase in the national Consumer Price Index.
- Hired on or after January 1, 2007 – the lesser of 3 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percent of the employer contributions for this population.)

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their eligible children under the age of 18 (23 if a full-time student) or their spouse may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse then financially dependent parents will receive a survivor's benefit.

B. Funding Policy

The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly. Salary subject to PERA contribution is gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

Most employees contribute 8.0 percent of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2006 to December 31, 2006, the state contributed 10.65 percent of the employee's salary. From January 1, 2007, through June 30, 2007, the state contributed 11.15 percent. During all of Fiscal Year 2006-07, 1.02 percent of the employee's total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2005, the division of PERA in which the state participates was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional .5 percent of salary beginning January 1, 2006, another .5 percent of salary in 2007, and subsequent year increases of .4 percent of salary until the additional payment reaches 3.0 percent in 2012.

In the 2006 legislative session, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one half percentage point through 2013 resulting in a cumulative increase of three percentage points. For state employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries and used by the employer to pay the SAED. Both the AED and SAED will terminate when funding levels reach 100 percent.

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

The Authority's contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ending June 30, 2007, 2006 and 2005 were $229,753, $195,416 and $186,529, respectively. These contributions were equal to the required contributions for each year.

NOTE 8 VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer a 403b or 401(a) plan.

NOTE 9 POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; and $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5 percent for each year less than 20 years.

The Health Care Trust Fund is maintained by the authority's contribution as explained in Footnote 7 above.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical benefit plans, and another carrier for prescription benefit plans, and with several health maintenance organizations providing services within Colorado. As of December 31, 2006, there were 42,433 enrollees in the plan.

Life Insurance Program

During Fiscal Year 2006-07, PERA provided its members access to a group decreasing term life insurance plan offered by Unum Provident in which 41,101 members participated. Active members may join the Unum Provident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for 12,790 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

NOTE 10 RISK MANAGEMENT

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

NOTE 11 TABOR (TAXPAYERS BILL OF RIGHTS)

For the fiscal year ended June 30, 2006, the Authority qualified for exclusion from the provisions of Article X, Section 20 (TABOR) of the State of Colorado's constitution, however for fiscal year ending June 30, 2007 the Authority no longer qualified for exclusion as the Authority received more than 10% of its total revenue from the State. As a result, in fiscal year 2007 the Authority was included in the State Tabor District.

NOTE 12 DUE TO THE STATE TREASURY

During fiscal year 2005 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 $2,510,000. The Treasury charges interest to the Authority at the current earnings rate on pooled cash. As of June 30, 2007 and 2006 the rate was 4.73% and 3.6%, respectively. The balance of $302,325 as of June 30, 2007 consists of $206,718 deficit cash balance in the Treasury and $95,607 balance in warrants payable. The balance of $1,514,802 as of June 30, 2006 consists of a $1,398,442 deficit cash balance in the Treasury and $116,362 balance in warrants payable. The agreement has no stated due date. The amount due to the State Treasury was decreased during the year by $1,212,477 due to the appropriations provided by House Bill 06-1384. The House Bill will continue to provide funding to pay off the amount due to the State Treasurer during fiscal year ending June 30, 2008.

NOTE 13 COMMITMENTS AND CONTINGENCIES

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

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Legislative Audit Committee:

We have audited the financial statements of the business type activities of the Colorado State Fair Authority (the Authority), as of and for the years ended June 30, 2007 and 2006, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 7, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider Recommendations No. 2, 3, and 4 as described in the Findings and Recommendations section 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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

This report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wall, Smith, Bateman and Associates, Inc.

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

November 7, 2007

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COLORADO STATE FAIR AUTHORITY
FINANCIAL AND COMPLIANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2007

Members of the Legislative Audit Committee:

We have audited the financial statements of the Colorado State Fair Authority (Authority) for the year ended June 30, 2007, and have issued our report thereon dated November 7, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our contract dated April 10, 2007, our responsibility, as described 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, but not absolute, assurance that the financial statements are free of material misstatement, whether caused by error or fraud. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our contract, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is the depreciation of capital assets. We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this report, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of any audit, an auditor will propose adjustments of financial statement amounts. Management evaluates the proposed adjustment and records the adjustment if it is necessary to prevent the financial statements from being materially misstated. We proposed the following journal entries totaling $918,236. An entry for $738,487 to reclassify construction in progress to depreciable land and improvements, an entry for $112,256 to reclassify state contribution revenue to a federal contribution and other reclassification entries for $41,383. We also had four passed adjustments that were not recorded. If these adjustments would have been posted they would have had a total effect of $53,655 on the statement of revenues, expenses and changes in net assets.

Disagreements with Management

For purposes of this report, 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 that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

There were no major issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Wall, Smith, Bateman and Associates, Inc.

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

November 7, 2007

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