

Report of independent certified public accountants on applying
agreed-upon procedures

Colorado State Fair Authority

January 18, 2002

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Report of Independent Certified Public Accountants on
Applying Agreed-Upon Procedures

State of Colorado
Office of the State Auditor
Legislative Services Building
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Denver, Colorado 80203-2211

We have performed the procedures enumerated in Attachment A to this report, which were agreed to by the Office of the State Auditor of the State of Colorado, solely to assist you in evaluating the accompanying schedule of cost center operations of the Colorado State Fair Authority, prepared in accordance with the criteria specified therein, for the year ended June 30, 2001. Colorado State Fair Authority's management is responsible for the schedule of cost center operations of the Colorado State Fair Authority. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Office of the State Auditor of the State of Colorado. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to and did not conduct an audit or review, the objective of which would be the expression of an opinion or limited assurance on the schedule of cost center operations of the Colorado State Fair Authority. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Office of the State Auditor of the State of Colorado and is not intended to be and should not be used by anyone other than the Office of the State Auditor of the State of Colorado. However, it may be a matter of public record and its distribution may not be limited.

Colorado Springs, Colorado
January 18, 2002

Colorado State Fair Authority
PROCEDURES PERFORMED AND RESULTS/RECOMMENDATION
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Procedures we performed for the period July 1, 2000 to June 30, 2001 were as follows:

1. We identified through discussions with Authority officials all cost centers of the Authority.
2. For each cost center selected in 1. above, we had Authority personnel document all types of revenues generated and expenses incurred, both direct and indirect, for the fiscal year ended June 30, 2001. This process included all personnel, facilities, outside services, supplies, etc. used in the cost center. We reviewed this documentation with Authority personnel to both gain an understanding of the types of revenues and expenses associated with the cost centers and also to determine the reasonableness and completeness of the types of revenue/expenses attributable to the cost centers.
3. Based on our review of the types of costs associated with each cost center documented in 2. above, we determined through discussions with Authority personnel the most appropriate allocation methodologies to be used in the allocation of indirect expenses, and the proper methodology to be used for identifying direct expenses, for each of the respective cost centers. This process also addressed development of an allocation methodology for determining an appropriate "Fair" and "Non-Fair" break-out of revenues and expenses/expenditures.
4. Upon completion of steps 1-3, Authority personnel accumulated cost data using the cost identification and allocation methodologies agreed to in step 3. above for each cost center. They also isolated all revenues generated for each cost center.
5. Using the calculations in 4. above we a.) discussed the source data supporting direct and indirect expenses and revenue amounts b.) reviewed for reasonableness the allocation base information (eg. square footage, salaries, etc.), c.) tested the calculation of allocated expenses by applying the approved allocation methodology to gross cost amounts, and d.) determined whether the allocated expenses are fixed or variable.
6. We drafted this report that details our procedures performed and provides a schedule of the revenues and expenses of each cost center identified in 1. above, broken out by Fair/Non-Fair (Attachment B). Attachment B also segregates expenses between fixed and variable.

Colorado State Fair Authority
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Results:

General

The accompanying Schedule of Cost Center Operations (Attachment B) is the end result of the procedures performed as outlined on page one of this attachment. We worked closely with management of the Authority to assure this report's timely completion and we express our appreciation to them for those efforts. We believe the accompanying Attachment B represents a major step towards gaining an accurate assessment of the Authority's Fair/Non-Fair operations on a cost center basis. It recognizes that certain Fair expenses are ongoing throughout the year, rather than just occurring during the seventeen day period of its operation. We do, however, believe that enhancements can be made to the allocation process to increase the usefulness of financial information to users and its accuracy and we have addressed our recommendation in connection therewith in the recommendation section of this report.

Limitations encountered in the preparation of the Attachment B for the year ended June 30, 2001 included principally the following matters:

- The nine cost centers identified on Attachment B represent a consolidation of the over 200 cost centers used for accounting purposes for the year ended June 30, 2001. This accounting data was not captured in the accounting system during the year in the cost centers presented in Attachment B. Accordingly, a number of assumptions/judgments were needed to capture the data on Attachment B. During future periods, the number of assumptions/judgments may be reduced because the accounting system could track activity in the cost centers per the attachment.
- While we believe the resulting Attachment B provides the users of this information with a substantially more accurate assessment of the Authority's Fair/Non-Fair estimates than has been presented in recent years, the process requires the performance of the procedures described in Recommendation No.1 in the recommendation section of the report to enhance its usefulness.
- Because the bulk of the Authority's Fair revenues are received through gates and admissions which cover substantially all program activities at the Fair, it is, and will be, a difficult task to allocate these revenues accurately to the program cost centers. Significant estimation procedures are currently necessary in the process and errors in those estimates could distort the results presented.

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Schedule preparation

Substantially all revenues per Attachment B were allocated directly to the various cost centers with the exception of investment income, lodging tax and Pueblo County funds totaling \$443,180 which have been included in the administrative services cost center on Attachment B and have been allocated to Fair/Non-Fair on a basis of the ratio of total Fair/Non-Fair revenues, exclusive of the items, to total revenues. Sponsorship, credentials and gates and admissions were allocated based on estimates provided by the Assistant General Manager. Gates and admissions estimates were based, in part, on attendee exit survey materials.

For depreciation expense, the Fair/Non-Fair and cost center usage for each building on the Authority's depreciation schedule was estimated by the Authority. Depreciation expense for buildings was allocated on that basis and then those totals were used to allocate amortization and depreciation on land improvements and equipment to Fair/Non-Fair and cost centers.

For operating expenses, excluding depreciation, personnel services cost (salary and benefits) were allocated to Fair/Non-Fair on a ratio of 53.95% to Fair and 46.05% to Non-Fair based on an estimate of time spent by employee, by function. Estimates of time spent were obtained from Authority staff.

Temporary personnel costs, personal service contracts costs, advertising costs and other operating expenses were allocated directly to Fair/Non-Fair by Authority accounting personnel.

Interest expense was allocated using depreciation expense as the allocation base. Telephone expense was allocated using personnel services costs as the allocation base.

Administrative services expenses were allocated based on salaries; sponsorships, maintenance and utilities expenses were allocated based on depreciation expense; and marketing/advertising, credentials, security, police, ticket takers/cashiers, box office and gates and admissions expenses were allocated using allocated revenues.

In determining the fixed versus variable allocations shown on Attachment B, variable expenses are those that fluctuate in direct proportion to changes in volume of activity while fixed expenses remain constant in spite of changes in volume of activity. Fixed expenses were considered to be depreciation, personnel services and interest expense. Temporary personnel, personal service contracts and advertising were considered variable expenses. All other expenses were considered 50% fixed and 50% variable to reflect the fact that for the Authority to function, certain expenses that increase with volume of activity have a fixed component for minimal operations.

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Summary

Overall, Attachment B shows that the 17-day annual State Fair resulted in net income of about \$191,000 while Non-Fair activities resulted in a net loss of \$1.1 million for the year ended June 30, 2001. While some cost centers reported a profit, others did not. The following provides additional analysis regarding the two largest loss areas as reported on Attachment B:

CSF Entertainment.

CSF entertainment incurred the largest loss, totaling about \$2 million. This cost center consists of concerts, rodeos, and other entertainment during the annual 17-day State Fair. Both free and paid admission entertainment is offered at various venues on the fairgrounds. The following provides a further breakdown of CSF entertainment revenue and expenses:

Revenues		\$ 1,908,473
Expenses:		
Contract expenses	\$ 1,449,615	
Advertising	373,649	
Interest expense	114,163	
Depreciation	549,609	
Other	370,531	
Indirect Costs	<u>1,199,174</u>	<u>4,056,741</u>
Net loss		<u>\$2,148, 268</u>

As this shows, the cost of entertainment activities exceeds the revenues generated. The revenues consist primarily of ticket sales for individual concerts as well as an allocated portion of the general gate admissions.

The expenses consist of fixed costs, totaling about \$1.3 million, and variable costs, totaling about \$2.7 million. Fixed costs are those costs that would continue to be incurred regardless of whether entertainment was held. This includes depreciation, personnel services, and interest expense, and certain indirect costs, such as administrative services and maintenance. The majority of the depreciation and interest expense relates to the Events Center. The Events Center (an indoor arena) was constructed during 1994 and 1995 at a cost of approximately \$7.5 million. The Events Center began operating in 1995. At June 30, 2001, the Fair's outstanding debt obligation for the construction of the Events Center was \$1.9 million. Other costs, such as contract expenses, advertising, and other indirect costs, such as temporary employees and utilities, are variable costs and will fluctuate depending on the level of activities provided.

The majority of the cost centers operate together to generate gate and admission revenues and thus are not easily evaluated individually. For example, Fair's management has stated that some entertainment, even though it may lose money, boosts attendance and generates revenues through

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ticket and concession sales. As such, some of the revenues reported under another cost center could be attributable to entertainment. However, it was not feasible to make that determination.

Non-Fair Rentals

The second largest loss, totaling about \$1.2 million, was in Non-Fair rentals. The Fair rents its facilities to private and commercial entities on a year-round basis. This includes building and ground rentals, for events such as concerts, horse shows, and basketball tournaments. The Fair does not sponsor entertainment during the off-season, rather it rents the facilities to an outside promoter who then brings in the entertainment. The Fair sets a fee for the facility rental and is reimbursed for the cost of providing personnel for the events, such as ticket takers and security. The following shows the revenues and expenses for the year:

Revenues		\$ 1,036,509
Expenses:		
Depreciation	\$ 181,927	
Other	201,601	
Indirect Expenses	<u>1,874,651</u>	<u>2,258,179</u>
Net loss		<u>\$ 1,221,670</u>

Revenues consist of rental income and box office receipts. Expenses consist of fixed costs of about \$1.1 million, and variable costs of about \$1.2 million. Depreciation and full-time staff that are employed year-round (included in indirect costs) are the primary fixed costs. Variable costs consist of temporary personnel, maintenance, and utilities. Since Non-Fair rentals is the largest activity that takes place during the off-season, it is allocated the majority of the costs incurred during the off-season. Much of these costs would be allocated to other cost centers if the rental activity was reduced.

It is important to point out that during Fiscal Year 2001, the Fair did not capture information as to cost centers. Certain assumptions were made in determining what activities generated the revenues and in allocating costs to various activities. Further refinements are intended to be made that will improve this process over the next few years and provide a better management tool.

Although refinements are needed, the preliminary analysis included in this report shows that the Fair's operations need to be further examined. The Fair is open and running year-round. Revenues are generated primarily during the 17-day annual State Fair. Additional revenues are generated from the rental of facilities during the off-season. However, the Fair has reported net operating losses for the past several years. As the above shows, there are two main areas, entertainment and rental losses, where the Fair needs to reevaluate which activities and costs should be cut or where fees should be increased. Particular attention should be paid to what is included in fixed and variable costs. As further refinements are made in capturing revenues and associated costs, the Fair will be better able to analyze its operations.

Colorado State Fair Authority
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Recommendation:

Standardization of allocation process

The Authority's past practices used in determining Fair/Non-Fair operating results have not provided meaningful results. Users of the Authority's financial statements have a need for, and an interest in, allocated revenues and expenses on a program basis, broken down between Fair and Non-Fair operations. Issues that should be addressed in the allocation process include:

- the assessment of Fair/Non-Fair classification for every invoice and receipt as they are processed,
- communication of a simple, yet accurate process for allocating time between Fair/Non-Fair and cost centers to all personnel on an ongoing basis and the establishment of a system to capture those allocations of payroll and related benefit costs,
- matching depreciable assets to functions/uses and documentation of those procedures and
- determining and documenting how the gate revenue is to be allocated to the various program cost centers.

Once the initial assessment is made, time required for the analysis and changes to the initial assessment and documentation should be minimal. Obviously, all of these procedures could not be utilized during preparation of this report due to time constraints and resource capacity limitations, but they can and should be considered for implementation in the future.

Recommendation No.1

The Authority should implement policies and procedures effective for the fiscal year ending June 30, 2002 to standardize the program cost center allocation process. In developing that process, the most significant users of the Authority's financial statements should agree to the types of information that is needed from the process, the extent to which assumptions are to be used and how those assumptions are to be developed, who is to perform the process and how the process will be monitored.

An essential element in the determination of what is needed in the future should be a thorough discussion and analysis of the cost/benefit relationship of the proposed plan.

Colorado State Fair Authority
PROCEDURES PERFORMED AND RESULTS/RECOMMENDATION
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Colorado State Fair Authority's Response:

We concur that the program cost center allocation process should be further reviewed and standardized for future reporting periods, commencing with the year ending June 30, 2002. We also concur that it is important that representatives of the Authority, the Office of the State Auditor of the State of Colorado, the Office of State Planning and Budgeting of the State of Colorado and the Department of Agriculture of the State of Colorado meet to discuss the overall objectives of the allocation process, the level of reporting desired and the resources necessary to accomplish this process.

While we are pleased that this first step has been taken to improve the income determination process for the Authority's Fair and Non-Fair operations, we also concur that many refinements need to be made to the procedures used in developing this initial report in order to increase the accuracy of the results of the allocation process. We believe the readers of this report should view this as the first step in achieving the level of reporting they desire, but should fully understand that with the enhancements to the process we believe can and need to be made, the results of the allocation process may differ significantly from those presented.

We appreciate the additional work of our staff to help complete this project and will endeavor to work toward improving the accuracy of this process on an ongoing basis.

Colorado State Fair Authority
SCHEDULE OF COST CENTER OPERATIONS
Year ended June 30, 2001

Attachment B
Page 1 of 2

Cost Center *	Revenues		Expenses		Net income (loss)	
	Fair	Non-Fair	Fair	Non-Fair	Fair	Non-Fair
Rentals	\$ 64,709	\$ 1,036,509	\$ 62,645	\$2,258,179	\$ 2,064	\$ (1,221,670)
4-H	33,786	-	27,745	-	6,041	-
General entry	206,476	-	238,890	-	(32,414)	-
Horse show	409,919	-	343,665	-	66,254	-
Livestock	629,455	-	890,727	-	(261,272)	-
Commercial exhibits	1,028,708	12,650	258,379	23,645	770,329	(10,995)
CSF entertainment	1,908,473	-	4,056,741	-	(2,148,268)	-
Food vendors/souvenirs	1,029,877	188,571	259,661	111,646	770,216	76,925
Carnival	779,427	-	129,468	-	649,959	-
	<u>6,090,830</u>	<u>1,237,730</u>	<u>6,267,921</u>	<u>2,393,470</u>	<u>(177,091)</u>	<u>(1,155,740)</u>
Administration	<u>368,282</u>	<u>74,898</u>	<u>-</u>	<u>-</u>	<u>368,282</u>	<u>74,898</u>
	<u>\$6,459,112</u>	<u>\$ 1,312,628</u>	<u>\$6,267,921</u>	<u>\$2,393,470</u>	<u>\$ 191,191</u>	<u>\$ (1,080,842)</u>

Fixed versus variable expenses

Cost Center *	Total expenses		Total expenses			
	Fair	Non-Fair	Fair		Non-Fair	
			Fixed	Variable	Fixed	Variable
Rentals	\$ 62,645	\$ 2,258,179	\$ 44,988	\$ 17,657	\$ 1,076,472	\$ 1,181,707
4-H	27,745	-	9,186	18,559	-	-
General entry	238,890	-	91,704	147,186	-	-
Horse show	343,665	-	91,394	252,271	-	-
Livestock	890,727	-	398,275	492,452	-	-
Commercial exhibits	258,379	23,645	59,767	198,612	1,839	21,806
CSF entertainment	4,056,741	-	1,346,657	2,710,084	-	-
Food vendors/souvenirs	259,661	111,646	80,021	179,640	47,738	63,908
Carnival	129,468	-	12,185	117,283	-	-
	<u>\$6,267,921</u>	<u>\$ 2,393,470</u>	<u>\$2,134,177</u>	<u>\$4,133,744</u>	<u>\$ 1,126,049</u>	<u>\$ 1,267,421</u>

* See Attachment C for description of cost centers

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 SCHEDULE OF COST CENTER OPERATIONS
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Attachment B
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	<u>Depreciation expense</u>		
	<u>Fair</u>	<u>Non-Fair</u>	<u>Total</u>
Rentals	\$ 21	\$ 181,927	\$ 181,948
4-H	3,938	-	3,938
General entry	765	-	765
Horse show	2,733	-	2,733
Livestock	29,384	-	29,384
Commercial exhibits	9,668	11	9,679
CSF entertainment	549,609	-	549,609
Food vendors/souvenirs	30,904	6,820	37,724
Carnival	285	-	285
	<u>\$ 627,307</u>	<u>\$ 188,758</u>	<u>\$ 816,065</u>

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Attachment C
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Rentals	Rental of fair facilities to private and commercial entities.
4-H	General entry type competition for 4-H members only. These competitions are in separate buildings with separate judges from the open general entry competitions and under the direction of Camp Tobin (CSU Extension).
General entry	Open competitions of pantry items, needle arts, dolls, arts & crafts, porcelain arts, floriculture, cut flowers, field crops, baled hay, and FFA Ag mechanics.
Horse show	Open and 4-H horse competitions of numerous breeds and/or disciplines.
Livestock	Open and 4-H competitions of beef cattle, dairy cattle, goats, sheep, swine, llamas, rabbits, poultry and pigeons.
Commercial exhibits	Booth and space rentals and on-grounds attractions (space rental with minimum guarantee/commission revenue).
CSF entertainment	Entertainment acts at fairground venues.
Food vendors/souvenirs	Food vendors under contract for commission revenues with minimum guarantee.
Carnival	Mobile amusement under contract for commission revenue with minimum guarantee.