B28196

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

AUDIT REPORT

OF

INDIANA STATE FAIR COMMISSION

January 1, 2005 to December 31, 2005

FILED
09/28/2006

TABLE OF CONTENTS

SCHEDULE OF OFFICIALS

Office	Official	Term
Executive Director	Cynthia C. Hoye	12-16-04 to 01-11-09
President of State Fair Board	Terry Hoffman	10-01-03 to 09-30-06
Chairman of State Fair Commission	Dr. Gene Sease	06-01-02 to 09-30-06

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

TO: THE OFFICIALS OF THE INDIANA STATE FAIR COMMISSION

We have audited the accompanying basic financial statements of the Indiana State Fair Commission as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Indiana State Fair Commission'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. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Indiana State Fair Commission as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, and Schedules of Funding Progress, as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the 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.

STATE BOARD OF ACCOUNTS

June 30, 2006

INDIANA STATE FAIRGROUNDS

1202 East 38th Street
Indianapolis, IN 46205-2869
(317) 927 • 7500 ★ FAX (317) 927 • 7695

INDIANA STATE FAIR COMMISSION
2005 MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2005
Revised September 14, 2006

INTRODUCTION:

The Indiana State Fair Commission is charged with holding the annual Indiana State Fair in August, as well as providing accessible, cost-effective, secure and modern facilities for the variety of events hosted by the Commission the other eleven months of the year.

Commission members are appointed by the Governor. Their main function is to provide leadership and direction in the on-going renovation of this state-owned 250 acre facility. Fair Board members plan and run our largest single event--the Indiana State Fair. The Directors' and Commissioners' efforts are aided by the Senior Staff, who provide typical support services such as Accounting and Data Processing, Marketing, Media Relations, Buildings and Grounds Maintenance, Operations show set-up and tear-down, Parking and Gates, and overall coordination of the State Fair with the Commission.

Hot weather during the first week of the 2005 Indiana State Fair took its toll, but attendance rebounded during the second week as temperatures moderated. The 2005 edition of our Indiana State Fair saw attendance of 820,000; down about 9% from 2004's record of 900,000. The Fairgrounds has been located in Indianapolis, at 38th Street and Fall Creek Parkway, since 1892; while the early history of the Indiana State Fair dates back to the 1850's.

The Commission took over the financial and programming responsibilities for the Center for Agricultural Science and Heritage in 2005. Using the acronym C.A.S.H., this much smaller state government agency is located on property owned by the Commission. The agency had been created by, but never funded by, the legislature. The management of this entity was further complicated by C.A.S.H., Inc.—the 501 (c) 3 not-for-profit business entity that actually was established before the agency was. You will notice that the following Revenue and Expense Statement does not show C.A.S.H. as having any revenue. We have been advised by the Indiana State Board of Accounts that the $600,000 in "Inter-company Transfers" of funds we made in 2005 would not constitute "Revenue" to C.A.S.H. under GAAP (Generally Accepted Accounting Principles) rules. It is also important to note that the 501 (c) 3 NFP is a separate and distinct entity from the Indiana State Fair Commission.

This section presents management's discussion and analysis of the Indiana State Fair Commission for the year ended December 31, 2005. The MD&A is presented as a narrative overview and analysis of the ISFC's financial activities. The information provided here should be considered in conjunction with the information presented on our basic financial statements in order to enhance understanding of the ISFC's financial performance during the 2005 fiscal year.

OVERVIEW & DISCUSSION OF ASSETS & OUTSTANDING DEBTS ($000's):

ASSETS	**2005**	**2004**	**'05 – '04**	
Cash	$1,221	$1,168	$53	
Accounts Receivable	$481	$411	$70	
Bond Debt Serv Reserve Fund	$2,255	$2,255	$0	
Bond Payment Fund	$2,107	$2,031	$76	
Bond Proceeds	$0	$0	$0	
Other	$0	$3	($3)	
Investments	$4,675	$5,325	($650)	A
Land & Improvements	$10,371	$9,060	$1,311	B
Buildings & Improvements	$67,123	$66,471	$652	C
Machinery & Equipment	$3,570	$2,975	$595	
Office Furniture & Fixtures	$1,351	$1,355	($4)	
Accumulated Depreciation	($32,433)	($28,904)	($3,529)	
Other	$582	$635	($53)	
TOTAL ASSETS	**$61,303**	**$62,785**	**($1,482)**	
LIABILITIES	**2005**	**2004**	**'05 – '04**	
Trade & Contracts Payables	$641	$1,248	($607)	
Deferred Income	$209	$68	$141	
Current Portion Long Term Debt	$0	$0	$0	
Long Term Debt (Revenue Bond)	$18,835	$20,210	($1,375)	D
Principal & Interest	$1,766	$1,762	$4	
Other	$176	($148)	$324	
TOTAL LIABILITIES	**$21,627**	**$23,140**	**($1,513)**	
EQUITY				
Contributed Capital				
Retained Earnings	$39,676	$39,645	$31	
TOTAL EQUITY	**$39,676**	**$39,645**	**$31**	
TOTAL LIABILITIES & EQUITY	**$61,303**	**$62,785**	**($1,482)**	

Many of the large buildings we have at the Fairgrounds were built between 1920 and 1940. With the continuing success of the Indiana State Fair, and the need for upgraded space to accommodate today's show promoters and event managers, the Commission has long recognized the need to accelerate the re-building of several of the Fairgrounds main buildings. The Investments under (A) above will be discussed more fully under "Financial Outlook/ Current Issues for 2006" as they play an important part in our 2006 Capital Projects plan.

Looking at elements (B) and (C) on the Balance Sheet, the largest item in Land Improvements is ISFC's contribution to the Department of Natural Resources (DNR) "catch and release fishing pond" at $835,000, located directly behind the DNR Building at the Fairgrounds. ISFC is one of several funding sources for this $4 million project. Under Building Improvements, the Indiana State Board of Accounts had us re-classify $1.3 million of Bond Debt Interest Expense incurred during 2003 and 2004. Under GASB 34 (Governmental Accounting Standards Board) rules, interest costs expended during the construction phase is capitalized as part of the building's cost, and amortized over the life of the building. This is a significant accounting change from when we did our last Revenue Bond in 1991. Other capital expenditures were in the Home and Family Arts Building, Ag/Hort Air Conditioning, Farm Bureau Building Kitchen Area, Swine Barn refurbishment, Pioneer Village upgrades, and 4-H Education Complex; less the $900,000 reduction in book value caused by the demolition of the former Krannert Building.

Revenue Bond Debt Principal Reduction is about $1.4 million per year (D). We still owe about 12 years on the 15-year Revenue Bond.

We should expect Owner's Equity to start going down in future years, even though long term debt is going down at the same time. This is because at $4+ million per year in Depreciation Expense, the book values of ISFC fixed assets will be going down. Under GAAP accounting, Depreciation Expense flows through the Income Statement, thus reducing the "profit" (Revenue exceeding Expenses) that closes into "Retained Earnings" on the Balance Sheet. For example, the 2005 pre-audited Fairgrounds Revenue exceeding Expenses, before Depreciation, was $2.8 million. 2005 Depreciation Expense was $4.0 million. Therefore, under GAAP accounting rules, the Fairgrounds experienced Expenses Exceeding Revenue ("loss") of $1.2 million. Please remember, this is a "book loss", not a "cash loss." There is no reason for concern at this time.

COMPARATIVE SUMMARY OF REVENUE & EXPENSE ($000's):

REVENUE	2005	2004	'05–'04	
1. FAIR	$8,655	$8,257	$398	
FAIRGROUND TAX REVENUE				
Riverboat Casino	$6,259	$6,407	(148)	
Mil Tax	$2,541	$3,006	($465)	E
Pari-Mutuel	$350	$310	$40	
Total Tax Revenue	$9,150	$9,723	($573)	
FAIRGROUNDS EARNED REVENUE	$4,343	$4,398	(55)	
2. TOTAL FAIRGROUNDS REVENUE	$13,493	$14,121	($628)	
3. FACILITY CHARGE	$987	$998	($11)	
4. CENTER FOR AG SCIENCE	$0	$0	$0	
TOTAL REVENUE (1+2+3+4)	**$23,135**	**$23,376**	**($241)**	
EXPENSES				
5. FAIR OPERATING EXPENSES	$8,196	$7,582	$614	
FAIRGROUNDS OPERATING EXPENSES	$12,867	$11,670	$1,197	F
CAPITAL-TYPE PROJECTS EXPENSED	$279	$479	$200	
BOND DEBT AMORTIZATION	$65	$65	$0	
BOND DEBT INTEREST EXPENSE	$800	$312	($488)	G
6. TOTAL FAIRGROUNDS EXPENSES	$14,011	$12,526	$1,485	
FACILITY CHARGE OPERATING EXP	$600	$542	$58	
CAPITAL-TYPE PROJECTS EXPENSED	$3	$98	($95)	
7. TOTAL FACILITY CHARGE EXPENSES	$603	$640	($37)	
8. CENTER FOR AG SCIENCE	$336	$0	$336	H
TOTAL EXPENSES (5+6+7+8)	**$23,146**	**$20,748**	**$2,398**	
REVENUE EXCEEDING EXPENSES				
FAIR (1 – 5)	$459	$675	($216)	
FAIRGROUNDS (2 – 6)	($518)	$1,595	($2,113)	
FACILITY CHARGE (3 – 7)	$384	$358	$26	
CENTER FOR AG SCIENCE (4 – 8)	($336)	$0	($336)	
TOTAL REVENUE (LOSS)	**($11)**	**$2,628**	**($2,639)**	
OTHER REVENUE (EXPENSES)				
Grant Revenue	$99	$548	($449)	
Disposal of Krannert Building	($473)	0	($473)	
Interest Income	$284	$41	$243	
TOTAL OTHER	**($90)**	**$589**	**($679)**	
NET INCREASE (DECREASE) IN EQUITY	**($101)**	**$3,217**	**($3,318)**	

2004 was an unusually good year. The State Fair saw a record-setting attendance of 900,000. 2004 Mil Tax Revenues (E) were up about a half-million dollars as delayed property tax collections finally caught up with the new re-assessment of Indiana properties in 2002-2003. The Fairgrounds Operating Expenses remained moderate as we completed two of the three large 4-H Building Renovations using the remaining 2002 Revenue Bond proceeds.

2005 was a more "normal" year. While the Fair had enjoyed record-setting crowds for the last several years, we realize that the Indiana State Fair is a weather-driven event. Due to the nature of Fair Programming and staffing requirements, many of the expenditures like Advertising, Grandstand Entertainment Costs, Utilities, Livestock Shows, and a large portion of payroll are more likely to be fixed, or semi-fixed, rather than variable expenses. They do not vary with attendance. But, revenue streams like Gate Admissions, Concessions, and Grandstand ticket sales do vary with attendance. In Indiana, Fair attendance varies with high temperatures and rain.

2005 Fairgrounds Operating Expenses (F) went up $1.2 million over 2004. While all areas were affected, Utilities, Payroll costs, and Depreciation were impacted the most. The Bond Interest Expense at (G) reflects a 2004 adjustment by the State Board of Accounts to recognize capitalizing, rather than expensing, certain bond interest paid on the Revenue Bond during the construction phase of the 4-H Complex. Also, ISFC absorbed the operating expenses and management of a smaller entity, the Center for Agricultural Science and Heritage (H), located on our South Lot campus. Those costs were $336,000 in 2005.

Internally, ISFC Operating results are typically shown without Depreciation Expense. Our internal statements are used mainly by non-financial people. They find the concept of a "non-cash expense" to be confusing when trying to determine what ISFC can really afford in the way of additional debt service or additional fixed asset additions. Depreciation is included in the State Board of Accounts presentation to bring the ISFC's statements into compliance with Generally Accepted Accounting Principles. With all the major construction work over the last several years, depreciation expense has soared to about $4.0 million per year.

We have come a long way. We still have a long way to go to bring the Indiana State Fairgrounds to its full potential.

FINANCIAL OUTLOOK/CURRENT ISSUES FOR 2006:

We tend to budget the State Fair conservatively, knowing that it all depends on the weather. 2006 State Fair Budget is based on expected attendance of 800,000. For several years now, the State Fair Commission has allowed the State Fair Board to re-invest any cash surplus from Fair operations into the following year's State Fair. 2006 is the Indiana State Fair's 150th Anniversary. Substantial programming efforts are underway to capitalize on this fact, much like a Disney event, with the capstone being a 70 feet long, 9 feet high signature art piece that captures the essence of the Indiana State Fair, to be located at the south east corner of the State Fairgrounds, at the intersection of 38th Street and Fall Creek Parkway.

We continue to be mindful of bio-security issues; including E.coli O157:H7 and Avian (Bird) Flu, as well as overall public health and safety for Fairgoers.

The State Fair's cost to "stay in the game" continues to rise each year. For 2006, the cost of Grandstand Concert Artist's guarantee fees increased by $1 million over 2005, adding a substantial amount of new financial risk for the Fair. We have met this challenge with increased concert ticket pricing, and aggressive marketing for these shows.

The 2006 Fairgrounds Budget recognizes another $1 million increase in operating expenses over 2005. Fairgrounds Executive Director Cindy Hoye recognized that although we have put about $60 million into capital projects over the last ten years, we have not put enough emphasis on keeping what we have maintained. She implemented a "Facility Enhancement Team" to fix or repair the little things like chipped paint, adhesives stuck to the walls, restroom stalls with broken locks, etc.—all the kinds of things that do occur with rental buildings used by the public. We also invested a substantial amount of time and funding into strengthening our human resources efforts by adding benefited staff positions, and including Occupational Safety and Health Administration (OSHA) and public safety training for all Fairgrounds employees. Gas and Electric utilities cost continue upward.

We recognize that Fairgrounds Tax Revenues and Earned Revenues are relatively stable, but not growing; and that increased Operating Expenses have substantially reduced the Fairgrounds' internal financial capability to continue the building renovations and updates we know need to be done.

The 2006 Capital Plan expects to spend about $4 million, of which $3 million will come from our current investments. (See Assets spreadsheet, letter "A") We plan to spend the 2005 Fair's profit of about $500,000 to help fund the costs associated with the 150th Fair Anniversary. At the end of 2006, we expect to have the $1 million in cash reserves required by the Revenue Bond Covenants, but not much more. Capital spending for 2007 may be limited to the second year of the 4-H Girls Dormitory 3-year Renovation Project. We believe it is important to do as much as we can, as soon as we can, to upgrade and improve the Fairgrounds facilities.

A series of Strategic Planning meetings took take place over this summer and fall to help us address where the overall business is today, and where it should be going. We recognize that people have MORE CHOICES for entertainment and leisure time activities; and LESS TIME available to enjoy those activities. The challenge for us is to make the Indiana State Fairgrounds their destination point.

We believe our future lies in continuing what we do well; that is, showcasing one of the best State Fairs in the country, as well as the other 300 shows and events that call the Indiana State Fairgrounds home.

Mark Hindsley
2005MDA-REVISED

INDIANA STATE FAIR COMMISSION
STATEMENT OF NET ASSETS
PROPRIETARY FUND
December 31, 2005

Assets	
Current Assets:	
Cash and Cash Equivalents	$ 4,893,319
Accounts Receivable	481,226
Due From Other Funds	2,782
Total Current Assets	5,377,327
Noncurrent Assets:	
Restricted Cash and Cash Equivalents:	
Repair and Replacement Fund	1,000,000
Bond Debt Service Account	2,254,460
Bond Funding Account	2,106,451
Total Noncurrent Assets	5,360,911
Deferred Charges - Bond Issuance Costs	582,396
Construction In Progress:	
Construction In Progress - Other	221,556
Property, Plant, and Equipment:	
Land and Improvements	10,371,074
Buildings and Improvements	66,902,176
Machinery and Equipment	3,569,459
Office Furniture and Equipment	1,351,237
Less: Accumulated Depreciation	(32,432,969)
Total Property, Plant and Equipment	49,760,977
Total Assets	$ 61,303,167
Liabilities and Fund Equity	
Current Liabilities Payable From Unrestricted Funds:	
Accounts Payable	$ 519,585
Contracts Payable	120,856
Revenue Bonds Payable - Current	1,375,000
Revenue Bond Interest Payable	391,493
Salaries Payable	97,958
Payroll Withholdings Payable	14,272
Taxes Payable	15,219
Deferred Income	208,507
Compensated Absences Current Payable	200,676
Total Current Liabilities Payable From Unrestricted Funds	2,943,566
Noncurrent Liabilities:	
Revenue Bonds Payable - LT	18,835,000
Unamortized Bond Discount	(130,794)
Unamortized Loss on Sale of Bonds	(186,071)
Compensated Absences Long Term Payable	165,454
Total Noncurrent Liabilities	18,683,589
Total Liabilities	21,627,155
Net Assets:	
Invested in Capital Assets Net of Related Debt	31,147,533
Restricted-expendable	
Future Debt Service	4,360,911
Other Purposes	1,000,000
Unrestricted (deficit)	3,167,568
Total Net Assets	$ 39,676,012

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For The Year Ended December 31, 2005

Operating Revenues:	
Fair Operations:	
Gates	$ 2,471,350
Concessions/Midway	2,025,773
Entertainment	1,472,791
Sponsorship	1,152,811
Department	418,242
Sport/Events	321,857
Livestock	391,733
Shuttle Bus	129,003
Parking	216,460
Other	54,521
Total Fair Operations	8,654,541
Non-Fair Operations:	
Concessions	576,618
Rentals of Buildings, Grounds, and Equipment	1,734,797
Expense Reimbursement	1,353,601
Fairground Events	177,582
Ice Skating and Skate Shop	157,114
Sponsorships	202,500
Other	140,910
Total Non-Fair Operations	4,343,122
Facility Charge Operations:	
Facility Charge Revenue	987,133
Total Operating Revenue	13,984,796
Operating Expenses:	
Fair Operations:	
Payroll	1,652,894
Services Other Than Personal	721,262
Services by Contract	4,485,435
Materials, Parts, and Supplies	658,896
Awards	607,399
Travel	71,100
Bad Debt Expense	(495)
Total Fair Operations	8,196,491
Non-Fair Operations:	
Payroll	3,623,804
Services Other Than Personal	2,396,678
Services by Contract	1,921,490
Materials, Parts, and Supplies	787,857
Capital Expenditures	278,984
Depreciation	4,057,618
Travel	20,349
Bad Debt Expense	59,425
Total Non-Fair Operations	13,146,205

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For The Year Ended December 31, 2005
(Continued)

Operating Expenses (continued):	
Facility Charge Operations:	
Payroll	389,294
Services by Contract	186,162
Other	28,054
Total Facility Charge Operations	603,510
C.A.S.H. The Barn Operations:	
Payroll	161,937
Services Other Than Personal	158,300
Other	16,077
Total C.A.S.H The Barn Operations	336,314
Total Operating Expenses	22,282,520
Operating Income (Loss)	(8,297,724)
Nonoperating Revenues (Expenses):	
Property Tax Distribution	2,540,874
Riverboat Distribution	6,259,041
Pari-Mutual, Off-Track Betting Distribution	350,203
Interest Income	283,789
Interest Expense 2002 Bond (Bond Debt Service)	(864,736)
Loss on Disposal of Building	(472,500)
Grants	99,534
Total Nonoperating Revenues	8,196,205
Net Income (Loss)	(101,519)
Total Net Assets, January 1, As Restated	39,777,531
Total Net Assets, December 31	$ 39,676,012

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended December 31, 2005

	Proprietary Fund
Cash Flows from Operating Activities:	
Receipts from Customers and Users	$ 13,913,860
Payments to Suppliers	(12,490,774)
Payments to Employees	(5,792,474)
Net Cash Used by Operating Activities	(4,369,388)
Cash Flows from Noncapital Financing Activities:	
Tax Distributions From State	9,150,117
Cash Flows from Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	(3,422,871)
Capital Assets - Contracts Payable	(112,126)
Principal Paid on Capital Debt	(1,355,000)
Interest Paid on Capital Debt	(798,906)
Grants	99,534
Net Cash Used by Capital and Related Financing Activities	(5,589,369)
Cash Flows From Investing Activities	
Interest Received	283,789
Net Decrease in Cash and Cash Equivalents	(524,851)
Cash and Cash Equivalents, January 1	10,779,081
Cash and Cash Equivalents, December 31	$ 10,254,230
Reconciliation of Cash, Cash Equivalents and Investments:	
Cash and Cash Equivalents, Current, per Balance Sheet	$ 4,893,319
Cash and Cash Equivalents, Restricted, per Balance Sheet	5,360,911
Cash, Cash Equivalents and Investments per Balance Sheet	$ 10,254,230
Cash Flows from Operating Activities:	
Operating Loss	$ (8,297,724)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation/Amortization Expense	4,057,618
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(70,935)
Increase (Decrease) in Accounts Payable	(170,322)
Increase (Decrease) in Contracts Payable	(63,463)
Increase (Decrease) in Salaries Payable	8,726
Increase (Decrease) in Deferred Income	140,141
Increase (Decrease) in Accrued Compensated Absences	15,845
Increase (Decrease) in Other Payable	10,726
Net Cash Provided (Used) by Operating Activities	$ (4,369,388)
Net Cash Provided (Used) by Operating Activities from Cash Flows - Direct	$ (4,369,388)

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
December 31, 2005

Assets	Private-Purpose Trust Fund
Assets:	
Cash and Cash Equivalents	$ 64,139
Liabilities and Fund Equity	
Liabilities:	
Scholarships Payable	6,114
Accounts Payable	2,782
Total Liabilities	8,896
Net Assets:	
Held in Trust for Trust Beneficiaries	$ 55,243

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
For The Year Ended December 31, 2005

	Private-Purpose Trust Fund
Additions:	
Interest Income	$ 1,786
Deductions:	
4-H Scholarship Awards	807
Net Increase (Decrease) in Net Assets	979
Net Assets Held in Trust, January 1	54,264
Net Assets Held in Trust, December 31	$ 55,243

The accompanying notes are an integral part of the financial statements.

I. Summary of Significant Accounting Policies

A. Reporting Entity

The State Fair Commission was established per Indiana Code 15-1.5-2 as the trustee for and on behalf of the people of the State of Indiana to administer the State Fairgrounds as trust property of the State of Indiana. The Commission is a separate body, corporate and politic. The Commission is not a state agency. The Commission shall maintain and develop the Fairgrounds and other properties owned by the Commission.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund 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.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the enterprise funds are charges to customers for admission and rental of facilities. Operating expenses for the enterprise funds include the cost of maintenance of the facility, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Commission's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Bond issue accounts established by the bond covenants are invested in short-term United States Treasury securities and are maintained by a custodian financial institution.

Short-term investments are investments with remaining maturities of up to 90 days.

State Statutes authorize the Commission to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Investment income is reported as nonoperating revenues in the statement of revenues, expenses, and changes in net assets.

2. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by the applicable bond covenants.

4. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, equipment, and furniture, are reported in the financial statements.

Capital assets are reported at actual historical cost.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements (paving, etc.)	$ 5000	Straight-line	15 years
Tunnels	5000	Straight-line	30 years
Buildings	5000	Straight-line	20 years (40 years prior to 1981)
Building improvements	5000	Straight-line	4-20 years
Machinery and equipment	5000	Straight-line	3-10 years
Electrical upgrades	5000	Straight-line	12-15 years
Furniture and equipment	5000	Straight-line	5-10 years

The Indiana State Fair Commission did not have a written Capitalization Policy in effect until May 2005. Prior to the approval of the policy, the policy for capitalization of assets was unwritten and informally applied.

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense capitalized by the State Fair Commission during the 2005 year was $0.

5. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

6. Net Assets

Net assets of the Commission are classified in three components:

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Noncurrent expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the State Fair Commission, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note II-C.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

E. Grants and Contributions

From time to time, the Commission receives grants from the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

F. Compensated Absences

1. Sick Leave

Commission employees earn sick leave at the rate of 9 days per year. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is generally not paid to employees.

2. Vacation Leave

Commission employees earn vacation leave at rates from 12 days to 25 days per year based upon the number of years of service. Vacation leave may be accumulated indefinitely. Accumulated vacation leave is paid to employees in good standing, through cash payments for up to a maximum of 30 days vacation upon separation of service.

3. Personal Leave

Commission employees earn personal leave at the rate of 3 days per year. Unused personal leave may be accumulated to a maximum of 3 days. Any personal leave accumulated in excess of 3 days automatically becomes part of the sick leave balance. Accumulated personal leave is not paid to employees.

Vacation and personal leave is accrued when incurred and reported as a liability.

II. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the State Fair Commission's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. At December 31, 2005, the bank balances held at Union Federal Bank, Old National Bank, Bank of New York, and National City Bank were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	$ 1,650,343	$ 221,556	$ 1,650,343	$ 221,556
Total capital assets, not being depreciated	1,650,343	221,556	1,650,343	221,556
Capital assets, being depreciated:				
Land and improvements	9,060,365	1,311,037	328	10,371,074
Buildings and improvements	64,820,811	2,981,365	900,000	66,902,176
Machinery and equipment	2,975,123	607,336	13,000	3,569,459
Office furniture	1,354,911	83,995	87,669	1,351,237
Totals	78,211,210	4,983,733	1,000,997	82,193,946

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Land and improvements	2,549,706	581,849	328	3,131,227
Buildings and improvements	23,376,439	3,028,830	427,500	25,977,769
Machinery and equipment	2,052,730	342,402	13,000	2,382,132
Office furniture	924,973	104,537	87,669	941,841
Totals	28,903,848	4,057,618	528,497	32,432,969
Total capital assets, being depreciated, net	49,307,362	926,115	472,500	49,760,977
Total primary government capital assets, net	$ 50,957,705	$ 1,147,671	$ 2,122,843	$ 49,982,533

Depreciation expense for the year ended December 31, 2005, was charged to Fairgrounds of the State Fair Commission in the amount of $4,057,618.

C. Long-Term Liabilities

1. Revenue Bonds

On August 7, 2002, the Indiana State Fair Commission issued $23,190,000 of general revenue bonds. The interest rate on these bonds starts at 2% and gradually increases to 4.50%. These bonds were issued to refund the January 20, 2001, bond issue of $3,750,000 and for construction purposes. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Balance at December 31	Less: Unamortized Discount	Less: Loss on Defeasance	Amount
Construction of facilities	2.0% to 4.5%	$ 20,210,000	$ 130,794	$ 186,071	$ 19,893,135

Revenue bonds debt service requirements to maturity are as follows:

December 31	Principal	Interest	Total
2006	$ 1,375,000	$ 764,423	$ 2,139,423
2007	1,380,000	725,160	2,105,160
2008	1,550,000	678,497	2,228,497
2009	1,510,000	625,732	2,135,732
2010	1,535,000	570,149	2,105,149
2011-2015	8,815,000	1,854,361	10,669,361
2016-2017	4,045,000	180,673	4,225,673
Totals	$ 20,210,000	$ 5,398,995	$ 25,608,995

2. Prior Refunding

In prior years, the State Fair Commission defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Commission's financial statements. At December 31, 2005, $2,586,382 of bonds outstanding are considered defeased.

3. Changes in Long-Term Liabilities

During the year ended December 31, 2005, the following changes occurred in long-term obligations:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Revenue bonds payable	$21,565,000	-	$1,355,000	$20,210,000	$1,375,000
Compensated absences	350,285	172,735	156,890	366,130	200,676
Totals	$ 21,915,285	$ 172,735	$ 1,511,890	$ 20,576,130	$ 1,575,676

D. Restricted Assets

Noncurrent cash and investments restricted include the following:

1. Repair and Replacement Fund – The Bond Covenants require the State Fair Commission to maintain a balance of $1,000,000 in the Repair and Replacement Fund.

2. Bond Debt Service Account – Required by the Bond Covenants. These funds are a reserve required by the Bond Covenants.

3. Bond Funding Account – Required by the Bond Covenants. These are funds deposited monthly, 10 months a year, as monthly payments to be applied to the semiannual bond payment.

The balances of restricted asset accounts in the enterprise funds are as follows:

Year Ended December 31	Principal
Bond DSR Fund	$ 2,254,460
Bond funding account	2,106,451
Repair and Replacement Fund – CD's	1,000,000
Total	$ 5,360,911

E. Prior Period Adjustments

For the year ended December 31, 2005, certain changes have been made to the financial statements to more appropriately reflect financial activity of the Indiana State Fair Commission. Prior period adjustments represent corrections of errors.

1. Correction of Error

Expenses in 2004 were overstated by $112,910 due to charging the costs of a building demolition to capital expenditures instead of capitalizing the costs. This caused retained earnings for December 31, 2004, to be understated by $112,910. To adjust for this, Beginning Net Assets at January 1, 2005, was increased by $112,910.

2. Correction of Error

Expenses in 2002 were overstated by $19,165 due to the charging of interest due from the 2002 revenue bond issue for the West Pavilion renovation to interest expense instead of capitalizing the interest. This caused retained earnings for December 31, 2004, to be understated by $19,165. To adjust for this, Beginning Net Assets at January 1, 2005, was increased by $19,165.

December 31, 2004:		
Net assets as reported	$	39,645,456
Prior period adjustments:		
Correction of error		112,910
Correction of error		19,165
Balance December 31,2004 as restated	$	39,777,531

III. Other Information

A. Risk Management

The State Fair Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The policy of the State Fair Commission is to not purchase commercial insurance for the risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters. Instead, the Commission records as an expenditure any loss as the liability is incurred or replacement items are purchased.

B. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Indiana State Fair Commission contributes to the Public Employees Retirement Fund (PERF), a defined pension plan. The PERF is an agent multi-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern most requirements of the system and give the Commission authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contribution, set by state statute at 3% of compensation, plus interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Washington Street
Indianapolis, Indiana 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The Commission's annual pension cost for the current year and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	$ 162,660
Interest on net pension obligation	(9,766)
Adjustment to annual required contribution	11,129
Annual pension cost	164,023
Contributions made	131,676
Increase in net pension obligation	32,347
Net pension obligation, beginning of year	(134,705)
Net pension obligation, end of year	$ (102,358)

	PERF
Contribution Rates:	
Government	4.75%
Plan members	3%
Actuarial valuation date	07-01-04
Actuarial cost method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions	
Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Actuarial Information for the Above Plan

THREE YEAR TREND INFORMATION

	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
06-30-03	$ 106,787	112%	$ (97,407)
06-30-04	91,071	141%	(134,705)
06-30-05	164,023	145%	(102,358)

INDIANA STATE FAIR COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability - AAL	Excess of Assets Over (Unfunded) AAL	Funded Ratio	Covered Payroll	Excess (Unfunded) AAL As A % of Covered Payroll
07-01-03	$ 1,985,247	$ 1,860,870	$ 124,377	107%	$ 2,155,346	6%
07-01-04	2,035,916	2,520,281	(484,365)	81%	2,653,867	(18%)
07-01-05	2,141,409	3,039,546	(898,137)	70%	2,697,242	(33%)

INDIANA STATE FAIR COMMISSION
OTHER REPORT

The audit report of the financial statements presented herein was prepared separately from a compliance audit report. The compliance audit report will be subsequently issued covering the two year period ending December 31, 2005.

INDIANA STATE FAIR COMMISSION
EXIT CONFERENCE

The contents of this report were discussed on August 3, 2006, with Cynthia C. Hoye, Executive Director; and Mark Hindsley, Director of Finance.