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STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT

OF

INDIANA STATE FAIR COMMISSION

January 1, 2006 to December 31, 2006

FILED
09/28/2007

TABLE OF CONTENTS

OFFICIALS

Office	Official	Term
Executive Director	Cynthia C. Hoye	01-01-06 to 12-31-07
President of State Fair Board	Terry Hoffman	10-01-03 to 09-30-07
Chairman of State Fair Commission	Dr. Gene Sease	10-01-02 to 12-31-06
	Kyle Hupfer	01-01-07 to 09-30-11

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

TO: THE OFFICIALS OF THE INDIANA STATE FAIR COMMISSION

We have audited the accompanying financial statements of the business-type activities of the Indiana State Fair Commission, as of and for the year ended December 31, 2006. These financial statements are the responsibility of the 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 financial position of the business-type activities of the Indiana State Fair Commission as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and 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 Schedule of Funding Progress, as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 6, 2007

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REPORT COMMUNICATING INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN AN AUDIT

TO: THE OFFICIALS OF THE INDIANA STATE FAIR COMMISSION

In planning and performing our audit of the financial statements of the Indiana State Fair Commission as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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

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 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 or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result 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 that the deficiencies detailed in the Audit Result and Comment entitled "Compliance with Generally Accepted Accounting Principles" constitute material weaknesses.

This communication is intended solely for the information and use of management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

The Commission's written response, if any, to the Audit Results and Comments identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

June 6, 2007

INDIANA STATE FAIRGROUNDS

1202 East 38th Street
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Revised July 5, 2007

INDIANA STATE FAIR COMMISSION

2006 MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 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, Budgeting, Purchasing, 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.

The 2006 edition of our Indiana State Fair saw attendance of 870,000; up about 6% from 2005's attendance of 820,000 as we celebrated the Fair's 150th birthday. 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 Indiana State Fair's 150th Celebration had something for everybody in the Grandstand, including seven concerts, Band Day, two days of Rodeo, Cheerleading Competition, and two youth-oriented free shows in the form of BMX motocross and Raven Symone. We kicked off the 150th Celebration with a fund-raiser in March--150 days before the Fair opened. The purpose was to raise money for a commissioned art piece installed at the corner of 38th Street and Fall Creek Parkway. Part of the evenings entertainment included video clips of Pat Boone singing "Our State Fair is a great State Fair..." from the 1964 movie, "State Fair." Imagine the room's excitement when the clip finished, the house lights went up, and live, on stage, singing the chorus from "State Fair" was... Pat Boone! Pat was our special surprise guest that night. He made another appearance here during the State Fair on the WFMS Free Stage to a large, warm and receptive audience who recalled Pat Boone as one of their teen idols from the 1950's and 1960's. By the way, should you drive past the intersection of 38th and Fall Creek Parkway, the Art Piece, with its digital lighting effects, looks wonderful.

These sections below presents management's discussion and analysis of the Indiana State Fair Commission for the year ended December 31, 2006. 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 2006 fiscal year.

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

ASSETS	2006	2005	'06 – '05	
Cash	$1,321	$1,221	$100	
Accounts Receivable	$396	$481	($85)	
Bond Debt Serv Reserve Fund	$2,255	$2,255	$0	
Bond Payment Fund	$2,242	$2,107	$135	
Bond Proceeds	$0	$0	$0	
Other	$0	$0	$0	
Investments	$3,574	$4,675	($1,101)	
Land & Improvements	$14,517	$10,371	$4,146	A
Buildings & Improvements	$67,778	$67,123	$655	
Machinery & Equipment	$3,596	$3,570	$26	
Office Furniture & Fixtures	$1,351	$1,351	$0	
Accumulated Depreciation	($36,568)	($32,433)	($4,135)	
Other	$594	$582	$12	
TOTAL ASSETS	**$61,056**	**$61,303**	**($247)**	
LIABILITIES	**2006**	**2005**	**'06 – '05**	
Trade & Contracts Payables	$618	$641	$(23)	
Deferred Income	$223	$209	$14	
Current Portion Long Term Debt	$0	$0	$0	
Long Term Debt (Revenue Bond)	$17,455	$18,835	($1,380)	B
Principal & Interest	$1,753	$1,766	($13)	
Other	$138	$176	($38)	
TOTAL LIABILITIES	**$20,187**	**$21,627**	**($1,440)**	
EQUITY				
Contributed Capital				
Retained Earnings	$40,869	$39,676	$1,193	
TOTAL EQUITY	**$40,869**	**$39,676**	**$1,193**	
TOTAL LIABILITIES & EQUITY	**$61,056**	**$61,303**	**($247)**	

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.

Looking at note (A) on the Balance Sheet, the largest item in Land Improvements is the 80% matching funds contribution for $3.2 million for the Department of Natural Resources (DNR) "catch and release fishing pond" and amphitheatre, located directly behind the DNR Building here at the Fairgrounds; as well as renovation of the existing smaller outdoor fish ponds, walkways, and the new Butterfly Corner exhibit on the DNR building's west side. ISFC's 20% was recognized in 2005 Fixed Asset Additions, and is one of several funding sources for this $4 million project. The $350,000 Art Piece included the 72 feet long by 10 feet high metal sculpture depicting State Fair elements such as a tractor, livestock, hot air balloon, Ferris wheel, etc., as well as the concrete foundation and brick work, utility infrastructure, and surrounding landscape elements.

Other significant capital expenditures included a new elevator in the Communications Building, additional paving over the site of the former (demolished) Krannert Building, and a storage building to house Fairgrounds' building materials.

Note (B) indicates Revenue Bond Debt Principal Reduction is about $1.4 million per year. We still owe about 11 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 faster than the long-term Bond Debt reduction. 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.

2006 has an unusual wrinkle in that the $3.2 million in matching funds for the DNR fishing pond were booked as "Contributions Revenue" on the Income Statement, even though it is a non-cash item. Therefore, it has the effect of somewhat offsetting the "Book Loss" caused by Depreciation Expense.

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

REVENUE	2006	2005	'06–'05	
1. FAIR	$10,226	$8,655	$1,571	C
FAIRGROUND TAX REVENUE				
Riverboat Casino	$6,277	$6,259	$18	
Mil Tax	$2,575	$2,541	$34	
Pari-Mutuel	$344	$350	($6)	
Total Tax Revenue	$9196	$9,150	$46	
FAIRGROUNDS EARNED REVENUE	$4,580	$4,343	$237	
2. TOTAL FAIRGROUNDS REVENUE	$13,776	$13,493	$283	
3. FACILITY CHARGE	$936	$987	($51)	
4. CENTER FOR AG SCIENCE	$12	$0	$12	
TOTAL REVENUE (1+2+3+4)	**$24,950**	**$23,135**	**$1,815**	
EXPENSES				
5. FAIR OPERATING EXPENSES	$9,905	$8,196	$1,709	D
FAIRGROUNDS OPERATING EXPENSES	$14,265	$12,867	$1,398	E
CAPITAL-TYPE PROJECTS EXPENSED	$1,561	$279	$1,282	F
BOND DEBT AMORTIZATION	$65	$65	$0	
BOND DEBT INTEREST EXPENSE	$763	$800	($37)	
6. TOTAL FAIRGROUNDS EXPENSES	$16,654	$14,011	$2,643	
FACILITY CHARGE OPERATING EXP	$654	$600	$54	
CAPITAL-TYPE PROJECTS EXPENSED	$0	$3	($3)	
7. TOTAL FACILITY CHARGE EXPENSES	$654	$603	$51	
8. CENTER FOR AG SCIENCE	$226	$336	($110)	
TOTAL EXPENSES (5+6+7+8)	**$27,439**	**$23,146**	**$4,293**	
REVENUE EXCEEDING EXPENSES				
FAIR (1 – 5)	$321	$459	($138)	
FAIRGROUNDS (2 – 6)	($2,878)	($518)	($2,360)	
FACILITY CHARGE (3 – 7)	$282	$384	($102)	
CENTER FOR AG SCIENCE (4 – 8)	($214)	($336)	$122	
TOTAL REVENUE (LOSS)	**($2,489)**	**($11)**	**($2,478)**	
OTHER REVENUE (EXPENSES)				
GRANT REVENUE	$156	$99	$57	
DISPOSAL OF KRANNERT BUILDING	$0	($473)	$473	
INTEREST INCOME	$326	$284	$46	
DNR POND MATCHING FUNDS	$3,200	$0	$3,200	G
TOTAL OTHER	**$3,682**	**($90)**	**$3,772**	
NET INCREASE (DECREASE) IN EQUITY	**$1,193**	**($101)**	**$1,294**	

The 2006 State Fair attendance was up over 2005's attendance by 50,000. Fair Revenue was up by $1.5 million (C). Gains were: $600,000 in Grandstand Concert Revenue, $150,000 in Gates Revenue, $150,000 in Concessions and Midway, and a first-time Revenue stream for Fair Supplemental Revenue at $380,000. Fair Supplemental Revenue was the collection of monies for the Art Piece, and other special 150th Celebration revenues. However, Fair Expenses were up $1.7 million over 2005 (D). Grandstand Concert Expenses were up almost $900,000 over 2005. In an effort to bolster sagging Grandstand Ticket Sales, we spent an additional $170,000 in Marketing. Sponsorship Expenses were up about $100,000 over 2005. Fair Supplemental spending was up about $200,000 over 2005. These expenses became the catalyst for our decision to increase Gate Admission prices and Shuttle Bus rides in 2007.

2006 Fairgrounds Operating Expenses (E) went up $1.4 million over 2005. Building and Grounds Maintenance was up $275,000 over 2005. Operations Department Recoverable Expenses are those which can be passed on to shows and increased $130,000 over last year. Operations Department Non-Recoverable increased by $225,000 as we shifted more of our show set-up and clean-up to outside contractors. Payroll increases were modest, but we added benefit packages (paid vacation, sick time, group medical insurance, retirement, etc.) to about 20 more employees in 2006. Thus, Group Insurance costs rose by $180,000; and contributions to the Public Employees Retirement Fund increased by $45,000.

Capital-type Projects Expensed (F) saw a significant jump in 2006. We concluded that under GAAP rules the $233,000 in South Pavilion brick tuck-pointing, and $773,000 for the renovation of the Administration Building should be expensed, rather than capitalized. The type of projects we select for each year's capital improvements are based on need, not whether we can capitalize or expense them. However, in some years certain projects increase the overall Operating Expenses on the Income Statement, rather than Fixed Asset Additions on the Balance Sheet. With all the major construction work over the last several years, depreciation expense has increased from about $2 million per year to $4 million per year.

Item (G) is a one-time recognition of the 80/20 matching funds associated with the construction of the DNR (Department of Natural Resources) fishing pond exhibit that became operational in 2006. ISFC funded about $800,000 towards the $4 million project. However, since the pond is on ISFC property, G.A.A.P. requires us to recognize the 80% match, or $3.2 million, as Contributions Revenue. Although it is a non-cash item, similar to Depreciation Expense, it has a significant impact in reducing 2006 operating losses.

FINANCIAL OUTLOOK/CURRENT ISSUES FOR 2007:

We tend to budget the State Fair conservatively, knowing that it really does depend on the weather. 2007 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, usually in the form of additional programming or capital projects.

That budget philosophy changed for 2007. The 2007 State Fair Budget recognizes a $2 price increase on both Gate Admissions Daily Roll and Discount Tickets, as well as an increase in Shuttle Bus rides from $.50 to $1.00. These two changes should add about $900,000 to Fair Revenue. Fair Revenue exceeding Fair Expenses (profit) will go to funding the following year's Fairgrounds Capital Improvements. Grandstand Entertainment continues to be very difficult, and very expensive. After weather, it is the Fair's next highest risk factor. The impact of the new Federal and State Minimum Wage laws will have little effect in 2007; but will have significant effect in 2008 and 2009 payroll expense for the 1,000+ employees we hire for the State Fair.

For 2009, we are exploring the prospects of expanding the annual Indiana State Fair from its current 12-consecutive day format to a 15-day format over 17-days; or perhaps a 17-day format over 17-days. We are reviewing options with the many stakeholders including: Midway operator, Public Safety (State Police), Livestock Exhibitors, Food and Beverage concessions owners, and Staff. Picking up a third weekend would give us a nice cushion against potential losses caused by a rained-out weekend, but the incremental costs for staffing and entertainment are significant. Like the normal 12-day format, the key is Paid Attendance. It is critical that paid attendance increases to handle the new level of operating expenses in the longer format.

2007's plans include an emphasis on Cost Accounting to help us better determine revenue enhancements and potential operating cost reductions. We are also focusing attention on better performance measurements, in part, to quantify our "operating results" in terms other than financial performance. It helps tell the story that "Indiana has a Great State Fair and Fairgrounds...and here's why."

The 2007 Capital Plan expects to spend about $3.5 million of which $2.5 million will come from our investments. At the end of 2007 we expect to have the $1 million in cash reserves required by the Revenue Bond Covenants, but not much more. Capital spending for 2008 may be limited to the third year of the 4-H Girls Dormitory 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.

Strategic Planning meetings continue to help us fine-tune current operations and address where the business 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 *Mark Hindsley*
Director of Finance

INDIANA STATE FAIR COMMISSION
STATEMENT OF NET ASSETS
PROPRIETARY FUND
December 31, 2006

Assets	
Current Assets:	
Cash and Cash Equivalents	$ 3,892,542
Accounts Receivable	396,208
Prepaid Expense	64,747
Due From Other Funds	3,235
Total Current Assets	4,356,732
Noncurrent Assets:	
Restricted Cash and Cash Equivalents:	
Repair and Replacement Fund	1,000,000
Bond Debt Service Account	2,254,460
Bond Funding Account	2,241,459
Total Restricted Cash and Cash Equivalents	5,495,919
Deferred Charges - Bond Issuance Costs	529,451
Construction In Progress	1,374,941
Property, Plant and Equipment:	
Land and Improvements	14,517,199
Buildings and Improvements	66,403,003
Machinery and Equipment	3,595,740
Office Furniture and Equipment	1,351,237
Less: Accumulated Depreciation	(36,568,444)
Total Property, Plant and Equipment	49,298,735
Total Noncurrent Assets	56,699,046
Total Assets	$ 61,055,778
Liabilities and Fund Equity	
Current Liabilities Payable From Unrestricted Funds:	
Accounts Payable	$ 373,532
Contracts Payable	100,061
Salaries Payable	115,050
Payroll Withholdings Payable	25,629
Revenue Bonds Payable - Current	1,380,000
Revenue Bond Interest Payable	372,930
Taxes Payable	3,612
Deferred Income	222,668
Compensated Absences Payable - Current	238,255
Total Current Liabilities Payable From Unrestricted Funds	2,831,737
Noncurrent Liabilities:	
Revenue Bonds Payable - Long-Term	17,455,000
Unamortized Bond Discount	(118,903)
Unamortized Loss on Sale of Bonds	(169,156)
Compensated Absences Long-Term Payable	187,981
Total Noncurrent Liabilities	17,354,922
Total Liabilities	20,186,659
Net Assets:	
Invested in Capital Assets Net of Related Debt	33,218,677
Restricted-expendable:	
Future Debt Service	4,495,919
Other Purposes	1,000,000
Unrestricted (Deficit)	2,154,523
Total Net Assets	$ 40,869,119

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, 2006

Operating Revenues:	
Fair Operations:	
Gates	$ 2,621,054
Concessions/Midway	2,178,174
Entertainment	2,111,269
Sponsorship	1,223,800
Department	300,383
Sport/Events	188,777
Livestock	386,029
Shuttle Bus	118,040
Parking	235,820
Other	862,554
Total Fair Operations	10,225,900
Non-Fair Operations:	
Concessions	692,053
Rentals of Buildings, Grounds and Equipment	1,201,202
Expense Reimbursement	1,569,711
Fairground Events	80,520
Ice Skating and Skate Shop	305,885
Sponsorships	197,500
Other	532,774
Total Non-Fair Operations	4,579,645
Facility Charge Operations:	
Facility Charge Revenue	936,101
C.A.S.H. The Barn Operations:	
C.A.S.H. The Barn Revenue	12,261
Total Operating Revenues	15,753,907
Operating Expenses:	
Fair Operations:	
Payroll	1,554,744
Services Other Than Personal	822,574
Services by Contract	5,122,231
Materials, Parts and Supplies	1,729,947
Awards	635,069
Travel	40,641
Total Fair Operations	9,905,206
Non-Fair Operations:	
Payroll	4,605,191
Services Other Than Personal	145,667
Services by Contract	2,682,303
Materials, Parts and Supplies	2,585,147
Capital Expenditures	1,595,498
Depreciation	4,135,475
Awards	34,594
Travel	14,439
Bad Debt Expense	27,099
Total Non-Fair Operations	15,825,413

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, 2006
(Continued)

Operating Expenses (continued):	
Facility Charge Operations:	
Payroll	457,297
Services by Contract	183,909
Materials, Parts and Supplies	13,015
Total Facility Charge Operations	654,221
C.A.S.H. The Barn Operations:	
Payroll	128,698
Services Other Than Personal	150
Services by Contract	8,626
Materials, Parts and Supplies	28,186
Other	60,781
Total C.A.S.H. The Barn Operations	226,441
Total Operating Expenses	26,611,281
Operating Loss	(10,857,374)
Nonoperating Revenues (Expenses):	
Property Tax Distribution	2,574,458
Riverboat Distribution	6,277,250
Pari-Mutual, Off-Track Betting Distribution	344,402
Interest Income	326,289
Interest Expense 2002 Bond (Bond Debt Service)	(827,610)
Capital Contributions	3,200,000
Grants	155,692
Total Nonoperating Revenues	12,050,481
Net Income	1,193,107
Total Net Assets, January 1	39,676,012
Total Net Assets, December 31	$ 40,869,119

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, 2006

	Proprietary Fund
Cash Flows from Operating Activities:	
Receipts from Customers and Users	$ 15,853,087
Payments to Suppliers	(15,973,079)
Payments to Employees	(6,657,375)
Net Cash Used by Operating Activities	(6,777,367)
Cash Flows from Noncapital Financing Activities:	
Tax Distributions from State	9,196,110
Cash Flows from Capital and Related Financing Activities:	
Acquisition/Construction of Capital Assets	(1,627,071)
Principal Paid on Capital Debt	(1,375,000)
Interest Paid on Capital Debt	(764,422)
Grants	155,692
Net Cash Used by Capital and Related Financing Activities	(3,610,801)
Cash Flows From Investing Activities:	
Interest Received	326,289
Net Decrease in Cash and Cash Equivalents	(865,769)
Cash and Cash Equivalents, January 1	10,254,230
Cash and Cash Equivalents, December 31	$ 9,388,461
Reconciliation of Cash, Cash Equivalents and Investments:	
Cash and Cash Equivalents, Current, per Balance Sheet	$ 3,892,542
Cash and Cash Equivalents, Restricted, per Balance Sheet	5,495,919
Cash, Cash Equivalents and Investments per Balance Sheet	$ 9,388,461
Cash Flows from Operating Activities:	
Operating Loss	$ (10,857,374)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	4,135,475
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	85,018
(Increase) Decrease in Prepaid Expenses	(64,747)
Increase (Decrease) in Accounts Payable	(146,053)
Increase (Decrease) in Contracts Payable	(20,796)
Increase (Decrease) in Salaries and Payroll Withholding Payables	28,449
Increase (Decrease) in Deferred Income	14,161
Increase (Decrease) in Accrued Compensated Absences	60,106
Increase (Decrease) in Taxes Payable	(11,606)
Total Adjustments	4,080,007
Net Cash Used by Operating Activities	$ (6,777,367)

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

INDIANA STATE FAIR COMMISSION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
December 31, 2006

Assets	Private-Purpose Trust Fund
Assets:	
Cash and Cash Equivalents	$ 65,691
Liabilities and Fund Equity	
Liabilities:	
Scholarships Payable	5,661
Accounts Payable	3,235
Total Liabilities	8,896
Net Assets:	
Held in Trust for Trust Beneficiaries	$ 56,795

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, 2006

	Private-Purpose Trust Fund
Additions:	
Interest Income	$ 1,552
Net Increase in Net Assets	1,552
Net Assets Held in Trust, January 1	55,243
Net Assets Held in Trust, December 31	$ 56,795

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 the 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 principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. 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.

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	$ 5,000	Straight-line	15 years
Tunnels	5,000	Straight-line	30 years
Buildings	5,000	Straight-line	20 years (40 years prior to 1981)
Building improvements	5,000	Straight-line	4-20 years
Machinery and equipment	5,000	Straight-line	3-10 years
Electrical upgrades	5,000	Straight-line	12-15 years
Furniture and equipment	5,000	Straight-line	5-10 years

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 2006 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-D.

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.

The Commission received a capital contribution in the form of a building from the Indiana Department of Natural Resources. The building, at a cost of $4 million, was built on the Indiana State Fairgrounds. The Commission was required to contribute $800,000 to the cost of the building. The building was then turned over to the Commission in 2006 and the capital contribution of $3.2 million was recognized by the Commission.

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, 2006, 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, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	$ 221,556	$ 1,222,693	$ 69,308	$ 1,374,941
Capital assets, being depreciated:				
Land and improvements	10,371,074	4,146,125	-	14,517,199
Buildings and improvements	66,902,176	1,171,230	1,670,403	66,403,003
Machinery and equipment	3,569,459	26,281	-	3,595,740
Office furniture	1,351,237	-	-	1,351,237
Totals	82,193,946	5,343,636	1,670,403	85,867,179

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Land and improvements	3,131,227	718,462	-	3,849,689
Buildings and improvements	25,977,769	2,979,057	-	28,956,826
Machinery and equipment	2,382,132	340,789	-	2,722,921
Office furniture	941,841	97,167	-	1,039,008
Totals	32,432,969	4,135,475	-	36,568,444
Total capital assets, being depreciated, net	49,760,977	1,208,161	1,670,403	49,298,735
Total capital assets, net	$ 49,982,533	$ 2,430,854	$ 1,739,711	$ 50,673,676

Depreciation expense for the year ended December 31, 2006, was charged to Fairgrounds of the State Fair Commission in the amount of $4,135,475.

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
4-H girls' dorm phase 1	$ 4,500,000	$ 1,374,941	$ 3,125,059	$ -

D. 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%	$ 18,835,000	$ 118,903	$ 169,156	$ 18,546,941

Revenue bonds debt service requirements to maturity are as follows:

December 31	Principal	Interest	Total
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	1,625,000	510,086	2,135,086
2012-2016	9,220,000	1,479,610	10,699,610
2017-2021	2,015,000	45,338	2,060,338
Totals	$ 18,835,000	$ 4,634,572	$ 23,469,572

2. Advance 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, 2006, $2,256,042 of bonds outstanding are considered defeased.

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Within One Year
Revenue bonds payable	$ 20,210,000	$ -	$ 1,375,000	$ 18,835,000	$ 1,380,000
Compensated absences	366,130	204,143	144,037	426,236	238,255
Total long-term liabilities	$ 20,576,130	$ 204,143	$ 1,519,037	$ 19,261,236	$ 1,618,255

E. 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	Principle
Bond DSR Fund	$ 2,254,460
Bond Funding Account	2,241,459
Repair and Replacement Fund - CD's	1,000,000
Total restricted assets	$ 5,495,919

III. Other Information

A. Risk Management

The 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 Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-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, through the PERF Board, 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 contributions, set by state statute at 3% of compensation, plus the 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. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 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 and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	$ 206,501
Interest on net pension obligation	(7,421)
Adjustment to annual required contribution	8,457
Annual pension cost	207,537
Contributions made	144,223
Increase in net pension obligation	63,314
Net pension obligation, beginning of year	(102,358)
Net pension obligation, end of year	$ (39,044)
Contribution rates:	
Commission	5.5%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization 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%

Three Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06-30-04	$ 91,071	141%	$ (134,705)
06-30-05	164,023	80%	(102,358)
06-30-06	207,537	88%	(39,044)

INDIANA STATE FAIR COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employee's Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
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%)
07-01-06	2,578,955	2,687,147	(108,192)	96%	2,558,088	(4%)

ASSET CAPITALIZATION POLICY

As stated in the prior Report B28197, an "Asset Capitalization Policy" that was adopted by the Indiana State Fair Commission in April 2005, did not include a description of their depreciation schedule as required by GASB 34 paragraph 115.

GASB 34 paragraph 115 states in part: "Governments should provide these additional disclosures (if applicable) in their summary of significant accounting polices based on the requirements of this Statement: . . . e. The policy for capitalizing assets and for estimating the useful lives of those assets . . ."

ASSET INVENTORY

As stated in the prior Report B28197, the Indiana State Fair Commission does not maintain a proper asset inventory. Assets with a cost of $500 or greater have not been tagged and assets with a cost between $500 and $5,000 are not maintained on a listing. Additionally, the Commission did not take a physical inventory in 2006. The previous inventory was not reconciled to the actual fixed asset schedule maintained by the Commission. This lack of accountability over State owned assets could result in the misappropriation of these assets.

Any asset costing $500 or more must be tagged and maintained on a manual or automated asset control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 10)

Once a year a physical inventory is to be taken and compared to the master listing. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 10)

CERTIFIED REPORT NOT FILED

As stated in the prior Report B28197, the Indiana State Fair Commission has not filed a certified report of compensation of officers and employees with the State Board of Accounts in compliance with Indiana Code 5-11-13.

Indiana Code 5-11-13-1 states in part: "Every state, county, city, town, township, or school official, elective or appointive, who is the head of or in charge of any office, department, board, or commission of the state or of any county, city town, or township and every state, county, city, town, or township employee or agent who is the head of, or in charge of, or the executive officer of any department, bureau, board, or commission of the state, county, city, town, or township and every executive officer by whatever title designated, who is in charge of any state educational institution or of any other state, county, or city institution, shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents in their respective offices, departments, boards, commissions, and institutions, and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

SKATE SHOP INTERNAL CONTROLS

As stated in the prior Report B28197, the following internal control deficiencies were noted while assessing the operation of the Skate Shop. They are as follows:

(1) There is a lack of separate user IDs and personalized security rights for employees, preventing the tracking of sales transactions and patterns to specific employees. This prevents management oversight and control over functions such as inventory adds and edits and sales price edits.

(2) Sales prices are overridden and edited regularly when making a sale, with no documentation justifying the adjusted price. Cash register generated sales reports are not reviewed by management to ensure the cash register has accurate sales price and list price information and to monitor for errors or fraudulent activity.

(3) No determination is made as to whether or not the cash drawer is long or short. The Skate Shop manager should reconcile the cash register, including the cash drawer, to the cash register report to determine the amount long or short. Any amount long should be deposited.

Each agency, department, institution, or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls of cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Guidelines Manual for State Agencies, Chapter 1)

CHECKING ACCOUNT RECONCILIATION

The Indiana State Fair Commission maintains several checking accounts for its operating activities and investments. One checking account for credit card payments made to the Indiana State Fair had not been reconciled since September 2006.

Each agency, department, quasi, institution or office that does not use the state's accounting system or have funds outside the system also has the responsibilities described above. For the funds outside the state's system, the governmental unit must maintain appropriate accounting records and controls. This includes performing monthly bank statement reconciliations. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

INTERNAL CONTROLS OVER REVENUE COLLECTIONS

During the Indiana State Fair, entrance tickets are sold in several locations, including the Fair entrance gates and parking lots. During the 2006 Indiana State Fair, 639 tickets were stolen from either the South Lot or the 38th Street Lot. Also, 135 tickets were stolen from either the EZ Parking Lot or the Allisonville/Fall Creek Lot. The Indiana State Fair Commission (ISFC) did not discover these thefts until after the close of the 2006 State Fair. ISFC did not have internal controls in place to discover ticket thefts in a reasonable time.

Each agency, department, quasi, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

ACCOUNTING RECORDS

The Indiana State Fair Commission (ISFC) did not maintain proper accounting over its investments. ISFC did not ensure that interest earned from the investments was properly calculated and deposited into the correct account. Also, we found that interest was not posted to the accounting records properly. ISFC posted interest in an amount necessary to reconcile to its bank accounts and not necessarily the amount of interest earned.

Each agency is responsible for maintaining an effective and accurate accounting system for subsidiary and supplementary records. At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank or Auditor's balance should agree. If reconciled bank or Auditor's balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

OFFICIAL BOND

The Indiana State Fair Commission did not execute a surety bond for appropriate members and employees.

Indiana Code 15-1.5-2-14 states that: "(1) the executive director of the commission; (2) each member of the commission; and (3) any other employee or agent of the commission authorized by resolution of the commission to handle funds or sign checks; shall execute a surety bond in the penal sum of fifty thousand dollars ($50,000)."

COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

As stated in our prior Report B28197, the Indiana State Fair Commission did not maintain their general ledger in compliance with Generally Accepted Accounting Principles (GAAP). The Financial Statements presented by the Commission were based on their non GAAP compliant ledger. As a result, some adjustments recommended by the State Board of Accounts were necessary to bring both the ledger and financial statements in conformance with GAAP. These adjustments included an accrual of $115,050 for salaries payable. In addition, the Commission did not generate a proper Cash Flow Statement or Notes to the Financial Statements, which are both required by GAAP.

INDIANA STATE FAIR COMMISSION
EXIT CONFERENCE

The contents of this report were discussed on August 6, 2007, with Cynthia C. Hoye, Executive Director; Mark Hindsley, Director of Finance; and Rich Agnew, Accounting Manager. The official response has been made a part of this report and may be found on pages 31 through 33.

Copies of the Audit Results and Comments were mailed on August 8, 2007, to Kyle Hupfer, Chairman of State Fair Commission; Dr. Gene Sease, former Chairman of State Fair Commission; and Terry Hoffman, President of State Fair Board.

INDIANA STATE FAIRGROUNDS

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

September 6, 2007

Mr. Bruce Hartman
Indiana State Board of Accounts
302 West Washington Street—Room E-418
Indianapolis, IN 46204

Re: Indiana State Fair Commission
2006 Audit Results

The following is our response to points outlined at the exit conference held in the Administration Building on Monday, August 6, 2007 at 3 pm. The response covers discussion points from the fiscal year ending December 31, 2006. In attendance were Executive Director Cynthia Hoye, Director of Finance Mark Hindsley, (former) Accounting Manager Rich Agnew, and State Board of Accounts Field Auditors Albert Marshall, Deetra Smith, David Jones, and Chris Nill.

ASSET CAPITALIZATION POLICY

We will excerpt the section 1. D. 4. Capital Assets from the 2006 Notes to Financial Statements concerning Depreciation Method and Estimated Useful Life, and ask the Commission to adopt at its September, 2007 meeting.

ASSET INVENTORY

We understand the need for an asset inventory system that works within your requirements. Our seemingly lack of attention to this issue is not the case. What is founded is that we have not implemented a system that works for our business and is compliant with SBA. We have implemented an inventory of all offices in 2006 and a photo-documentation of all our fixed assets, but not with the "tagging" system of assets between the $500 - $5,000 categories. To accomplish this correctly, we will invest in additional personnel and a new software system that can correctly monitor our moveable and portable inventories. Our team will begin the process this fall—2007 and hope to complete the analysis by spring of 2008.

CERTIFIED REPORT NOT FILED

Since ISFC's payroll is prepared in-house, rather than through the State Auditor's Office, we needed guidance as to what the format should look like, (we had never done one before) and whether the intent was to include or exclude our 1,100 part-time Fair Employees, who do not have position descriptions. We finally have clarification as to what is expected at the exit conference. We intend to comply in January with the earnings records from the previous year. Most of our employees are hourly, rather than salary, so the impact of overtime does affect their total compensation.

SKATE SHOP INTERNAL CONTROLS

We were promised at the last exit conference help from SBA in resolving this issue. The help we anticipated was not forthcoming. Now that we understand that, we will locate, and pay for, an outside contractor to assist us in learning how the BizTracker software package currently in use at the Skate Shop could be adapted to address your concerns.

CHECKING ACCOUNT RECONCILIATION

The ISFC has several checking accounts. The only one we did not have a good reconciliation on was The Master Card/Visa account. It is the most difficult to reconcile because the daily activity summarized on the Bank Statement does not split out which transactions were Master Card, or Visa, or Discover Card. We set up a second credit card account in August to capture the new Master Card/Visa activity. We believe it is better to isolate the past account to concentrate on its reconciliation. Unfortunately, our Accounting Manger left in early August 2007. Bank reconciliations will continue to be a priority when we get the new Accounting Manger on board. We have also asked Sky Bank to advise whether any additional reports are available to us to help reconcile the account. We have over a dozen credit card machines on the Fairgrounds, and we rent another ten to handle additional needs during the Fair.

INTERNAL CONTROLS OVER REVENUE COLLECTIONS

This item was discovered and addressed in writing in September 2006 before the State Board of Accounts came in for the audit in March 2007. The Gates and Parking deadwood (unused or unsold) tickets are audited usually in September after the Fair. This particular shortage came from serialized flat (parking) tickets, rather than serialized roll (gate) tickets. Gate admission roll tickets are color-coded, and dated for a specific day. The flat tickets are larger, and displayed in the vehicle when parking cars and livestock trailers in the South 38th lot. The 2006 flat tickets were not dated, and the color coding was limited to eight colors, which means we used each colored lot on two different days, in two different weeks. Tickets were pilfered from the centers of several packaged stacks of 500 deadwood tickets. Upon ordinary examination, the first and last numbers were intact so the presumption was all 500 tickets were there. Upon closer examination in September, we noticed some of the packaging straps were looser than others. When we did an individual count of those stacks, we found tickets missing from the middle.

We had new Management and new systems in place for the South Lot and E-Z Park lots for the 2007 State Fair.

ACCOUNTING RECORDS

We have now developed an Excel spreadsheet that tracks the interest payments back to their specific checking or investment accounts.

OFFICIAL BOND

We were not aware the law had changed. We will secure the bond after clarification with the Attorney General's Office. Members of the ISFC and Fair Board do not handle funds or sign checks at this time.

COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

We made a lot of progress during 2006 and 2007 getting into compliance with GAAP as the State Board of Accounts has shifted some of their previous work product to the agencies. We believe one of the areas of concern—the Salaries payable accrual at year-end, which would be tempered with the accrual reversal of the previous year-end's Salaries payable; will be accomplished at year-end, as we adjust our internal books to more closely match the audited financials. Completion of a satisfactory Cash Flow Statement and preparation of the Notes to the Financial Statements may require expertise we currently do not have in-house; therefore, we will locate, and pay for, an outside contractor to assist us.

In conclusion, we appreciate both the opportunity to respond to the audit results and comments with our own comments, and the State Board of Accounts' continued willingness to be a sounding board for us during the year.

Respectfully submitted,

Cynthia C. Hoye
Executive Director
ARCS06