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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, 2008 to December 31, 2008

FILED
06/15/2009

TABLE OF CONTENTS

OFFICIALS

Office	Official	Term
Executive Director	Cynthia C. Hoye	01-01-08 to 12-31-09
Chairman of State Fair Commission	Kyle Hupfer	02-08-07 to 09-30-10

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, 2008. 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, 2008, 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

May 14, 2009

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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, 2008, 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.

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 Results and Comments entitled "Investment Interest Posting" and "Skate Shop Internal Controls," constitute significant deficiencies.

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

May 14, 2009

INDIANA STATE FAIR COMMISSION

2008 MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Indiana State Fair Commission (Commission), we offer readers of the Commission's basic financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended December 31, 2008.

FINANCIAL HIGHLIGHTS

- The Commission's assets exceeded its liabilities at the close of the most recent fiscal year by $40.6 million (net assets). Of this amount, $2.5 million (unrestricted net assets) may be used to meet any of the Commission's ongoing obligations. There is $1.8 million (dedicated funds) set aside for two major projects: Phase III and IV of the renovation of Discovery Hall ($1.3), and renovation of the Coliseum ($.5). The funds earmarked for the Discovery Hall project are derived from a portion of the net income from the 2007 and 2008 Indiana State Fairs. The Coliseum set aside is being funded through earned revenue in the form of a facility charge added to the purchase of box office tickets.

- The Commission's current assets decreased by $1.2 million and total liabilities decreased $1.9 million during the current fiscal year. Cash and cash equivalents decreased $1.4 million due to restricting dedicated funds.

- The Commission's total net assets increased by $695 thousand during the current fiscal year largely due to a significant increase in operating revenue of $1.2 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. 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. Therefore, the organization's financial activities are accounted for in a manner similar to a commercial enterprise on the accrual basis of accounting. The Commission's basic financial statements include statements of net assets, statements of revenues, expenses and change in net assets, statements of cash flows, and the notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves. All information included in this analysis is presented for the two most recent fiscal years to provide the opportunity for comparison between years.

The *statement of net assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the Commission's net assets changed during each year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

In contrast, the *statement of cash flows* is concerned solely with flows of cash and cash equivalents. Transactions are recorded when cash is received or exchanged, without concern of when the underlying event causing the transactions occurred.

These financial statements can be found within this report.

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found within this report.

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the Commission, assets exceeded liabilities by $40.6 million at the close of the most recent fiscal year.

Indiana State Fair Commission's Comparative Summary of Net Assets
(In Thousands of Dollars)

	2008	**December 31, 2007, as restated**
Current and other assets	$ 11,357	$ 10,756
Capital assets	46,580	48,340
Total Assets	57,937	59,096
Current liabilities	2,774	3,161
Noncurrent liabilities	14,592	16,059
Total Liabilities	17,366	19,220
Net Assets:		
Invested in capital assets, net of related debt	30,675	30,885
Restricted	7,345	5,428
Unrestricted	2,551	3,563
Total Net Assets	$ 40,571	$ 39,876

FINANCIAL ANALYSIS (CONTINUED)

Net assets increased since last fiscal year end after decreasing the previous year. The increase was generated by a combination of increased operating revenue and lower depreciation expense. The higher operating revenue is due to significant boost in income from both the 2008 Indiana State Fair, and year round fairgrounds activities.

Restricted net assets increased in 2008 by $1.8 million, representing monies dedicated for the renovations to Discovery Hall and the Pepsi Coliseum.

Indiana State Fair Commission's Comparative Summary of Changes in Net Assets
(In Thousands of Dollars)

	Years Ended December 31, 2008	2007, as restated
Operating Revenues:		
State Fair	$ 10,302	$ 9,829
Rental of buildings	3,682	3,173
Parking	879	810
Concessions	732	657
Fairgrounds events	436	244
Skating	193	151
Other	79	207
Total Operating Revenues	16,303	15,071
Operating Expenses:		
State Fair	8,894	9,328
Professional services	5,584	5,028
Depreciation	3,928	4,254
Payroll	4,243	4,203
Materials & Supplies	856	902
Capital expenditures	777	1,313
Other	47	59
Total Operating Expenses	24,329	25,087
Loss from Operations	(8,026)	(10,016)
Nonoperating Revenues:		
Tax distributions	8,930	8.689
Contributions	332	813
Interest income	180	251
Total Nonoperating Revenues	9,442	9,753

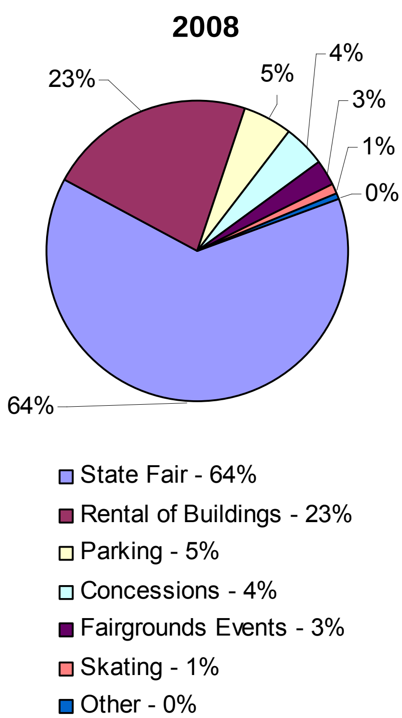
FINANCIAL ANALYSIS (CONTINUED)

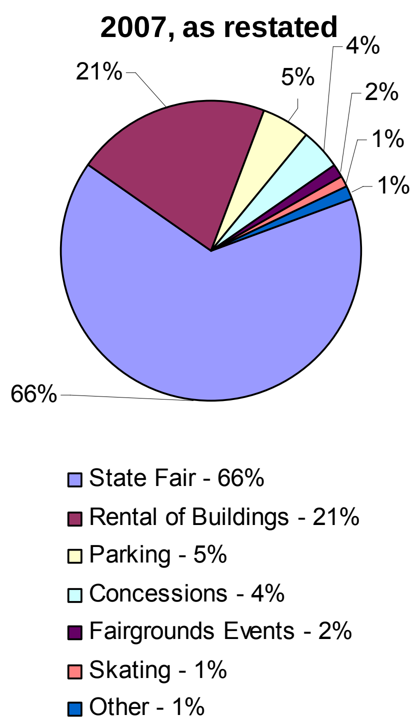
Nonoperating Expense:		
Interest Expense	(721)	(786)
Total Nonoperting Expense	(721)	(786)
Net Income (Loss)	695	(1,049)
Net Assets:		
Beginning of Year	39,877	40,926
End of Year	$ 40,572	$ 39,877

State Fair revenue increased $473 thousand. The increase is directly related to higher attendance primarily as a result of near perfect weather conditions. The corresponding expense decreased $434 thousand. The decrease is mainly due to costs associated with entertainment contracts.

The Commission's net assets increased $695 thousand during the current fiscal year and decreased $930 thousand during the preceding fiscal year. The increases and decreases have a notable correlation to the financial results of the fair.

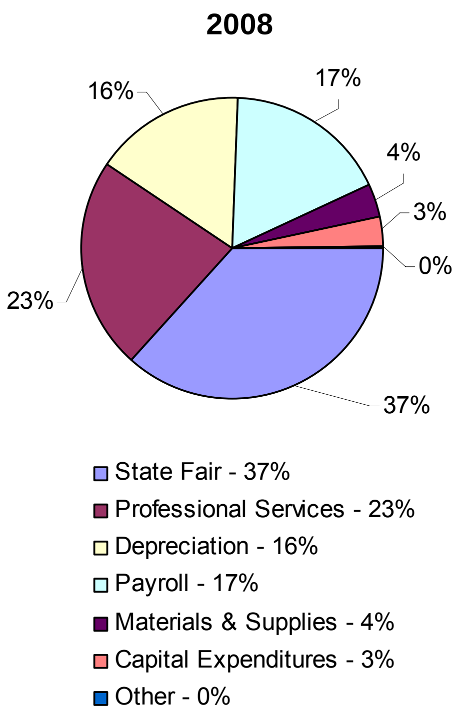
REVENUES BY SOURCE

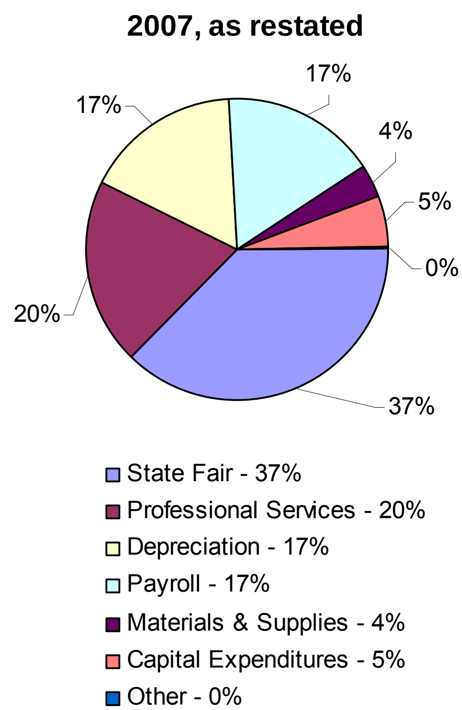




FINANCIAL ANALYSIS (CONTINUED)

EXPENSES BY TYPE





CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: The Commission's investment in capital assets as of December 31, 2008, amounts to $45.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and office furniture and fixtures. The total increase in the Commission's investment in capital assets for the current fiscal year was $738 thousand, primarily due to Phase I and Phase II of the Discovery Hall project moving from construction in progress to capital assets. The increase was mitigated by depreciation exceeding additions.

Major capital asset events during the current fiscal year included the following:

- The move of the Normandy Barn from across 38th street in 2007 was completed. The project contributed $936 thousand to capital assets, and was a high-light at the 2008 Indiana State Fair.

- The cornerstone of the "Year of Trees" was the Covered Bridge constructed on the Fairgrounds. The project was primarily funded through contributions and volunteer labor. The finished product increased capital assets by $195 thousand.

- The north side of the fairgrounds was further enhanced by the Mac Reynolds Barn. Built with donations honoring Mac Reynolds, a long time partner with the fair, the barn added $135 thousand to capital assets.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Indiana State Fair Commission's Capital Assets
(Net of Depreciation)
(In Thousands of Dollars)

	2008	2007, as restated
Land	$ 1,334	$ 1,334
Land Improvements	7,757	8,527
Buildings	36,144	34,462
Equipment	525	578
Furnishings & Fixtures	130	251
Construction in Progress	690	3,188
Total	$ 46,580	$ 48,340

Additional information on the Commission's capital assets can be found in Note I.D.4 to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the Commission's finances. Questions concerning any of this information should be addressed to Indiana State Fair Commission, 1202 East 38th Street, Indianapolis, IN 46205.

INDIANA STATE FAIR COMMISSION
STATEMENT OF NET ASSETS
December 31, 2008

Assets	
Current Assets:	
Cash and Cash Equivalents	$ 2,796,016
Accounts Receivable	714,726
Total Current Assets	3,510,742
Noncurrent Assets:	
Restricted Cash and Cash Equivalents:	
Repair and Replacement Fund	1,001,011
Bond Debt Service Account	2,254,460
Bond Funding Account	2,129,705
Dedicated Funds	1,800,000
ISF Youth Development Fund	70,883
Total Restricted Cash and Cash Equivalents	7,256,059
Net Pension Asset	89,209
Deferred Charges - Bond Issuance Costs	501,345
Construction In Progress	690,465
Property, Plant and Equipment	
Land and Improvements	14,517,199
Buildings and Improvements	69,174,865
Machinery and Equipment	3,781,880
Office Furniture and Equipment	689,514
Less: Accumulated Depreciation	(42,274,086)
Total Property, Plant and Equipment	45,889,372
Total Assets	$ 57,937,192
Liabilities and Fund Equity	
Current Liabilities Payable from Unrestricted Funds:	
Accounts Payable	$ 341,636
Salaries Payable	161,722
Payroll Withholdings Payable	15,642
Revenue Bonds Payable - Current	1,510,000
Revenue Bond Interest Payable	326,268
Taxes Payable	5,633
Deferred Revenue	209,985
Compensated Absences Payable - Current	203,249
Total Current Liabilities Payable From Unrestricted Funds	2,774,135
Noncurrent Liabilities:	
Revenue Bonds Payable - Long-Term	14,395,000
Unamortized Bond Discount	(20,154)
Unamortized Loss on Sale of Bonds	(26,194)
Compensated Absences Long-Term Payable	242,901
Total Noncurrent Liabilities	14,591,553
Total Liabilities	17,365,688
Net Assets:	
Invested in Capital Assets, Net of Related Debt	30,674,837
Restricted - Expendable:	
Dedicated Funds	1,800,000
Future Debt Service	4,384,165
ISF Youth Development Fund	70,883
Restricted Pension Asset	89,209
Other Purposes	1,001,011
Unrestricted (Deficit)	2,551,399
Total Net Assets	$ 40,571,504

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
For The Year Ended December 31, 2008

Operating Revenues:	
Fair Operations:	
Gates	$ 3,494,570
Concessions/Midway	2,375,153
Entertainment	1,193,835
Sponsorship	1,788,422
Department	147,533
Sport/Events	124,899
Livestock	572,335
Shuttle Bus	169,815
Parking	297,481
Other	138,540
Total Fair Operations	10,302,583
Non-Fair Operations:	
Concessions	732,058
Rentals of Buildings, Grounds, and Equipment	2,127,599
Expense Reimbursement	1,554,514
Fairground Events	436,043
Ice Skating and Skate Shop	192,880
Parking	879,058
Sponsorships	19,500
Other	59,328
Total Non-Fair Operations	6,000,980
Total Operating Revenue	16,303,563
Operating Expenses:	
Fair Operations:	
Payroll	1,735,674
Services Other Than Personal	213,013
Services by Contract	4,253,988
Materials, Parts and Supplies	2,021,746
Awards	615,510
Travel	45,309
Bad Debt Expense	8,330
Total Fair Operations	8,893,570

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
For The Year Ended December 31, 2008
(Continued)

Operating Expenses (continued):	
Non-Fair Operations:	
Payroll	4,243,363
Services Other Than Personal	2,894,736
Services by Contract	2,689,124
Materials, Parts and Supplies	856,494
Capital Expenditures	776,914
Depreciation and Amortization	3,928,199
Awards	21,541
Travel	9,257
Bad Debt Expense	16,659
Total Non-Fair Operations	15,436,287
Total Operating Expenses	24,329,857
Operating Income (Loss)	(8,026,294)
Nonoperating Revenues (Expenses):	
Property Tax Distribution	2,462,896
Riverboat Distribution	6,156,355
Pari-Mutual, Off Track Betting Distribution	310,308
Interest Income	180,757
Interest Expense 2002 Bond (Bond Debt Service)	(720,996)
Contributions	332,317
Total Nonoperating Revenues	8,721,637
Net Income (Loss)	695,343
Total Net Assets, January 1, as restated	39,876,161
Total Net Assets, December 31	$ 40,571,504

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

INDIANA STATE FAIR COMMISSION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2008

Cash Flows from Operating Activities:	
Receipts from Customers and Users	$ 16,155,033
Payments to Suppliers	(14,676,100)
Payments to Employees	(6,053,853)
Net Cash Used by Operating Activities	(4,574,920)
Cash Flows from Noncapital Financing Activities:	
Tax Distributions from State	8,929,559
Cash Flows from Capital and Related Financing Activities:	
Acquisition/Construction of Capital Assets	(2,168,328)
Principal Paid on Capital Debt	(1,550,000)
Interest Paid on Capital Debt	(678,498)
Grants and Contributions	332,317
Net Cash Used by Capital and Related Financing Activities	(4,064,509)
Cash Flows From Investing Activities:	
Interest Received	180,757
Net Decrease in Cash and Cash Equivalents	470,887
Cash and Cash Equivalents, January 1, as restated	9,581,188
Cash and Cash Equivalents, December 31	$ 10,052,075
Reconciliation of Cash, Cash Equivalents and Investments:	
Cash and Cash Equivalents, Current, per Balance Sheet	$ 2,796,016
Cash and Cash Equivalents, Restricted, per Balance Sheet	7,256,059
Cash, Cash Equivalents and Investments per Balance Sheet	$ 10,052,075
Cash Flows from Operating Activities:	
Operating Loss	$ (8,026,294)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	3,928,199
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(138,057)
(Increase) Decrease in Prepaid Expenses	34,723
(Increase) Decrease in Net Pension Asset	(89,209)
Increase (Decrease) in Accounts Payable	(289,515)
Increase (Decrease) in Salaries and Payroll Withholding Payables	21,250
Increase (Decrease) in Deferred Revenue	(10,473)
Increase (Decrease) in Accrued Compensated Absences	(6,857)
Increase (Decrease) in Taxes Payable	1,313
Total Adjustments	3,451,374
Net Cash Used by Operating Activities	$ (4,574,920)

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

The State Fair Commission, a component unit of the State of Indiana, 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 and is not a state agency. The Commission shall maintain and develop the Fairgrounds and other properties owned by the Commission.

The State Fair Commission is a component unit to be included in the State of Indiana's Comprehensive Annual Financial Report (CAFR) because of it being established a separate body, corporate and politic (not a state agency), by Indiana Code 15-13-2. A component unit is defined as a legally separate organization for which the elected officials of the primary government are financially accountable.

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.

The Commission distinguishes 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 and government securities and are maintained by a custodian financial institution.

Short-term investments are investments with remaining maturities of up to 90 days. State statute (IC 5-13-10.5) authorizes the Commission to invest in interest-bearing accounts, passbook savings accounts, certificates of deposit, money-market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit and obligations of the U.S. Treasury, a federal agency, a federal instrumentality, a federal government sponsored enterprise, 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 2008 year was $0.

5. Accounts Payable

Operating payables and contracts payable have been combined on the Statement of Net Assets. Contracts payable make up $315,370 of the combined accounts payable.

6. 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.

7. 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.

Restricted expendable net assets are generally noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the State Fair Commission. Restricted expendable net assets include amounts deposited with trustees as required by revenue bond indentures, funds dedicated to specific capital projects, over funding of pension requirements, and funds set aside for youth development. All of the restricted expendable net assets are discussed in Note II-E.

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 $332,317 in contributions in 2008. These contributions include: $120,000 from Center for Agriculture and Science Heritage towards the expense of renovating the Normandy Barn, $108,000 from RAMC LLC for the construction of the Mac Reynolds Barn, and $50,000 and $10,000 from Farm Bureau Insurance and North American Midway Entertainment, respectively, towards the construction of the Covered Bridge. The remaining contributions received were primarily individual donations, also toward the construction of the Covered Bridge, totaling $41,542, and local merchants to support the cost of hosting the "Safe Night" for Halloween in the amount of $2,775.

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 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 for deposits is the risk that in the event of a bank failure, the State Fair Commission's deposits may not be returned to it. In the normal course of business, the State Fair Commission maintains cash at financial institutions in excess of the FDIC limit of $250,000. At December 31, 2008, the uninsured bank balances held at financial institutions was $751,011. The Commission has Sweep accounts that can only hold U.S. Treasury or U.S. Agency obligations. Therefore, the Sweep accounts are only at risk of the U.S. Government not fulfilling its obligation.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risks if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State Fair Commission. None of the State Fair Commission's investments are exposed to custodial credit risk. All investments are in money market accounts which are fully insured by the FDIC.

B. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 1,333,821	$ -	$ -	$ 1,333,821
Construction in Progress	3,188,192	690,465	3,188,192	690,465
Totals	4,522,013	690,465	3,188,192	2,024,286
Capital Assets, Being Depreciated:				
Land Improvements	13,183,378	-	-	13,183,378
Buildings and Improvements	66,403,003	4,434,624	1,662,762	69,174,865
Machinery and Equipment	3,630,799	231,433	80,352	3,781,880
Office Furniture	1,423,385	-	733,871	689,514
Totals	84,640,565	4,666,057	2,476,985	86,829,637
Less Accumulated Depreciation for:				
Land Improvements	4,655,907	770,658	-	5,426,565
Buildings and Improvements	31,941,374	2,752,359	1,662,762	33,030,971
Machinery and Equipment	3,053,151	283,927	80,352	3,256,726
Office Furniture	1,172,440	121,255	733,871	559,824
Totals	40,822,872	3,928,199	2,476,985	42,274,086
Total Capital Assets, Being Depreciated, Net	43,817,693	737,858	-	44,555,551
Total Capital Assets, Net	$ 48,339,706	$ 1,428,323	$ 3,188,192	$ 46,579,837

Depreciation expense for the year ended December 31, 2008, was charged to Fairgrounds of the State Fair Commission in the amount of $3,928,199.

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2008	Committed	Required Future Funding
4-H Girls Dorm Phase III	$ 1,600,000	$ 175,380	$ 1,300,000	$ 124,620
Expo Hall Roof	680,000	375,257	680,000	304,743
Normandy Barn Improvements	340,000	139,828	340,000	200,172

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%	$ 15,905,000	$ 20,154	$ 26,194	$ 15,858,652

Revenue bonds debt service requirements to maturity are as follows:

December 31	Principal	Interest	Totals
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	1,670,000	445,405	2,115,405
2013	1,780,000	375,515	2,155,515
2014-2017	7,785,000	704,027	8,489,027
Totals	$ 15,905,000	$ 3,230,914	$ 19,135,914

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, 2008, $1,540,000 of bonds outstanding are considered defeased. On January 1, 2009, a principle payment of $355,000 was made, thus reducing the par amount outstanding to $1,185,000.

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds Payable	$ 17,455,000	$ -	$ 1,550,000	$ 15,905,000	$ 1,510,000
Compensated Absences	453,007	-	6,857	446,150	203,249
Total Long-Term Liabilities	$ 17,908,007	$ -	$ 1,556,857	$ 16,351,150	$ 1,713,249

E. Restricted Assets

Noncurrent cash and investments restricted include the following:

1. Repair and Replacement Fund – The Bond Covenants require the Commission to maintain a balance of $1,000,000 in the Repair and Replacement Fund. This account is funded by a Certificate of Deposit in at Old National Bank.

2. Bond Debt Service Account – Required by the Bond Covenants. These funds are a reserve required in an amount equal to the maximum annual debt service over the life of the bond. The DSR requirement is $2,254,460.

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 of interest and/or principle.

4. Dedicated Funds – The Commission has set aside $1,800,000 of net assets to be used for two specific projects: Phase III of the renovation of Discovery Hall and major repairs needed on the Coliseum.

5. ISF Youth Development Fund – There is $70,883 in net assets that the Commission has restricted for the use of rewarding youth entrants at the Indiana State Fair. This balance is funded by individual donations and the proceeds the Commission receives from the sale of champions. The amounts and recipients of the awards are solely at the discretion of the Commission. Furthermore, the Commission has the right to terminate the fund, and absorb any remaining balances into unrestricted net assets, at any time.

In previous years the ISF Youth Development Fund was reported as a separate fiduciary fund. The fund was reclassified in this reporting period which eliminated the separate designation. Net assets attributed to the fiduciary fund where amalgamated into the State Fair Commission.

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	2,129,705
Repair and Replacement Fund	1,001,011
ISF Youth Development Fund	70,883
Dedicated Funds	1,800,000
Total Restricted Assets	$ 7,256,059

F. Prior Period Adjustments and Reclassifications

For the fiscal year ended December 31, 2008, certain changes have been made to the financial statements to more appropriately reflect financial activity of the Indiana State Fair Commission. These following prior period adjustments and restatements are reflected in the beginning net assets in the statement of revenue, expenses, and changes in net assets:

1. In the financial statements there is an increase of $63,476 in the total net assets. The increase reflects the Commission's decision to not report certain funds as separate fiduciary funds. The Commission contends that the funds were never meant to be fiduciary and are more accurately stated as a part of the proprietary fund. The net assets of the previously reported fiduciary fund have been designated as restricted in the proprietary fund and are to be used for youth development.

2. In the financial statements there is a decrease of $119,606 in the total net assets. The decrease is due to miscalculations in the entry associated with the bond issued in 2002. The deferred charges asset for bond issuance costs were understated by $87,507. The liabilities for unamortized bond discount and loss on sale of bond were also understated by $84,341 and $122,772, respectively.

The following schedule reconciles December 31, 2007 net assets as previously reported, to beginning net assets, as restated:

	Proprietary Fund	Fiduciary Fund
December 31, 2007, net assets as previously reported	$ 39,932,291	$ 63,476
Correction of errors	(119,606)	-
Reclassification of funds	63,476	(63,476)
Balance January 1, 2008, as restated	$ 39,876,161	$ -

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; and natural disasters.

The State Fair Commission generally does 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; and natural disasters. However, the Commission is researching the feasibility of acquiring insurance for specific buildings to guard against the destruction of assets. Currently, the Commission records, as an expenditure, any loss as the liability is incurred or replacement items are purchased. The State Fair Commission does have a faithful performance bond, as required by statute (IC 15-13-2-15), up to $50,000, which covers the Executive Director, Deputy Executive Director, Director of Finance, Commission Chair, and Commission members.

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 members' 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	$ 191,749
Interest on Net Pension Obligation	(4,544)
Adjustment to Annual Required Contribution	5,178
Annual Pension Cost	192,383
Contributions Made	218,922
Increase in Net Pension Obligation	(26,539)
Net Pension Obligation, Beginning of Year	(62,670)
Net Pension Obligation, End of Year	$ (89,209)

Actuarial Methods

	Annual Funding
Actuarial Cost Method	Entry Age Normal Cost
Asset Valuation Method	75% of Expected Actuarial Value Plus 25% of Market Value

Entry Age Normal Cost

The normal cost is calculated separately for each active member and is equal to the level percentage of payroll needed as an annual contribution from entry age to retirement age to fund projected benefits. The unfunded actuarial accrued liability on any valuation date is the accumulated value of such normal costs from entry age to the valuation date less the actuarial value of assets.

The effect of this valuation method is to amortize all actuarial gains and losses, resulting from experience different from that anticipated in our assumptions, over a 30-year open period. The purpose of the method is to give a smooth progression of the costs from year to year and, at the same time, provide for an orderly funding of the unfunded liabilities.

Summary of Major Actuarial Assumptions

Interest	7.25% (net of administrative and investment expenses)
Future Salary Increases	Based on PERF experience 2000-2005.
Cost of Living Increases	An increase of 1.5% compounded annually is assumed to be applied to the pension benefit each year following retirement. No increase is assumed to be applied to the PERF annuity benefit.
Mortality	UP-1994 Pre-retirement mortality based on PERF experience 1995-2000. No change made based on PERF experience 2000-2005.
Disability	Based on PERF experience 1995-2000. No change made based on PERF experience 2000-2005.
Termination	Select and ultimate tables based on PERF experience 2000-2005. Separate tables are used for state employees and political subdivision employees.
Retirement	Based on PERF experience 2000-2005. Revised effective July 1, 2007.
Spouse's Benefit	90% of members are assumed either to be married or to have a dependent beneficiary. Males are assumed to be three years older than their spouses.

Summary of Major Plan Provisions

Participation	All full time employees of the State of Indiana and all full time employees of political subdivisions which have adopted the plan must become members of PERF upon date of hire.

Eligibility for Annuity Benefits:

Normal Retirement	Earliest of: Age 65 with 10 years of creditable service; Age 60 with 15 years of creditable service; Sum of age and creditable service equal to 85 (but not earlier than age 55).
Early Retirement	Age 50 with 15 years of creditable service
Late Retirement	Subject to continued employment after normal retirement
Disability Retirement	5 years of creditable service and qualified for Social Security disability benefits or federal Civil Service disability benefits.
Termination	10 years of creditable service and election not to take lump sum payment of employee account balance with interest.
Pre-Retirement Death	If death occurs in service, 15 years of creditable service. If death occurs after separating from service, age 50 with 15 years of creditable service.

<u>Amount of Benefits</u>:

Normal Retirement	The normal retirement benefit is an annuity payable for life with 60 months guaranteed and is equal to 1.1% of average monthly earnings* times years of creditable service earned.
Early Retirement	The early retirement benefit is the accrued retirement benefit determined as of the early retirement date and payable commencing at the normal retirement date. A member may elect to have the benefit commence prior to normal retirement provided the benefit is reduced by 1/10% for each of the first 60 months and by 5/12% for each of the next 120 months that the benefit commencement date precedes the normal retirement date.
Late Retirement	The late retirement benefit is calculated in the same manner as the normal retirement benefit. Creditable service and earnings earned after normal retirement is included in the computation.
Disability Retirement	The disability retirement benefit is the accrued retirement benefit determined as of the disability date and payable commencing the month following disability date without reduction for early commencement.

*Average monthly earnings is the monthly average of earnings during the 20 quarters (in groups of 4 consecutive contribution quarters) preceding retirement that produce the highest such average. Earnings include basic salary, the member's 3% mandatory contribution paid by the employer, the member's salary reduction agreement under Section 125, 430(b) or 457 of the Internal Revenue Code, and up to $2,000 of additional compensation received from the employer in anticipation of the member's termination or retirement.

Termination	The termination benefit is the accrued retirement benefit determined as of the termination date and payable commencing at 65. If the member has 15 or more years of creditable service, then the member may elect to receive a reduced early retirement benefit.
Pre-Retirement Death	The spouse or dependent beneficiary is entitled to receive the monthly life annuity under the assumption that the member retired on the later of age 50 or the day before the date of death and elected the joint and full survivor option.
Employee Contributions	Each member is required to contribute to an employee annuity at the rate of 3% of pay (unless the employer has opted to make the contribution for the employee). These contributions are kept on deposit and credited with interest until such time as they are refunded or used to provide the annuity benefit at retirement. The benefits provided by employee contributions are in addition to the benefits provided by employer contributions. The monthly annuity provided at a normal retirement age of 65 is equal to $1.00 for each $108.79 of accumulated employee contributions plus interest.

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
PERF	06-30-06	$ 207,537	69%	$ (39,044)
	06-30-07	158,800	115%	(62,670)
	06-30-08	192,383	114%	(89,209)

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)
07-01-06	$ 2,578,955	$ 2,687,147	$ (108,192)	96%	$ 2,558,088	(4%)
07-01-07	2,929,239	2,952,227	(22,988)	99%	3,097,201	(1%)
07-01-08	3,129,912	3,307,614	(177,702)	95%	3,232,330	(5%)

SKATE SHOP INTERNAL CONTROLS

As stated in our prior Reports, most recently B32803, the following internal control deficiencies were noted while assessing the operation of the Skate Shop at the Indiana State Fair Commission (Commission):

(1) Sales prices were overridden and edited regularly when making a sale, with minimal, if any, documentation for the adjusted price. Cash register generated sales reports were not reviewed by management to ensure the cash register had accurate sales price and list price information and to monitor for errors or fraudulent activity.

(2) The Skate Shop did not formally document the investigations that resulted from a cash register drawer imbalance. 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.

(3) There was a lack of documentation and an audit trail when inventory adds and edits were performed. This leads to weaknesses in management oversight and control over this function.

(4) We noted that the Skate Shop assigned more than one employee to one cash drawer prior to reconciling that cash drawer. Assigning one employee to one cash drawer and performing a reconciliation at the conclusion of that employee's shift would increase accountability over cash.

During the current audit period, the following internal control deficiency was noted while assessing the operation of the Skate Shop:

(5) The Commission did not maintain a skating equipment inventory in its accounting records. We noted that skating equipment was expensed when it was purchased by the Commission and recorded as revenue when customers were invoiced. This resulted in the exclusion of skating equipment inventory from the Commission's financial statements.

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 management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

STATE FAIR FUND INVESTMENTS

The Commission invested portions of its operating funds in certificates of deposit and in the United States Treasury in lieu of investing the funds in compliance with Indiana Code 15-13-8-4.

Indiana Code 15-13-8-4 states: "The treasurer of state shall invest the money in the fund not currently needed to meet the obligations of the fund in the same manner as other public funds may be invested. Interest that accrues from investments of the fund shall be deposited in the fund."

INVESTMENT INTEREST POSTING

As stated in our prior Reports B32803 and B30600, the Commission did not maintain proper accounting over its investments. We noted that interest income was not posted timely to the accounting records.

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 the 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 and Quasi Agencies, Chapter 1)

INDIANA STATE FAIR COMMISSION
EXIT CONFERENCE

The contents of this report were discussed on June 1, 2009, with Cynthia C. Hoye, Executive Director; Kyle Hupfer, Chairman of the State Fair Commission; Joy Rothrock, Director of Legal, Governmental, and Public Affairs; and David Ellis, Director of Finance. The official response has been made a part of this report and may be found on pages 32 and 34.

INDIANA STATE FAIRGROUNDS

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June 8, 2009

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

Re: Indiana State Fair Commission
2008 Audit Results

Mr. Hartman,

The following is our response to points outlined in the 2008 Audit Results and Comments for the Commission. The points were discussed at the exit conference held in the Administrative Building at the Indiana State Fairgrounds on Monday, June 1, 2009 at 9:00am. In attendance were Chairman Kyle Hupfer, Executive Director Cynthia Hoye, Director of Finance David Ellis, and State Board of Accounts Auditor in Charge Michael Daniely, and Field Auditors David Jones, and Matt Stone.

SHAKE SHOP INTERNAL CONTROLS

We appreciated your comments and continued concerns regarding the internal controls of the Skate Shop. Given those comments, we will continue to thoroughly review processes and procedures to ensure the internal controls become, and stay in, agreement with compliance guidelines. The following procedures were implemented during the first quarter of 2009:

(1) A new point of sale software program was installed at the Skate Shop in January, 2009. The new software will only allow the manager on duty to override a sales price. Furthermore, a sales price cannot be overridden without a discount code being selected to explain the reason for the price difference. A report will be generated on a quarterly basis, and reviewed by management, to ensure accurate sales prices. A report will be generated monthly detailing all discounts given, and management will review the report to limit the risk of fraudulent activity.

(2) A new form has been created to formally document daily and/or weekly deposits for the Skate Shop. The cash register sales report is reconciled to the deposit form, and the

deposit form is reconciled to the cash drawer balance. Any imbalance is noted on the deposit form. The Skate Shop is required to keep an amount determined by management in the cash drawer at the end of each business cycle. Any over or short amount caused by balancing to the predetermined cash drawer amount is booked in the general ledger. The deposit is also adjusted to reflect the imbalance.

(3) The new software program tracks inventory adds and edits. A report is generated by the Skate Shop each month to detail inventory activity. The accounting department reviews the inventory report to ensure the activity reflects the same activity as the general ledger.

(4) As of the date of this response no procedures have been put in place to eliminate the issue of more than one employee using one cash drawer. The Commission appreciates the concerns the State Board of Accounts has with this issue. We will continue to look at procedures in an attempt to find a solution to this problem. Unfortunately, it may not be financially and operationally practical to adjust current procedures.

(5) An inventory balance for the Skate Shop has been added to the accounting records. As noted in (3) above, a report is generated from the Skate Shop and reviewed by the accounting department to ensure accuracy of the inventory balance on the general ledger. The purchase of inventory is being booked to the inventory asset account and inventory is reduced when a sale is made.

STATE FAIR FUND INVESTMENTS

The Commission feels they are in compliance with Indiana Code 15-13-8-4 with its current investment policies.

Indiana Code 15-13-8-3 states, "The fund consists of the following: (1) Revenue from the property tax imposed under IC 15-13-9 before January 1, 2009. (2) Appropriations made by the general assembly. (3) Interest accruing from investment of money in the fund. (4) Certain proceeds from the operation of the fair."

Indiana Code 15-13-8-8 states, "The commission may deposit revenues not set forth in section 3 of this chapter in funds: (1) other than the fund; and (2) created under the commission's accounting system.

The investments discussed in the auditors comments are not funds listed in section 15-13-8-3, and therefore are eligible to be placed in funds created under the Commission's accounting system per section 15-13-8-8.

INVESTMENT INTEREST POSTING

The Commissions acknowledges that some interest income was not posted timely to the accounting records. We will be more diligent in the future to ensure all activity related to investments are posted timely.

In conclusion, we appreciate both the opportunity to respond to the audit results and comments, and the State Board of Accounts' continued guidance on accounting related issues.

Respectfully submitted,

Cynthia C. Hoye
Executive Director