

B37159

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

AUDIT REPORT

OF

INDIANA STATE FAIR COMMISSION

January 1, 2009 to December 31, 2009



FILED
06/28/2010

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Cynthia C. Hoyer	01-01-09 to 12-31-10
Chairman of the State Fair Commission	Kyle Hupfer	02-08-07 to 08-23-09
	Vacant	08-24-09 to 10-11-09
	Andre Lacy	10-12-09 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 Statement of Net Assets of the Indiana State Fair Commission, a component unit of the State of Indiana, as of December 31, 2009, and the related Statements of Revenues, Expenses and Changes in Net Assets and Cash Flows for the year then ended. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Indiana State Fair Commission's internal control over reporting. 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 Indiana State Fair Commission as of December 31, 2009, and the respective changes in financial position and cash flows thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 24, 2010, on our consideration of the Indiana State Fair Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
(Continued)

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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Indiana State Fair Commission's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the Indiana State Fair Commission's response and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

May 24, 2010



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REPORT COMMUNICATING INTERNAL CONTROL
RELATED MATTERS IDENTIFIED IN AN AUDIT

TO: THE OFFICIALS OF THE INDIANA STATE FAIR COMMISSION

We have audited the financial statements of the Indiana State Fair Commission, as of and for the year ended December 31, 2009, and have issued our report thereon dated May 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the Audit Results and Comments entitled "Financial Statements" to be a material weakness.

REPORT COMMUNICATING INTERNAL CONTROL
RELATED MATTERS IDENTIFIED IN AN AUDIT
(Continued)

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the Audit Results and Comments entitled "Internal Controls over Non-Fair Parking Revenue Collections, Skate Shop Internal Controls, Untimely Skate Shop Deposits, Internal Controls over Expenditures, Accounting Records and Bank Reconciliations, Certificate of Deposit Interest Posting, and Checks Cashied" to be significant deficiencies.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Audit Results and Comments.

The Commission's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Commission's management, the Commission, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

May 24, 2010

INDIANA STATE FAIR COMMISSION

2009 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, 2009.

FINANCIAL HIGHLIGHTS

- The Commission's assets exceeded its liabilities at the close of the most recent fiscal year by \$41.9 million (net assets). Of this amount, \$4.6 million (unrestricted net assets) may be used to meet any of the Commission's ongoing obligations. There is \$3.5 million (dedicated funds) set aside for two major projects: Phase III and IV of the renovation of Discovery Hall (\$2.7), and renovation of the Coliseum (\$.7). The funds earmarked for the Discovery Hall project represents net income from the 2007, 2008 and 2009 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 increased by \$2.1 million while total liabilities decreased \$1.5 million during the current fiscal year. Cash and cash equivalents increased \$2.1 million.
- The Commission's total net assets increased by \$1.4 million during the current fiscal year largely due to a \$867 thousand increase in combined property tax distributions and general fund appropriations.

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 the statement of net assets, statement of revenues, expenses and change in net assets, statement 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.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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 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 \$41.9 million at the close of the most recent fiscal year.

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

	2009	December 31, 2008 as restated
Current and other assets	\$ 14,866	\$ 11,443
Capital assets	<u>42,911</u>	<u>46,580</u>
Total Assets	<u>57,777</u>	<u>58,023</u>
Current liabilities	2,828	2,774
Noncurrent liabilities	<u>13,014</u>	<u>14,592</u>
Total Liabilities	<u>15,842</u>	<u>17,366</u>
Net Assets:		
Invested in capital assets, net of related debt	28,516	30,675
Restricted	8,805	7,345
Unrestricted	<u>4,614</u>	<u>2,637</u>
Total Net Assets	<u>\$ 41,935</u>	<u>\$ 40,657</u>

FINANCIAL ANALYSIS (CONTINUED)

Net assets have increased the past two fiscal years. The latest increase was primarily generated by increases in non-operating revenues. The higher non-operating revenues are due to the combination of timing related to the receipt of riverboat distributions, and the result of receiving both property tax distributions and general fund appropriations in the first half of the fiscal year.

Restricted net assets increased in 2009 by \$1.5 million, predominantly due to additional 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,	
	2009	2008 as restated
Operating Revenues:		
State Fair	\$ 10,609	\$ 10,302
Rental of buildings	3,584	3,682
Parking	864	879
Concessions	710	732
Fairgrounds events	406	436
Skating	265	193
Other	<u>240</u>	<u>79</u>
Total Operating Revenues	<u>16,678</u>	<u>16,303</u>
Operating Expenses:		
State Fair	9,698	8,894
Professional services	3,916	5,584
Depreciation	4,243	3,928
Payroll	5,571	4,243
Materials & Supplies	814	771
Capital expenditures	581	777
Other	<u>71</u>	<u>47</u>
Total Operating Expenses	<u>24,894</u>	<u>24,244</u>
Loss from Operations	<u>(8,216)</u>	<u>(7,941)</u>
Nonoperating Revenues:		
Tax distributions	10,022	8,930
Contributions	118	332
Interest income	<u>21</u>	<u>180</u>
Total Nonoperating Revenues	<u>10,161</u>	<u>9,442</u>

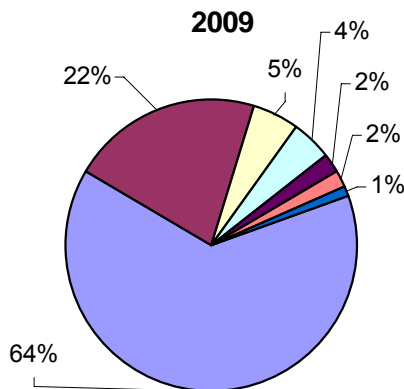
FINANCIAL ANALYSIS (CONTINUED)

Nonoperating Expense:		
Interest Expense	<u>(667)</u>	<u>(721)</u>
Total Nonoperating Expense	<u>(667)</u>	<u>(721)</u>
 Net Income (Loss)	 <u>1,278</u>	 <u>780</u>
 Net Assets:		
Beginning of Year	<u>40,657</u>	<u>39,877</u>
 End of Year	 <u>\$ 41,935</u>	 <u>\$ 40,657</u>

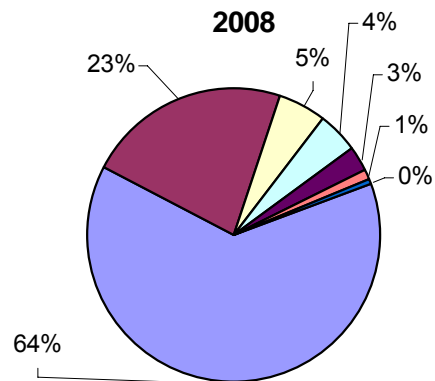
State Fair revenue increased \$307 thousand. The increase is primarily related to increased concessions/midway and entertainment revenue. The corresponding expense also increased \$804 thousand. The increase is mainly due to costs associated with extending the fair by five days.

The Commission's net assets increased \$1.3 million during the current fiscal year, after increasing \$780 thousand during the preceding fiscal year, and decreasing \$1 million during the fiscal year ended December 31, 2007. The increases and decreases have a notable correlation to the financial results of the fair.

REVENUES BY SOURCE



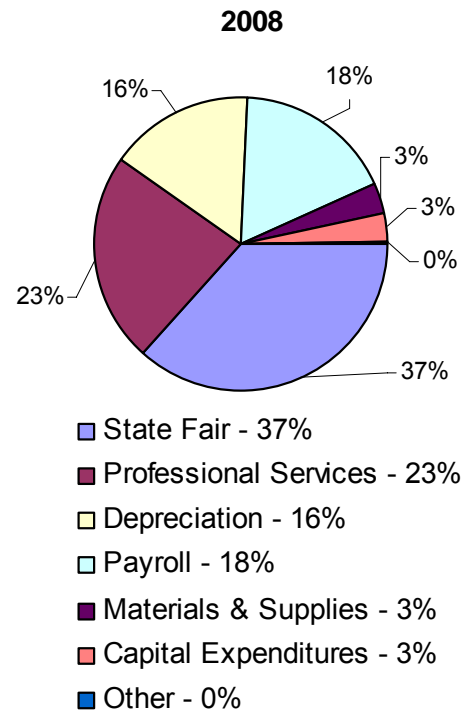
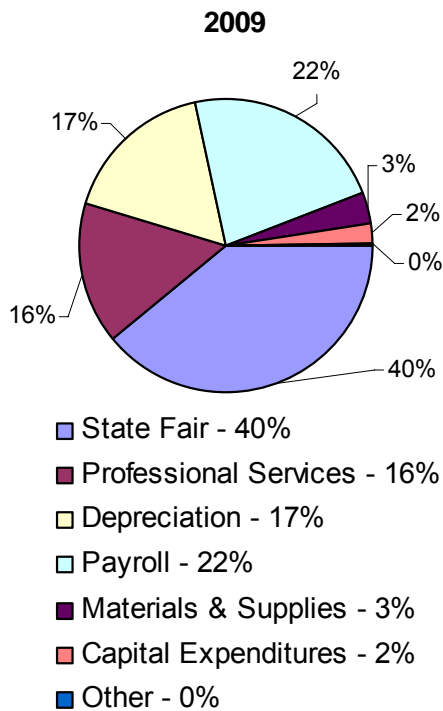
- State Fair - 64%
- Rental of Buildings - 22%
- Parking - 5%
- Concessions - 4%
- Fairgrounds Events - 2%
- Skating - 2%
- Other - 1%



- State Fair - 64%
- Rental of Buildings - 23%
- Parking - 5%
- Concessions - 4%
- Fairgrounds Events - 3%
- Skating - 1%
- Other - 0%

FINANCIAL ANALYSIS (CONTINUED)

EXPENSES BY TYPE



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: The Commission's investment in capital assets as of December 31, 2009, amounts to \$42.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and office furniture and fixtures. The total decrease in the Commission's investment in capital assets for the current fiscal year was \$3 million, primarily due to depreciation.

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

- The roof of the Toyota Exposition Hall was replaced. The project contributed \$675 thousand to capital assets, and was required to extend the life of the building so that it could continue to generate revenue.
- Work on the north side of the fairgrounds continued with major electrical upgrades done by Indianapolis Power and Light, and the installation of solar panels and a windmill. The projects increased capital assets by \$176 thousand.
- There were also two major pieces of equipment purchased made in 2009: a road grader and industrial forklift. The combined cost for this equipment was \$92 thousand.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

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

	2009	2008
Land	\$ 1,334	\$ 1,334
Land Improvements	7,254	7,757
Buildings	33,941	36,144
Equipment	328	525
Furnishings & Fixtures	54	130
Construction in Progress	<u>0</u>	<u>690</u>
Total	<u>\$ 42,911</u>	<u>\$ 46,580</u>

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, 2009

Assets

Current Assets:	
Cash and Cash Equivalents	\$ 4,860,961
Accounts Receivable	396,309
Receivable from the State of Indiana	176,837
Inventory	178,995
Prepaid Expense	<u>9,542</u>
Total Current Assets	<u>5,622,644</u>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents:	
Repair and Replacement Fund	1,001,533
Bond Debt Service Account	2,254,460
Bond Funding Account	1,863,922
Dedicated Funds	3,525,232
ISF Youth Development Fund	<u>60,286</u>
Total Restricted Cash and Cash Equivalents	<u>8,705,433</u>
Net Pension Asset	<u>99,706</u>
Deferred Charges - Bond Issuance Costs	<u>438,677</u>
Property, Plant and Equipment	
Land and Improvements	14,839,131
Buildings and Improvements	70,025,354
Machinery and Equipment	3,873,665
Office Furniture and Equipment	689,514
Less: Accumulated Depreciation	<u>(46,516,662)</u>
Total Property, Plant and Equipment	<u>42,911,002</u>
Total Assets	<u>\$ 57,777,462</u>

Liabilities and Fund Equity

Current Liabilities Payable from Unrestricted Funds:	
Accounts Payable	\$ 468,541
Salaries Payable	30,967
Payroll Withholdings Payable	22,185
Revenue Bonds Payable - Current	1,535,000
Revenue Bond Interest Payable	299,465
Taxes Payable	5,320
Deferred Revenue	168,811
Compensated Absences Payable - Current	230,162
Claims and Judgments Payable	<u>67,500</u>
Total Current Liabilities Payable From Unrestricted Funds	<u>2,827,951</u>
Noncurrent Liabilities:	
Revenue Bonds Payable - Long-Term	12,860,000
Unamortized Bond Discount	(17,634)
Unamortized Loss on Sale of Bonds	(22,920)
Compensated Absences Long-Term Payable	<u>195,021</u>
Total Noncurrent Liabilities	<u>13,014,467</u>
Total Liabilities	<u>15,842,418</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	28,516,002
Restricted - Expendable:	
Dedicated Funds	3,525,232
Future Debt Service	4,118,382
ISF Youth Development Fund	60,286
Restricted Pension Asset	99,706
Other Purposes	1,001,533
Unrestricted (Deficit)	<u>4,613,903</u>
Total Net Assets	<u>\$ 41,935,044</u>

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, 2009

Operating Revenues:	
Fair Operations:	
Gates	\$ 3,177,983
Concessions/Midway	2,535,649
Entertainment	1,742,996
Sponsorship	1,489,500
Department	215,496
Sport/Events	130,874
Livestock	586,703
Shuttle Bus	218,389
Parking	219,441
Royalty Revenue	20,773
Other	<u>271,126</u>
Total Fair Operations	<u>10,608,930</u>
Non-Fair Operations:	
Concessions	710,057
Rentals of Buildings, Grounds, and Equipment	2,219,218
Expense Reimbursement	1,365,167
Fairground Events	406,091
Ice Skating and Skate Shop	264,796
Parking	863,767
Sponsorships	151,600
Royalty Revenue	57,754
Other	<u>30,800</u>
Total Non-Fair Operations	<u>6,069,250</u>
Total Operating Revenue	<u>16,678,180</u>
Operating Expenses:	
Fair Operations:	
Personal Services	2,236,359
Services Other Than Personal	290,965
Services by Contract	5,809,057
Materials, Parts and Supplies	674,534
Equipment	11,614
Grants/Subsidies/Refunds/Awards	634,223
Travel	<u>41,237</u>
Total Fair Operations	<u>9,697,989</u>

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:	
Personal Services	5,570,804
Services Other Than Personal	1,589,563
Services by Contract	2,326,653
Materials, Parts and Supplies	814,616
Equipment	23,544
Lands/Structures	557,424
Depreciation	4,242,576
Grants/Subsidies/Refunds/Awards	66,481
Travel	<u>4,853</u>
Total Non-Fair Operations	<u>15,196,514</u>
Total Operating Expenses	<u>24,894,503</u>
Operating Income (Loss)	<u>(8,216,323)</u>
Nonoperating Revenues (Expenses):	
Property Tax Distribution	1,776,655
State General Fund Appropriations	1,553,676
Riverboat Distribution	6,409,018
Pari-Mutual, Off Track Betting Distribution	282,721
Interest Income	21,349
Interest Expense 2002 Bond (Bond Debt Service)	(667,400)
Grants and Contributions	<u>118,255</u>
Total Nonoperating Revenues	<u>9,494,274</u>
Net Income (Loss)	<u>1,277,951</u>
Total Net Assets, January 1, as restated	<u>40,657,093</u>
Total Net Assets, December 31	<u>\$ 41,935,044</u>

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, 2009

Cash Flows from Operating Activities:	
Receipts from Customers and Users	\$ 16,955,421
Payments to Suppliers	(12,821,113)
Payments to Employees	<u>(7,895,339)</u>
Net Cash Used by Operating Activities	<u>(3,761,031)</u>
Cash Flows from Noncapital Financing Activities:	
Tax Distributions from State	8,291,557
State General Fund Appropriations	<u>1,553,676</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition/Construction of Capital Assets	(573,741)
Principal Paid on Capital Debt	(1,510,005)
Interest Paid on Capital Debt	(625,741)
Grants and Contributions	<u>118,255</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,591,232)</u>
Cash Flows From Investing Activities:	
Interest Received	<u>21,349</u>
Net Increase in Cash and Cash Equivalents	3,514,319
Cash and Cash Equivalents, January 1	<u>10,052,075</u>
Cash and Cash Equivalents, December 31	<u>\$ 13,566,394</u>
Reconciliation of Cash, Cash Equivalents and Investments:	
Cash and Cash Equivalents, Current, per Statement of Net Assets	\$ 4,860,961
Cash and Cash Equivalents, Restricted, per Statement of Net Assets	<u>8,705,433</u>
Cash, Cash Equivalents and Investments, per Statement of Net Assets	<u>\$ 13,566,394</u>
Cash Flows from Operating Activities:	
Operating Loss	<u>\$ (8,216,323)</u>
Adjustments to Reconcile Operating Loss to	
Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	4,242,576
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	318,417
(Increase) Decrease in Inventory	(93,401)
(Increase) Decrease in Prepaid Expenses	(9,542)
(Increase) Decrease in Net Pension Asset	(10,497)
Increase (Decrease) in Accounts Payable	126,905
Increase (Decrease) in Salaries and Payroll Withholding Payables	(124,212)
Increase (Decrease) in Deferred Revenue	(41,174)
Increase (Decrease) in Accrued Compensated Absences	(20,967)
Increase (Decrease) in Taxes Payable	(313)
Increase (Decrease) in Claims and Judgments Payable	<u>67,500</u>
Total Adjustments	<u>4,455,292</u>
Net Cash Used by Operating Activities	<u>\$ (3,761,031)</u>

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

INDIANA STATE FAIR COMMISSION
NOTES TO 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.

The accompanying financial statements present the activities of the State Fair Commission. There are no significant component units which require inclusion.

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 and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the 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.

INDIANA STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Interest income is reported as nonoperating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets.

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of enterprise funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. 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.

4. 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.

Funds dedicated to specific capital projects and funds set aside for youth development are classified as restricted assets on the statement of net assets.

5. Capital Assets

Capital assets, which include properly, plant, and equipment are reported in the financial statements.

Capital assets are reported at actual historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

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:

INDIANA STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land Improvements	\$ 25,000	Straight-line	15 Years
Tunnels	25,000	Straight-line	30 Years
Buildings	25,000	Straight-line	20 Years (40 Years Prior to 1981)
Building Improvements	25,000	Straight-line	4-20 Years
Machinery and Equipment	25,000	Straight-line	3-10 Years
Electrical Upgrades	25,000	Straight-line	12-15 Years
Furniture and Equipment	25,000	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 the 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 2009 year was \$0.

6. Accounts Payable

Operating payables and contracts payable have been combined on the Statement of Net Assets. Contracts payable make up \$17,825 of the combined accounts payable.

7. 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.

8. 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-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.

INDIANA STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$118,255 in grants and contributions in 2009. The grants include: \$21,400 from the Indiana State Department of Energy, with a matching grant of \$21,400 from Indianapolis Power & Light, with an additional grant of \$15,000 from the Indiana State Department of Energy, for green initiative products including solar panels and a small wind turbine. Contributions include \$55,000 from Dow AgroSciences for their continued support of Discovery Hall, with the remaining contributions received primarily from individual donations totaling \$3,395, and \$2,060 from local merchants to support the cost of hosting the "Safe Night" for Halloween .

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 is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Indiana State Fair Commission does not have a deposit policy for custodial credit risk. At December 31, 2009, the Indiana State Fair Commission had deposit balances in the amount of \$13,791,171. Of this amount, the following was exposed to custodial credit risk:

INDIANA STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

	2009
Uninsured and uncollateralized deposits	\$ 3,967,060
Uninsured deposits collateralized with securities held by the pledging financial institution	5,384,272
Uninsured deposits collateralized with securities held by the pledging financial institution's trust department or agent, but not in the depositor-government's name	4,118,381
Totals	\$ 13,469,713

On January 20, 2010, \$6.3 million was transferred to the Indiana Treasurer of State for investing on the behalf of the Commission. The funds on deposit with the Treasurer of State are protected by the Public Deposit Insurance Fund and therefore are not subject to custodial credit risk.

B. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 1,333,822	\$ -	\$ -	\$ 1,333,822
Construction in Progress	690,465	-	690,465	-
Totals	2,024,287	-	690,465	1,333,822
Capital Assets, Being Depreciated:				
Land Improvements	13,183,378	321,931	-	13,505,309
Buildings and Improvements	69,174,865	850,489	-	70,025,354
Machinery and Equipment	3,781,880	91,785	-	3,873,665
Office Furniture	689,514	-	-	689,514
Totals	86,829,637	1,264,205	-	88,093,842
Less Accumulated Depreciation for:				
Land Improvements	5,426,565	825,225	-	6,251,790
Buildings and Improvements	33,030,971	3,052,550	-	36,083,521
Machinery and Equipment	3,256,726	289,425	-	3,546,151
Office Furniture	559,824	75,376	-	635,200
Totals	42,274,086	4,242,576	-	46,516,662
Total Capital Assets, Being Depreciated, Net	44,555,551	(2,978,371)	-	41,577,180
Total Capital Assets, Net	\$ 46,579,838	\$ (2,978,371)	\$ 690,465	\$ 42,911,002

Depreciation expense for the year ended December 31, 2009, was charged to Fairgrounds of the State Fair Commission in the amount of \$4,242,576.

INDIANA STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Long-Term Liabilities

1. Revenue Bonds

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

Purpose	Interest Rates	Balance At December 31	Less: Unamortized Discount	Less: Loss on Defeasance	Amount
Construction of Facilities	2.0% to 4.5%	\$ 14,395,000	\$ 17,634	\$ 22,920	\$ 14,354,446

Revenue bonds debt service requirements to maturity are as follows:

December 31	Principal	Interest	Totals
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	1,790,000	301,435	2,091,435
2015-2017	5,995,000	402,593	6,397,593
Totals	\$ 14,395,000	\$ 2,605,183	\$ 17,000,183

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, 2009, \$1,197,587 of bonds outstanding are considered defeased.

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds Payable	\$ 15,905,000	\$ -	\$ 1,510,000	\$ 14,395,000	\$ 1,535,000
Compensated Absences	446,150	-	20,967	425,183	230,162
Total Long-Term Liabilities	\$ 16,351,150	\$ -	\$ 1,530,967	\$ 14,820,183	\$ 1,765,162

INDIANA STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. 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 at JP Morgan/Chase 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 \$3,525,232 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 \$60,286 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.

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	1,863,922
Repair and Replacement Fund	1,001,533
ISF Youth Development Fund	60,286
Dedicated Funds	3,525,232
 Total Restricted Assets	 \$ 8,705,433

E. Prior Period Adjustments and Reclassifications

For the fiscal year ended December 31, 2009, certain changes have been made to the financial statements to more appropriately reflect financial activity of the Indiana State Fair Commission. The following prior period adjustment and restatement is reflected in the beginning net assets in the Statement of Revenue, Expenses, and Changes in Net Assets:

Inventory for the Skate Shop was established in the Indiana State Fair Commission's accounting records in 2009. The inventory represents items that were expensed in previous years. An amount of \$85,589 was added to beginning Net Assets to reflect this adjustment to Inventory.

INDIANA STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Operating Revenue – Expense Reimbursement

The Indiana State Fair Commission receives revenue from the rental of buildings, grounds, and equipment. The contracts related to rental revenue contain allowances for expenses paid by the Commission on behalf of the client. These expenses can include, but are not limited to, utilities, set-up, tear-down, and clean-up. The costs of these expenses are passed along to the client. In many cases, the amount billed to the client is not a dollar to dollar pass through. Therefore, the revenue received for these services is recorded as Expense Reimbursement on the Statement of Revenues, Expenses, and Changes in Net Assets. The corresponding expense is recorded under operating expenses.

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 Commission is subject to the protection offered by the Indiana Tort Claims Act. Casualty claims may be paid from the Indiana Tort Claims Fund established at IC 34-13-3-24.

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), which covers up to \$50,000 for each of the following: Executive Director, Deputy Executive Director, Director of Finance, Commission Chair, and each Commission member.

B. Retirement Medical Benefits Account

SEA 501 (2007) established a retirement medical benefits account as a health reimbursement arrangement for eligible state government retirees. Full-time benefited employees of the Indiana State Fair Commission are eligible participants to receive this benefit as outlined in SEA 501. Contributions on behalf of the eligible Indiana State Fair Commission participants are made by the State of Indiana. Therefore, no actuarial information is included in this report. Actuarial information concerning the retirement medical benefits account can be found in the 2009 State of Indiana Comprehensive Annual Financial Report.

C. 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.

INDIANA STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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	\$ 218,182
Interest on Net Pension Obligation	(6,468)
Adjustment to Annual Required Contribution	7,330
Annual Pension Cost	219,084
Contributions Made	229,581
Increase in Net Pension Obligation	(10,497)
Net Pension Obligation, Beginning of Year	(89,209)
Net Pension Obligation, End of Year	\$ (99,706)

INDIANA STATE FAIR COMMISSION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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.

INDIANA STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Amount of Benefits:

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.

INDIANA STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Employer Contribution</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-07	\$ 158,800	\$ 182,426	115%	\$ (62,670)
	06-30-08	192,383	218,922	114%	(89,209)
	06-30-09	219,084	229,581	105%	(99,706)

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)
07-01-07	\$ 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%
07-01-09	3,344,018	3,618,619	(274,601)	92%	3,463,490	8%

INDIANA STATE FAIR COMMISSION
AUDIT RESULTS AND COMMENTS
DECEMBER 31, 2009

FINANCIAL STATEMENTS

The Indiana State Fair Commission did not have adequate internal controls over its financial transactions and reporting which resulted in the following errors on the financial statements and notes to the financial statements:

1. The Commission's trial balance accounts were not properly reflected in the Statement of Revenues, Expenses, and Changes in Net Assets (Statement). As a result, material adjustments were requested by the State Board of Accounts to correct the Statement. These adjustments included, but were not limited to, the reclassification of contract services in the amount of \$1,001,167 from materials, parts, and supplies to contract services in addition to the reclassification of employee benefit expenses, totaling \$830,867, from services other than personal to personal services.
2. On the Statement of Net Assets, accounts payable was overstated by \$402,056. This included encumbered purchase orders totaling \$325,000 for which a liability had not been incurred as of December 31, 2009. We also noted that the Buyers' Club and Youth Development Funds, totaling \$77,056, were improperly included in accounts payable as the funds were available for future awards and were not awarded as of December 31, 2009.
3. The Contracts Payable amount reported in the notes to the financial statements was also overstated.

The Commission corrected these errors following a recommendation by the State Board of Accounts.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

INTERNAL CONTROLS OVER NON-FAIR PARKING REVENUE COLLECTIONS

The Commission did not have adequate controls over the accounting of revenues from non-fair parking. We noted that the Commission did not reconcile the individual cashier reports and corresponding gate totals reports.

During our comparison of the individual cashier reports to the respective gate totals reports, we noted a \$300 shortage on one day tested. Total cash collections per the signed individual cashier reports for this day were \$300 more than the gate totals report and the amount deposited into the Commission's bank account for that day.

Through further analysis, which included an inquiry of the Public Safety and Logistics Manager, we noted that the individual cashier reports were printed from the system and signed by the respective cashiers and auditor at the conclusion of the cashiers' shifts as required. However, one individual cashier report in the system was subsequently altered to reduce the number of tickets issued by 100 to that

INDIANA STATE FAIR COMMISSION
AUDIT RESULTS AND COMMENTS
DECEMBER 31, 2009
(Continued)

cashier; thus, reducing the total cash called for by \$300 on the gate totals sheet. The gate totals sheet was subsequently printed and signed by the manager and lacks the required auditor's signature. The altered individual cashier report was not printed and signed. According to the Public Safety and Logistics Manager, only the Public Safety and Logistics Manager and the two Gates Managers were given access to the system at that time.

This demonstrates a lack of controls over the system utilized to maintain the cashiers' reports, accountability of funds, and a lack of controls over the serialized ticket inventory.

Each agency, department, quasi, institution or office should have internal controls in effect to 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 forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

SKATE SHOP

Internal Controls

As stated in our prior four Reports, most recently B34394, the following internal control deficiencies were noted while assessing the operation of the Skate Shop at the Commission:

1. 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. We also noted that the Skate Shop did not formally document the investigations that resulted from cash register drawer imbalances.
2. Based on a prior audit recommendation, the Commission began reporting a skating equipment inventory in its accounting records in 2009 and included the inventory in its financial statements. However, we noted the following deficiencies while assessing inventory control for the Skate Shop:
 - a. Inventory adds and deletes were not properly entered into the point of sale system, resulting in a lack of documentation and an audit trail. This leads to weaknesses in management oversight and control over this function.
 - b. The Commission conducted physical inventories in February 2009 and December 2009. At the conclusion of each physical inventory, new inventory totals were entered into the point of sale system. However, no comparison between the physical inventory and the system inventory was performed.
 - c. The Commission did not include used skating equipment in inventory. This resulted in the exclusion of the used skating equipment inventory from the Commission's financial statements.

INDIANA STATE FAIR COMMISSION
AUDIT RESULTS AND COMMENTS
DECEMBER 31, 2009
(Continued)

Each agency, department, quasi, institution or office should have internal controls in effect to 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 and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

Untimely Deposits

The Commission did not deposit Skate Shop receipts in compliance with its Skate Shop Internal Controls Policy. Of the 28 Skate Shop receipts tested, eight (28.6%) totaling \$2,697 were deposited for a period in excess of the limit set forth by the Commission's Internal Controls Policy. This policy requires cash register reports to be reconciled with the drawer and deposited at the close of each business day during winter shop hours, and weekly during slower summer shop hours. Any discrepancies are to be noted on the reconciliation.

When receipts are not deposited timely, the possibility that funds may be misplaced or stolen increases.

Each agency, department, quasi, institution or office also has the responsibility to comply with its own internal policies and guidelines. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

ACCOUNTING RECORDS AND BANK RECONCILIATIONS

The Commission maintains five bank accounts which sweep funds daily to another account. We noted that the Commission did not properly maintain a ledger to account for all activity occurring in each of these accounts. Accordingly, the Commission's monthly bank reconciliations included unconventional reconciling items in order to reconcile the accounting records and bank balances. Although the aggregate balance of these accounts as presented on the financial statements is overstated by an immaterial amount, the accounts were not properly reconciled each month and management's review of the reconciliations was deficient.

Each quasi governmental unit with funds outside the state system also has the responsibility to maintain appropriate accounting records, including monthly bank statement reconciliations, and internal controls. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

INTERNAL CONTROLS OVER EXPENDITURES

Of 66 disbursements tested, we noted that the Commission paid four claims consisting of mathematically incorrect invoices for janitorial services, resulting in incorrect payment amounts and demonstrating a lack of control over the payment of claims.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An Agency's control environment consists of the overall attitude,

INDIANA STATE FAIR COMMISSION
AUDIT RESULTS AND COMMENTS
DECEMBER 31, 2009
(Continued)

awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

CERTIFICATE OF DEPOSIT INTEREST POSTING

As stated in our prior three Reports, most recently B34394, the Commission did not maintain proper accounting over its Certificates of Deposit (CD). We noted that for one CD, interest income was not posted timely to the accounting records. We also noted that an immaterial amount of interest was posted to the accounting records for another CD that had lapsed into a non-interest bearing dormant status for nine months; thus, overstating interest income.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An Agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

CHECKS CASHED

The Commission cashed employee payroll checks using cash received from parking revenues. As a result, revenues were not deposited in the same form in which they were received. It is our audit position that if the Commission wishes to cash employee checks, it should do so by using a dedicated cash fund for that purpose rather than using cash from customer receipts.

Collections must be deposited intact. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies 4.3.2)

The agency should always be able to trace an individual receipt from a payer to the corresponding deposit slip. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies 4.4.1.1)

INDIANA STATE FAIR COMMISSION
EXIT CONFERENCE

The contents of this report were discussed on June 16, 2010, with Cynthia C. Hoyer, Executive Director; Andre Lacy, Chairman of the State Fair Commission; Patrick Berger, Director of Administration; David Ellis, Director of Finance; Bruce Williams, Accounting and Technology Manager; and Greg Wright, Jr., Assistant Accounting Manager. The official response has been made a part of this report and may be found on pages 35 through 37.



INDIANA STATE FAIRGROUNDS

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June 21, 2010

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 2009 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 Wednesday, June 16, 2010 at 12:00pm. In attendance were Chairman Andre Lacy, Executive Director Cynthia Hoye, Director of Administration Pat Berger, Director of Finance David Ellis, Accounting and Technology Manager Bruce Williams, Assistant Accounting Manager Greg Wright, and State Board of Accounts Auditor in Charge Michael Daniely, and Field Auditors Deborah Goodchild and Dan Heilman.

FINANCIAL STATEMENTS

The Commission appreciates the guidance offered by the representatives of the State Board of Accounts on issues related to the financial statements.

1. On January 1, 2009 a new accounting software was implemented. The new accounting system changed the chart of accounts used by the Commission, and therefore required general ledger accounts to be remapped to financial statements. An attempt was made by the Commission to be consistent with how expenses had been reported on prior year's audits. Based on conversations with the Auditor in Charge, when one line item was questioned, the Commission immediately reexamined expense classifications, and the financial statements were restated. There were no changes to overall revenue or expense totals as a result of the reclassifications. We have no reason to believe this will be an issue in the future.
2. The overstatement of accounts payable was a result of the Commission being overly conservative in its reporting. Funds that had been approved for expenditure in the purchase order system, although goods or services had not been received, were

inaccurately listed as payables. The accounting system has been adjusted so that encumbered expenses will no longer appear on financial statements.

3. Systems have been put in place to more accurately report Contracts Payable.

INTERNAL CONTROLS OVER NON-FAIR PARKING REVENUE COLLECTIONS

The Commission concurs with this comment as it does point out an internal control that is lacking. As a result the following procedures have been established and will be fully implemented by July, 2010:

- A member of the accounting team will randomly pick one deposit each month and audit it for to ensure the accuracy of reporting related to non-Fair parking revenue.
- A report is issued by the Public Safety Manager each month summarizing revenue for the month. All efforts will be made to issue serialized ticket stock in numerical order. Beginning and ending numbers for the ticket inventory will be listed on the report. A calculation will be done for each report confirming revenue is accurate based on number of tickets sold.

SKATE SHOP

1. No procedures have been put in place to eliminate the issue of more than one employee using the cash drawer. The Commission appreciates the concerns the State Board of Accounts has with this issue. Some of the procedural changes suggested by the State Board of Accounts during the audit will be used to mitigate this issue. Unfortunately, it may not be logistically possible for the issue to be completely eliminated.
2. The Commission is working diligently to resolve deficiencies in the area of inventory control at the Skate Shop. The following measures have already been done:
 - A physical inventory count was completed by the Skate Shop staff on May 20, 2010. That count was compared to inventory balances in the point of sale software with all discrepancies noted. The point of sale software inventory balances were then adjusted to match the physical count.
 - Procedures were changed so that the inventory balance in the accounting system are updated only by an interface process with the point of sale system. This should eliminate discrepancies between the ledger balance and the balance in the point of sale system. The balances will be compared as a part of the month end process completed by the accounting team beginning with the July 31, 2010 month end.
 - At least once during the off season, and once a month during the season, a member of the accounting team will randomly pick five (5) inventory items and compare the point of sale system with actual inventory levels.
 - A complete physical inventory count will be completed by the Skate Shop staff, and verified for accuracy by the accounting team, at least once a year at the end of the season.

Procedures and policies already in place will be monitored more closely to diminish the chance for untimely deposits from the Skate Shop.

ACCOUNTING RECORDS AND BANK RECONCILIATIONS

Bank reconciliation procedures have already been changed to address the issues commented upon in the audit. Furthermore, the Commission has begun to eliminate some bank accounts to reduce the number of reconciliations necessary. Other bank accounts will be eliminated as new checks are ordered. The goal is to have only two (2) bank accounts, which are not consolidated, at local financial institutions, and process all checks through only one of those accounts.

INTERNAL CONTROLS OVER EXPENDITURES

Procedures and policies have been put in place to require the accounts payable clerk to verify the accuracy of all invoices received from vendors.

CERTIFICATE OF DEPOSIT INTEREST POSTING

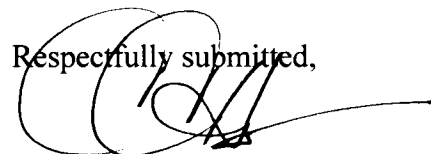
The Commission is moving all investments in certificates of deposit to the Treasurer of the State. Currently there is only one CD not invested through the Treasurer. Interest on these investments is being posted to the general ledger as part of the established month end process.

CHECKS CASHED

The policy of cashing payroll checks has been eliminated with the exception of during the Fair. During the Fair the Commission sets up its own "bank" for the purpose of consolidating various cash receipts, and to provide change and check cashing services.

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