

An Audit

State Fair Park

2007-2008 Joint Legislative Audit Committee Members

Senate Members:

Jim Sullivan, Co-chairperson
Julie Lassa
Mark Miller
Alan Lasee
Robert Cowles

Assembly Members:

Suzanne Jeskewitz, Co-chairperson
Samantha Kerkman
Kitty Rhoades
David Cullen
Joe Parisi

LEGISLATIVE AUDIT BUREAU

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau. For more information, write the Bureau at 22 E. Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to leg.audit.info@legis.wisconsin.gov. Electronic copies of current reports are available at www.legis.wisconsin.gov/lab.

State Auditor – Janice Mueller

Audit Prepared by

Carolyn Stittleburg, *Director and Contact Person*

Tim Coulthart

Desiree De Thier

Bruce Flinn

David Harkins

Stephanie Kleine

Zach Ramirez

Erin Scharlau

Director of Publications – Jeanne Thieme

Report Design and Production – Susan Skowronski

CONTENTS

Letter of Transmittal	1
Report Highlights	3
Introduction	9
State Fair Park Board and Staff	10
State Fair Park Finances	11
State Fair Park Debt Service	13
The Milwaukee Mile	15
Original License Agreement	15
April 2007 Amendments	16
Renegotiated License Agreement	17
License Fees	19
Land Development	19
Profit-Sharing Provisions	21
Early Termination Provisions	21
Future Implications for State Fair Park	22
State Fair Park Agriculture Department	25
Managing Agriculture Events at the Wisconsin State Fair	26
Setting Competition Rules	27
Operation of the Governor's Blue Ribbon Livestock Auction	29
Judge Selection	31
Conflict of Interest Allegations	33
Ethics and Conflict of Interest Policy	36
Audit Opinion	39
Independent Auditor's Report on the Financial Statements of the Wisconsin State Fair Park	
Management's Discussion and Analysis	41

Financial Statements	51
Statement of Net Assets	52
Statement of Revenues, Expenses, and Changes in Net Assets	53
Statement of Cash Flows—State Fair Park Fund for the Year Ended June 30, 2007	54
Statement of Cash Flows: Component Unit—Exposition Center for the Year Ended December 31, 2006	56
Notes to the Financial Statements	57
Report on Control and Compliance	73
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	
Appendices	
Appendix 1—Other Financial Information: Pettit Center and Wisconsin Exposition Center	
Appendix 2—Current Schedule of Milwaukee Mile License Fees and Deferrals	
Appendix 3—Map of Wisconsin State Fair Park	
Appendix 4—Organizational Structure	
Appendix 5—Comparison of Midwestern State Fairs	
Appendix 6—Wisconsin State Fair Park Board Resolution Number 014-07	
Response	
From the Executive Director of State Fair Park	



STATE OF WISCONSIN
Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
www.legis.wisconsin.gov/lab

Janice Mueller
State Auditor

July 11, 2008

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

As required by s. 13.94(1)(dm), Wis. Stats., we have completed our annual financial audit of State Fair Park. We have issued an unqualified opinion on State Fair Park's fiscal year (FY) 2006-07 financial statements. In addition, we have continued to monitor State Fair Park's financial condition and its efforts to improve its financial performance.

In FY 2006-07, State Fair Park's revenue exceeded expenditures by \$1.3 million, the first time since FY 1998-99. As a result, State Fair Park was able to reduce the accumulated cash deficit to \$9.9 million. The positive operating results are primarily attributable to reduced operating costs as a result of the licensing of the Milwaukee Mile racetrack to a private promoter. However, the promoter has reported financial difficulty, and in February 2008 the license agreement was renegotiated and the annual license fee paid by the promoter was lowered from approximately \$1.8 million to \$1.0 million. Further, a portion of the amount due has been deferred. As a result, State Fair Park will receive only \$725,000 in license fees in 2008.

As part of our audit, we also reviewed conflict of interest allegations related to the management of State Fair Park's Agriculture Department. State Fair Park has begun to take steps to address concerns raised by members of the agriculture community. We include several recommendations for further improvement, including increased communication among the Board, management staff, various advisory committees, and the agriculture community in Wisconsin. In addition, we recommend State Fair Park seek an opinion from the Government Accountability Board on the perceived conflicts of interest between the Agriculture Director's outside business interests and his responsibilities to State Fair Park.

We appreciate the courtesy and cooperation extended to us by the staff of State Fair Park. A response from State Fair Park's executive director follows the appendices.

Respectfully submitted,

Janice Mueller
State Auditor

JM/CS/ss

Report Highlights ■

In FY 2006-07, revenue exceeded expenditures by \$1.3 million.

As of June 30, 2007, State Fair Park's accumulated cash deficit was \$9.9 million.

A renegotiated agreement with a private racing promoter significantly reduced the license fee State Fair Park receives for the Milwaukee Mile racetrack.

Recent policy changes by State Fair Park's Agriculture Department and allegations of conflicts of interest require further review.

State Fair Park, the 190-acre fairgrounds located in West Allis and Milwaukee, is home to the Wisconsin State Fair. The State Fair Park Board, which is attached to the Department of Tourism for administrative purposes, is responsible for its management. In fiscal year (FY) 2006-07, State Fair Park's operating budget was \$16.9 million.

As part of an annual financial audit required under 1999 Wisconsin Act 197, we have issued an unqualified opinion on State Fair Park's financial statements for FY 2006-07. They are included in our report. We have also continued to monitor State Fair Park's financial condition, including efforts to improve its financial performance. As part of that effort, we reviewed:

- revenue and expenditure data for FY 2006-07, as well as the current status of an accumulated cash deficit in the program revenue appropriation that funds State Fair Park's non-capital expenses, which include operating and debt service costs; and
- the effects of a renegotiated license agreement between State Fair Park and Milwaukee Mile Holdings, LLC, a private, for-profit racing promoter that manages and operates the Milwaukee Mile racetrack located on the fairgrounds.

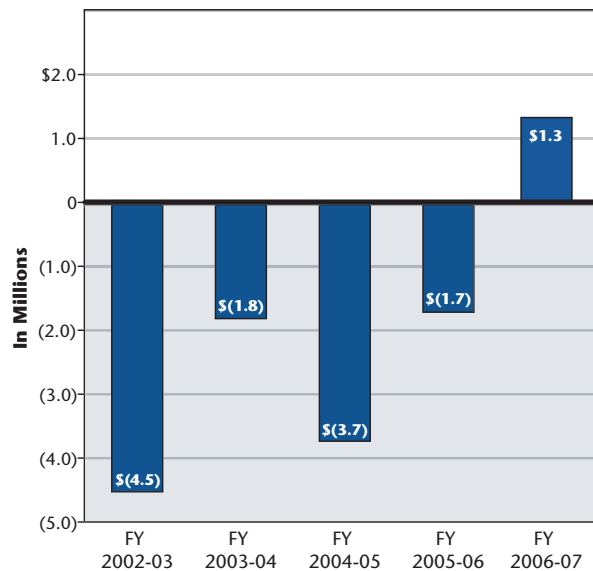
In addition, we reviewed conflict of interest allegations related to the management of State Fair Park’s Agriculture Department. As part of that review, we interviewed State Fair Park officials, state fair agriculture directors in other midwestern states, and interested parties in the Wisconsin agriculture community.

Fiscal Condition

In previous audits, we expressed concern because State Fair Park’s expenditures—including operating, capital, and debt service costs—were outpacing revenue. In FY 2006-07, annual revenue exceeded expenditures for the first time since FY 1998-99, as shown in Figure 1.

Figure 1

Annual Operating Results (Cash Basis)



Contracting with a private promoter to operate the Milwaukee Mile racetrack was an important factor in State Fair Park’s improved operating results. For example, its racetrack-related expenditures declined by \$3.8 million from FY 2005-06 to FY 2006-07.

State Fair Park was able to reduce the accumulated cash deficit in its program revenue appropriation to \$9.9 million on June 30, 2007. Because this deficit reduces funding available for other state

programs and limits the State's ability to generate income from investment earnings, State Fair Park should continue to take steps to address it.

The Milwaukee Mile

In December 2005, State Fair Park entered into a license agreement with Milwaukee Mile Holdings for management of racing activities at the fairgrounds. The agreement was for a term of 18 years, with a renewal option.

The 2005 agreement included a license fee of \$246,000 for the first year, which was to increase to approximately \$1.8 million annually thereafter. It also included a land-exchange provision that gave Milwaukee Mile Holdings a four-year option to acquire 9.35 acres of State Fair Park property for development. To exercise this option, Milwaukee Mile Holdings was required to purchase and remediate a separate piece of property located on the fairgrounds but owned by AmeriGas, L.P., and to make other capital improvements to the fairgrounds.

The original license agreement has been changed twice. First, in April 2007, it was amended to defer \$722,000 of Milwaukee Mile Holdings' license fees for 2007 until December of that year.

In addition, Milwaukee Mile Holdings assigned its rights to acquire the AmeriGas property to the State Fair Park Board, because State Fair Park sought to purchase the property in order to address safety concerns related to propane tanks. In May 2007, the State Building Commission approved \$1.7 million in general purpose revenue (GPR)-supported borrowing for State Fair Park to purchase the land.

The April 2007 amendments also included an agreement that Milwaukee Mile Holdings would reimburse the State's costs to purchase the AmeriGas property if Milwaukee Mile Holdings exercised its option to purchase the 9.35 acres of State Fair Park land for development. However, Milwaukee Mile Holdings did not exercise its purchase option before again renegotiating the license agreement with State Fair Park. Consequently, the State will not be reimbursed for the \$1.7 million in GPR-supported borrowing.

After the 2007 racing season, Milwaukee Mile Holdings reported financial difficulty and sought additional changes to the license agreement. State Fair Park began to explore contracting with other private promoters or again managing the track internally, but ultimately decided to renegotiate.

In February 2008, a renegotiated agreement that significantly lowered the annual license fee was approved by the State Fair Park Board and by the State Building Commission. Under this agreement:

- State Fair Park waived \$322,000 of the 2007 license fee payment it had previously agreed to defer, and Milwaukee Mile Holdings will pay the remaining \$400,000 in annual installments of \$25,000;
- State Fair Park reduced the annual license fee to \$1.0 million beginning in 2008, although a portion will be deferred so that Milwaukee Mile Holdings will pay \$700,000 as well as the \$25,000 installment in 2008; and
- under an option for a 30-year ground lease, Milwaukee Mile Holdings may develop 6.35 acres—rather than 9.35 acres—of State Fair Park land.

The original agreement of December 2005 was designed so that the license fee was sufficient to cover State Fair Park’s annual debt service costs related to construction of the Milwaukee Mile grandstand and other recent racetrack improvements. Under the renegotiated agreement, nearly \$1.1 million in annual debt service costs must now be funded by State Fair Park.

We estimate that in total, State Fair Park’s financial responsibility for the Milwaukee Mile will increase to nearly \$1.2 million in 2008, as shown in Table 1. State Fair Park will need to identify additional revenue sources to cover these expenses.

Table 1

**State Fair Park’s
2008 Milwaukee Mile Costs**

	Amount
Total Debt Service Costs	\$1,813,000
Less License Fee Cash Received	(725,000)
Net Debt Service Costs	1,088,000
Letter of Credit Fee	57,700
Other	14,600
Total Costs	\$1,160,300

Two proposals to generate additional revenue have been considered: developing 5.75 acres of the fairgrounds bordering I-94, and constructing a billboard on the fairgrounds. Both projects have been postponed because of proposed I-94 construction projects.

Agriculture Department

Some members of the agriculture community have raised concerns regarding recent changes in policies and procedures related to livestock competitions at the Wisconsin State Fair, including:

- changes in the extent to which the Agriculture Director, who manages these events, consults with various advisory committees in setting competition rules for junior division livestock shows;
- the concentration of responsibility for junior division judge selection with the Agriculture Director, especially given his outside business interests; and
- recent changes in the payout structure for the Governor's Blue Ribbon Livestock Auction, which is the premier livestock event of the annual fair and provides junior exhibitors an opportunity to earn money by selling their prize-winning animals.

Several conflict of interest allegations have also been raised related to the Agriculture Director's responsibilities to State Fair Park and his participation in an outside business that buys and sells show cattle. For example, the Agriculture Director maintained a financial interest in animals that were exhibited and won championships at the 2005 and 2006 state fairs.

State Fair Park officials were aware of this potential conflict but did not reassign the Agriculture Director's responsibilities because he was not a direct participant in the competitions and was not the sole person responsible for selecting judges. The Agriculture Director has indicated he is transitioning away from his outside business, but we found that he continued to participate as recently as March 2008.

In September 2007, the State Fair Park Board established an ethics and conflict of interest policy, which State Fair Park is in the process of implementing. We believe consultation with the Government Accountability Board is warranted to determine whether the Agriculture Director's outside business interests represent a conflict of interest with his responsibilities to State Fair Park.

Recommendations

Our report includes recommendations for State Fair Park to:

- obtain additional financial information from Milwaukee Mile Holdings, LLC (*p. 21*);
- report to the Joint Legislative Audit Committee by March 31, 2009, both on the status of its efforts to address the revenue shortfall in the renegotiated license agreement and on its ongoing cash deficit (*p. 24*);
- continue to formalize the roles and responsibilities of various advisory committees and the Auction Committee, and require the State Fair Park Board's Agriculture Committee to annually approve the competition rules for livestock shows at the Wisconsin State Fair (*pp. 29 and 31*);
- reevaluate the judge selection process, particularly for the junior division, to address the role of the various advisory committees (*p. 32*); and
- seek an opinion from the Government Accountability Board on whether the Agriculture Director's outside business interests represent a conflict of interest with his responsibilities to State Fair Park (*p. 37*).

■ ■ ■ ■

Introduction ■

State Fair Park has been home to the Wisconsin State Fair since 1892 and has operated as a separate state agency—the State Fair Park Board—since 1990. State Fair Park’s FY 2006-07 operating budget was \$16.9 million. 2007 Wisconsin Act 20, the 2007-09 Biennial Budget Act, established State Fair Park’s operating budget at \$17.8 million for FY 2007-08 and \$18.2 million for FY 2008-09.

State Fair Park’s operations are funded primarily by revenue from the annual state fair.

Attendance fees and other revenue from the annual fair, which is held each August, are State Fair Park’s primary source of funding. Three other facilities on the fairgrounds affect its operations: the Pettit National Ice Center, the Wisconsin Exposition Center, and the Milwaukee Mile racetrack.

The Pettit National Ice Center is a United States Olympic training facility that was sold by State Fair Park in January 2007 to the not-for-profit corporation that had previously leased and managed it. Proceeds from the sale plus interest earnings are expected to pay the annual debt service payments associated with the facility’s construction.

The Wisconsin Exposition Center is owned and governed by a not-for-profit corporation created by the State Fair Park Board in 2000. The facility is used exclusively for the Wisconsin State Fair each August but is available for other events throughout the year. The Exposition Center’s governing board includes the chair and one additional member of the State Fair Park Board. Because of its financial and operational affiliation with State Fair Park, the Exposition Center’s operating results are included in our report.

The Milwaukee Mile racetrack and grandstand seating area, which encompass more than one-quarter of the fairgrounds, are managed and operated by a private, for-profit promoter, Milwaukee Mile Holdings, LLC, in exchange for an annual license fee. The initial license agreement between State Fair Park and Milwaukee Mile Holdings was entered in December 2005 and took effect in January 2006.

This audit did not focus on the operations of the Pettit Center or the Wisconsin Exposition Center. However, continued success of these entities will be important to State Fair Park's future success. Financial information related to these entities can be found in Appendix 1, and we will continue to monitor their status in future audits.

State Fair Park Board and Staff

Under s. 15.445(4)(a), Wis. Stats., the State Fair Park Board's members include:

- the Secretary of the Department of Tourism;
- the Secretary of the Department of Agriculture, Trade and Consumer Protection;
- five representatives of business, including three with general business experience, one with agricultural experience, and one with technology experience;
- one resident of the City of West Allis;
- one Wisconsin resident from anywhere in the state; and
- four legislators: two from the Assembly and two from the Senate.

Except for the legislators and department secretaries, State Fair Park Board members are appointed by the Governor and confirmed by the Senate for staggered five-year terms.

While the Board is attached to the Department of Tourism for administrative purposes, State Fair Park's Executive Director is responsible for day-to-day operations. The current Executive Director was appointed by the State Fair Park Board through the State's unclassified employment system in December 2004.

State Fair Park's authorized staffing level was 28.4 full-time equivalent (FTE) employees in FY 2006-07. State Fair Park also employs approximately 1,500 limited-term employees, most of whom work exclusively during the 11-day Wisconsin State Fair. Staffing was increased by 1.0 position in FY 2007-08 to allow State Fair Park to hire a head of police operations at the fairgrounds. Previously, the State Capitol Police had been responsible for overseeing police operations under a memorandum of understanding between State Fair Park and the Department of Administration that ended on July 1, 2007.

State Fair Park Finances

State Fair Park ended FY 2006-07 with revenue exceeding expenditures by \$1.3 million.

In previous audits, we reported concerns with State Fair Park's financial condition because expenditures, including operating, capital, and debt service costs, continued to outpace revenue and a cash deficit continued to worsen. However, in FY 2006-07, revenue exceeded expenditures for the first time since FY 1998-99. As shown in Table 2, FY 2006-07 ended with revenue exceeding expenditures by \$1.3 million.

Table 2

State Fair Park Revenue and Expenditures¹

Fiscal Year	Revenue	Expenditures ²	Revenue Less Expenditures
2002-03	\$15,918,264	\$20,446,226	\$(4,527,962)
2003-04	19,890,268	21,706,900	(1,816,632)
2004-05	20,994,949	24,731,774	(3,736,825)
2005-06	18,541,520	20,258,268	(1,716,748)
2006-07	17,467,763	16,138,719	1,329,044

¹ Data are provided on the cash basis of accounting.

² Includes statutorily required lapses to the State's General Fund of \$2.4 million in FY 2002-03, \$179,700 in FY 2003-04, and \$186,000 in FY 2004-05. No lapses were required in FY 2005-06 or FY 2006-07.

One factor contributing to State Fair Park's positive operating results was the decision to license the Milwaukee Mile Racetrack to a private promoter. State Fair Park received \$1.1 million in license fees from the private promoter in FY 2006-07. Because the private promoter assumed responsibility for track operations, State Fair Park's racing-related revenue declined. However, its track-related expenditures were reduced by \$3.8 million.

In addition, in January 2007, the sale of the Pettit National Ice Center to the not-for-profit corporation that had been operating the facility provided State Fair Park with additional revenue. Proceeds from the sale of the Pettit Center were deposited in the State's Bond Security and Redemption Fund and will be used to pay a portion of the debt service costs on the bonds that were used to construct the facility. As a result of the sale, State Fair Park received a one-time payment of \$748,000 as reimbursement for a portion of the debt service costs it had paid in FY 2006-07.

State Fair Park's cash deficit was \$9.9 million on June 30, 2007.

State Fair Park's capital expenses are funded in part through past revenues that were set aside in a statutorily required capital reserve fund. Non-capital expenses, including operating and debt service costs, are funded by an ongoing program revenue appropriation. As of June 30, 2007, the capital reserve fund had a balance of \$1.1 million. However, the program revenue appropriation continues to have a large accumulated deficit. State Fair Park's positive operating results for FY 2006-07 reduced the cash deficit in its program revenue appropriation from \$11.4 million on June 30, 2006, to \$9.9 million on June 30, 2007. A cash deficit in any program revenue appropriation reduces the cash balances of the State's General Fund and costs the General Fund an opportunity to invest and earn interest on amounts used to cover the shortfall.

Although final financial data are not yet available for FY 2007-08, State Fair Park reported revenue of \$12.2 million and expenditures of \$13.8 million through May 2008, for a loss of \$1.6 million on a cash basis. State Fair Park management anticipates additional revenue in June related to advance sales for the 2008 fair and believes State Fair Park will end FY 2007-08 with revenue exceeding expenditures by at least \$400,000.

While both the Pettit Center and the Milwaukee Mile have significantly and negatively affected State Fair Park's financial condition in the past, recent changes in State Fair Park's relationship with these entities has helped to improve its financial condition for FY 2006-07 and to reduce its cash deficit. Because the continued success of these entities will be important to State Fair Park's future success, we will continue to monitor them in future audits.

State Fair Park Debt Service

From FY 1999-2000 to FY 2006-07, a total of \$86.1 million was spent on capital improvements to the fairgrounds, including the Wisconsin Exposition Center, the Milwaukee Mile grandstand and racetrack, other racing-related facilities, various agricultural buildings, and infrastructure. With the exception of the Wisconsin Exposition Center, these improvements were funded with bonds supported by both State Fair Park program revenue and GPR. The debt service on the portion funded by program revenue was nearly \$3.2 million in FY 2006-07. From FY 2007-08 through FY 2026-27, debt service payments related to program revenue-supported debt outstanding at June 30, 2007, are expected to total approximately \$47.0 million. Over this same time period, debt service payments related to GPR-supported debt outstanding at June 30, 2007, are expected to be approximately \$35.3 million.

Renegotiated license fees are no longer sufficient to cover State Fair Park's debt service costs for the Milwaukee Mile.

Most of the debt service costs related to Milwaukee Mile improvements had been expected to be recovered through the annual license fees received from the racetrack promoter. However, State Fair Park recently renegotiated its license agreement with the private promoter and significantly lowered the annual license fee. As a result, funding from the promoter is no longer sufficient to cover State Fair Park's debt service costs.

■ ■ ■ ■

The Milwaukee Mile ■

Management of the Milwaukee Mile racetrack has undergone significant changes during the past several years. After terminating a previous contract with a private promoter in May 2003, State Fair Park managed the track internally and incurred losses of \$3.6 million in 2004 and \$2.9 million in 2005. Since January 2006, Milwaukee Mile Holdings, LLC, a newly formed for-profit, private racing promoter, has managed and operated racing activities at the fairgrounds under a license agreement that was designed to fund State Fair Park's ongoing debt service costs related to recent renovation of the grandstand and racetrack improvements. However, Milwaukee Mile Holdings has reported financial difficulty in its operation of the Milwaukee Mile racetrack, and in February 2008 a renegotiated license agreement was established. The renegotiated agreement lowers the annual license fee Milwaukee Mile Holdings is required to pay State Fair Park.

Original License Agreement

Under the original license agreement, State Fair Park was to receive payments of \$1.8 million annually.

Under the original license agreement, which was entered in December 2005, State Fair Park retained full ownership of the Milwaukee Mile, while Milwaukee Mile Holdings acquired all promotional rights of the premises, including the oval racetrack, track infield, infield facilities, retaining walls and barriers, Milwaukee Mile office building, and parking lot. The agreement was for an initial term of 18 years, with a renewal option for another 10 years. The license fee was set at \$246,000 for the initial year of the agreement and increased to approximately \$1.8 million annually

thereafter. License fees were expected to generate a total of \$30.5 million for State Fair Park over the 18-year term of the agreement.

The other major provision of the original license agreement was a land exchange. Milwaukee Mile Holdings was granted a four-year option to acquire 9.35 acres located between the Milwaukee Mile and West Greenfield Avenue. To exercise this option, Milwaukee Mile Holdings was required to purchase and remediate a 2.54 acre parcel that is surrounded by the fairgrounds and owned by AmeriGas L.P., then exchange this remediated property for the 9.35 acre parcel. In addition, Milwaukee Mile Holdings was required to make additional improvements, such as enhancements to various fairgrounds gates, to ensure State Fair Park received property and improvements equaling the value of the property to be received in the exchange. The land acquired by Milwaukee Mile Holdings was expected to be developed into a hotel and restaurant complex that would complement the Milwaukee Mile and the Wisconsin Exposition Center.

April 2007 Amendments

The license agreement was amended in April 2007 and included deferral of \$722,000 in 2007 license fee payments.

Concerns raised by both Milwaukee Mile Holdings and State Fair Park resulted in an amended license agreement in April 2007. Milwaukee Mile Holdings voiced concerns with the license fee payment amount and schedule. State Fair Park expressed concern with the safety of the parcel of land owned by AmeriGas L.P., in part because of propane tanks on the property. Thus, State Fair Park sought to purchase this property and incorporate it into the fairgrounds, rather than wait for Milwaukee Mile Holdings to purchase and remediate it. To address these issues, the following amendments were made to the license agreement:

- State Fair Park deferred until December 31, 2007, \$722,000 of the \$1.8 million license fee payment that was due in June 2007;
- Milwaukee Mile Holdings assigned its option to purchase the AmeriGas property to State Fair Park and agreed, if the original land exchange option was exercised, it would reimburse the State for its cost to purchase and remediate the property; and
- State Fair Park officials agreed that after the 2007 racing season, both parties would discuss further revising the license agreement, including possible adjustments to the license fee.

Renegotiated License Agreement

Milwaukee Mile Holdings filed a notice of claim against State Fair Park in December 2007.

Informal discussions of the license agreement followed in fall 2007. However, after an exchange of correspondence about racetrack operations, Milwaukee Mile Holdings filed a notice of claims—a precursor to a lawsuit—against State Fair Park in December 2007, seeking approximately \$6.4 million in damages and termination of the license agreement. In addition to seeking recovery of its operating losses, Milwaukee Mile Holdings claims included:

- loss of a major race sponsor due to State Fair Park actions;
- misrepresentation of revenues and expenses by State Fair Park during 2005 contract negotiations;
- significant unanticipated track expenses; and
- safety concerns with the racetrack's grandstand.

State Fair Park management disputed these claims but, as a contingency, began to explore the possibility of contracting with another promoter or again assuming responsibility for racing operations. However, State Fair Park ultimately decided to renegotiate the agreement with Milwaukee Mile Holdings because of concerns that instability with management of the track could lead to loss of a major NASCAR racing event.

In February 2008, State Fair Park and Milwaukee Mile Holdings entered into another license agreement.

A renegotiated agreement with Milwaukee Mile Holdings, which significantly lowered the annual license fee, was approved by the State Fair Park Board in February 2008 and took effect on February 20, 2008, when it was approved by the State Building Commission. As a condition of approval, Milwaukee Mile Holdings and State Fair Park signed a mutual release and notice of withdrawal of the December 2007 notice of claims that had been filed by Milwaukee Mile Holdings.

Several items remain largely unchanged from the original agreement. For example, Milwaukee Mile Holdings:

- continues to maintain all promotional rights related to the Milwaukee Mile racetrack and related facilities;
- continues to be responsible for all future capital improvements and maintenance to the Milwaukee Mile premises; and

- will retain most of the revenue generated from parking at Milwaukee Mile events, although State Fair Park will retain all revenue generated when the premises are under its control.

State Fair Park waived \$322,000 in license fees as part of the revised agreement.

However, as part of the renegotiated agreement, State Fair Park waived \$322,000 of the \$722,000 in license fees that had been deferred under the April 2007 amendments to the original license agreement. The remaining \$400,000 is to be paid in annual installments of \$25,000, beginning in June 2008. As a result, State Fair Park received only \$1.1 million of the \$1.8 million in license fee payments it had expected to receive in FY 2006-07.

In addition to the restructuring of the 2007 license fee payment, several significant terms of the original agreement changed, including the license fee, the number of days Milwaukee Mile Holdings can use the racetrack facilities, the option for land development, and the provisions for termination of the agreement. Table 3 summarizes the key changes between the original license agreement of December 2005 and the renegotiated agreement of February 2008.

Table 3

Comparison of License Agreement Terms

	December 2005 Agreement	February 2008 Agreement
License Fees Paid to State Fair Park	\$1.8 million per year (average)	\$1.0 million per year ¹
Milwaukee Mile Holdings Use Days	134	75
Land Option	Land swap in which Milwaukee Mile Holdings obtains ownership of a 9.35 acre parcel of land for development	Ground lease option to develop 6.35 acres of land of which State Fair Park maintains ownership
Early Termination Provisions	5 years of license fees if land purchase option is exercised, 3 years of license fees if land purchase option is not exercised	3 years of license fees if ground lease option is exercised, 2 years of license fees if ground lease option is not exercised or if NASCAR event is discontinued

¹ Under terms of the renegotiated agreement, a portion of the annual license fee is deferred until 2017.

To benefit from additional days of usage negotiated in the 2008 agreement, State Fair Park will need to establish other events.

Although the renegotiated license agreement provides State Fair Park an opportunity to use the racetrack and grandstand for an additional 59 days per year, in addition to priority use of the venue during the 11-day Wisconsin State Fair, no additional events have been scheduled for 2008. State Fair Park officials have indicated that they would prefer Milwaukee Mile Holdings manage any race-related events at the track. Therefore, to benefit from these additional days of usage, State Fair Park will need to establish other non-racing events that could use the facilities.

The renegotiations related to license fees and land development have significant financial implications for State Fair Park, while a profit-sharing provision is unlikely to result in revenue in the foreseeable future. However, the renegotiated agreement includes several early termination provisions intended to protect State Fair Park.

License Fees

The annual license fee paid to State Fair Park by the private promoter was reduced from \$1.8 million to \$1.0 million.

The original agreement of December 2005 was designed so that the license fee was sufficient to cover State Fair Park's ongoing debt service costs related to construction of the grandstand and other recent racetrack improvements. However, under the renegotiated agreement, the license fee has been reduced substantially, from an average of \$1.8 million annually to \$1.0 million annually. State Fair Park officials indicated that in part the reduction is justified given that Milwaukee Mile Holdings can use the track facilities for fewer days. However, as noted, it is not clear how State Fair Park will benefit financially from having additional access to the facility.

A portion of the reduced license fee is deferred each year until 2017.

In addition to the reduction in the annual license fee, a portion of the reduced fee is deferred each year until 2017. As a result, State Fair Park will only receive \$700,000 in license fees for 2008, because \$300,000 in license fee payments have been deferred. State Fair Park will also receive an additional \$25,000 in FY 2007-08, related to deferral of a portion of the FY 2006-07 license fee. Appendix 2 shows the license fee payment schedule and deferrals under the renegotiated license agreement.

Land Development

As noted, the original license agreement included an option for Milwaukee Mile Holdings to acquire 9.35 acres near the Milwaukee Mile racetrack, which was expected to be developed as a hotel and restaurant, in exchange for purchasing and remediating 2.54 acres of property owned by AmeriGas, L.P. Under the April 2007 amendment, Milwaukee Mile Holdings assigned its rights to purchase the AmeriGas property to State Fair Park and agreed, if

The State will not be reimbursed for \$1.7 million in GPR-supported borrowing to purchase and remediate land located at State Fair Park.

The renegotiated agreement is intended to expedite construction of a hotel and restaurant on the fairgrounds.

the land exchange option was exercised, to reimburse the State's costs to purchase and remediate the AmeriGas property. However, Milwaukee Mile Holdings did not exercise the original option before the start of discussions that resulted in the renegotiated agreement of February 2008.

Because the land exchange was not included in the renegotiated license agreement of February 2008, the State will not be reimbursed for \$1.7 million in GPR-supported borrowing that the State Building Commission approved in May 2007 to allow State Fair Park to purchase and remediate the property. In June 2007, State Fair Park paid a \$50,000 deposit to AmeriGas. It plans to finalize the purchase by the closing deadline of March 30, 2009, when it will pay \$1.5 million for the property. The State Building Commission also approved \$300,000 in program revenue supported borrowing in May 2007 to allow State Fair Park to transform the property into usable space. Through March 2008, State Fair Park has spent approximately \$7,000 on a study and environmental assessment of the property and has budgeted \$20,000 for remediation costs.

The renegotiated agreement provides Milwaukee Mile Holdings with an exclusive ground lease option to develop a 6.35 acre parcel of land located adjacent to the Milwaukee Mile, as shown in Appendix 3. Two key terms in the license agreement encourage Milwaukee Mile Holdings to exercise the ground lease and expedite development of a hotel and restaurant complex. First, the Milwaukee Mile Holdings must exercise the ground lease option by December 31, 2008, or forfeit its ability to do so. Second, once exercised, Milwaukee Mile Holdings is to use "all commercially reasonable efforts" to begin development of a hotel on the ground lease site as soon as possible, but no later than December 31, 2009.

Milwaukee Mile Holdings has submitted a preliminary site plan for this property; City of West Allis officials anticipate receiving the full site plan by December 2008, with construction expected to begin in spring 2009. State Fair Park officials indicated that the first phase of the development will be a restaurant, followed by construction of a hotel.

If the ground lease option is exercised, Milwaukee Mile Holdings will pay State Fair Park initial rent of \$113,280 on the leased property. This rent payment will increase by 1.5 percent annually. The rent was established at 6.0 percent of the land's appraised value of \$1.9 million. If Milwaukee Mile Holdings discontinues racetrack operations, rent on the ground lease is to increase by 1.0 percent of the land's appraised value, or \$18,880 per year.

The term of the ground lease is 30 years, with an optional 20-year extension. At the end of the ground lease, or if it is terminated early, Milwaukee Mile Holdings is required to return the land to its original condition. Therefore, Milwaukee Mile Holdings has an incentive to continue operations or sell the development to a different operator—even at a loss—rather than abandon the development. The license agreement does provide Milwaukee Mile Holdings with the ability to transfer the lease to another party, subject to the approval of the State Fair Park Board.

Profit-Sharing Provisions

The renegotiated agreement provides State Fair Park with an opportunity to share in potential profits from racetrack operations by stipulating that State Fair Park is to receive 50.0 percent of annual net income in excess of \$740,000. However, considering the past performance of track operations, State Fair Park officials do not expect that to occur in the foreseeable future. Furthermore, it is unclear from the agreement how State Fair Park will assess Milwaukee Mile Holdings' profitability. There is no requirement for the sharing of financial information between the two parties. Receiving financial information on an annual basis would allow State Fair Park to better assess whether Milwaukee Mile Holdings is satisfying the profit-sharing requirements in the new agreement.

Recommendation

We recommend the State Fair Park Board seek to amend its agreement with Milwaukee Mile Holdings, LLC, to specify how Milwaukee Mile financial information will be shared with State Fair Park, including the form and timing for such information to be provided.

Early Termination Provisions

The license agreement includes several provisions intended to protect State Fair Park in the event Milwaukee Mile Holdings discontinues racetrack operations. In its last year of operations, Milwaukee Mile Holdings is required to pay the entire sum of any cumulative deferred license fees. In addition:

- if Milwaukee Mile Holdings terminates track operations after exercising the ground lease option, State Fair Park is to receive three years of annual license fees, or \$3.0 million;

- if track operations are terminated before the ground lease option is exercised, State Fair Park is to receive two years of annual license fees, or \$2.0 million; and
- if the NASCAR racing event is discontinued and, as a result, Milwaukee Mile Holdings decides to terminate track operations, State Fair Park is to receive—after the year in which the event is discontinued—two years of annual license fees, or \$2.0 million, regardless of the status of the ground lease option.

License fees are secured through a \$3.6 million letter of credit and unspecified real estate assets.

License fees are secured through a required \$3.6 million letter of credit, as well as the unspecified real estate assets of Milwaukee Mile Holdings' investors.

Future Implications for State Fair Park

State Fair Park will incur nearly \$1.2 million in Milwaukee Mile costs in 2008.

Although responsibility for operating and promoting operations of the Milwaukee Mile has been assumed by a private promoter, State Fair Park continues to incur various costs related to the facility and to face significant financial challenges, including the need to pay a larger share of annual debt service costs than had been anticipated. State Fair Park's annual debt service costs related to the Milwaukee Mile are approximately \$1.8 million in 2008. Given the deferrals included in the renegotiated license agreement, it will receive \$725,000 in license fees, leaving nearly \$1.1 million in debt service costs to be covered by other revenue sources. Additional Milwaukee Mile-related costs that State Fair Park is contractually required to incur will increase its financial responsibility for the Milwaukee Mile to nearly \$1.2 million in 2008, as shown in Table 4.

Table 4

**State Fair Park's Milwaukee Mile Costs
2008**

	Amount
Total Debt Service Costs	\$1,813,000
Less License Fee Cash Received ¹	(725,000)
Net Debt Service Costs	1,088,000
Letter of Credit Fee	57,700
State Fair Park Personnel ²	11,200
360 State Fair Tickets to Milwaukee Mile Holdings	1,800
Water and Sewer Costs	1,600
Total Costs	\$1,160,300

¹ Includes \$700,000 related to the 2008 license fee payment and \$25,000 related to payment on deferrals of the 2007 license payment.

² State Fair Park provides one electrician and one line man for major race events.

State Fair Park will need to identify revenue sources to cover Milwaukee Mile-related expenses and to continue to address its cash deficit.

State Fair Park hopes the renegotiated license agreement will allow Milwaukee Mile Holdings to continue racetrack operations and to develop a restaurant and hotel complex that could benefit both the Milwaukee Mile and the remaining State Fair Park attractions. However, given its accumulated cash deficit of \$9.9 million at the end of FY 2006-07, State Fair Park will also need to identify additional revenue sources to cover these expenses. As noted, the new license agreement includes a provision for profit-sharing if track operations are profitable, but State Fair Park officials do not expect that to occur in the foreseeable future.

State Fair Park has postponed a decision on commercial development along I-94.

State Fair Park has been considering private development of fairgrounds property to generate additional revenue. In 2007, a committee that includes State Fair Park management, board members, and others, was created to consider the feasibility of leasing property that borders I-94 for commercial development. The committee chose to solicit proposals for a limited development of 5.75 acres located at the northeast corner of the fairgrounds, as shown in Appendix 3, and in April 2008, State Fair Park officials issued a request for proposals (RFP) containing a standard ground lease for this property that specified a minimum rent of \$242,000 per year. However, proposed reconstruction of the I-94 Zoo Interchange may affect the specific location of the development. Therefore, State Fair Park has postponed this project.

State Fair Park has also considered placing a billboard on State Fair Park property to generate additional revenue. Following an RFP process in 2007, a vendor was selected to construct and operate a billboard along I-94. State Fair Park management anticipates revenue of between \$130,000 and \$170,000 per year if the proposed billboard is constructed. However, State Fair Park has also postponed implementation of this project until I-94 corridor development plans are finalized.

☑ Recommendation

We recommend State Fair Park report to the Joint Legislative Audit Committee by March 31, 2009, on:

- *the status of its efforts to increase revenue to address the shortfall caused by changes in its license agreement with Milwaukee Mile Holdings; and*
- *its ongoing cash deficit.*

■ ■ ■ ■

State Fair Park Agriculture Department ■

State Fair Park's Agriculture Department manages agricultural events of the Wisconsin State Fair.

State Fair Park's principal mission is to host an 11-day Wisconsin State Fair, which showcases Wisconsin's agricultural heritage and is one of several agricultural events held at the fairgrounds each year. State Fair Park's Agriculture Department manages agricultural events at the Wisconsin State Fair, including setting competition rules for youth and adults who exhibit livestock and agricultural products; hiring limited-term staff who facilitate shows and enforce competition rules; and contracting with judges for the various livestock competitions. Recent policy and procedural changes by the Agriculture Department have raised concerns among some exhibitors and other members of the agriculture community related to:

- the use of advisory committees in setting livestock competition rules for the open and junior divisions, where competition is organized by species and breed categories and awards and monetary prizes are given;
- the process for selecting judges for junior division shows, in which individuals between the ages of 12 and 19 may exhibit livestock;
- the payout structure for the Governor's Blue Ribbon Livestock Auction for first- and second-place winners in the market shows of the junior division, which includes market steers, lambs, and barrows; and

- allegations of conflicts of interest related to the continued employment of livestock superintendents who may have ties to exhibitors, and the Agriculture Director's outside interests in the cattle industry.

Managing Agriculture Events at the Wisconsin State Fair

State Fair Park's Agriculture Department is made up of only two full-time employees: the Agriculture Director and the Agriculture Coordinator. In addition to overall management responsibility for agricultural events, the Agriculture Director acts as the State Fair Park liaison to representatives of the livestock industry and is responsible for financial and personnel management for the Agriculture Department, including hiring superintendents who oversee individual livestock shows and contracting with individuals to judge the competitions. The Agriculture Director is also responsible for the development, publication, and overall enforcement of competition rules. The Agriculture Coordinator is responsible for managing the receipt of entries for the fair livestock shows, purchasing and record-keeping for the Agriculture Department, and supervising limited-term staff and interns with whom she works during the fair and other agriculture events held at State Fair Park.

Superintendents manage the various animal species that participate in the fair. Each species category is assigned a superintendent and assistant staff to facilitate the shows, enforce competition rules, and determine whether animals are eligible to participate in a given competition. The superintendents and their staffs also oversee the registration of all animals and verify that the animals meet the eligibility requirements in a particular breed category. Superintendents and their staffs are limited-term employees who are employed mainly during the 11-day Wisconsin State Fair.

As shown in Appendix 4, the State Fair Park Board, the Board's Agriculture Committee, and the Executive Director have oversight responsibility for operations of the Agriculture Department. The Agriculture Director consults the Board's Agriculture Committee when major changes in competition rules are proposed. In addition, over time, many of the species categories have formed advisory committees to provide input to the Agriculture Director in setting policy, establishing competition rules, and making decisions regarding the annual fair. These advisory committees, which are not formal committees of State Fair Park, are made up of exhibitors and members of the livestock industry.

Recent changes in policy have raised concerns with some members of the agriculture community.

However, other than competition rules for exhibitors, there are limited written policies and procedures to guide the efforts of the Agriculture Department. As a result, recent policy changes have raised concerns among some exhibitors and some members of the agriculture community about the rule-making process, particularly when the changes involved policies that had been in place for several years. Furthermore, during spring and summer of 2007, some members of the agriculture community made several allegations of a conflict of interest between the Agriculture Director's role at State Fair Park and his outside interests in the cattle industry. We evaluated the recent policy changes, the allegations, and the potential for conflicts of interest related to State Fair Park policies regarding livestock competitions.

Setting Competition Rules

State Fair Park has no written policies for developing and approving competition rules for the Wisconsin State Fair's agriculture events.

State Fair Park has no written policies for developing and approving competition rules for the Wisconsin State Fair or for the extent to which advisory committees should be involved in the development of competition rules. However, for at least ten years, agriculture directors have consulted with the advisory committees regarding the development of competition rules and other policy changes, and members of the advisory committees have been given the opportunity to present their own proposals. Both the incumbent Agriculture Director and the committee members we interviewed agree that the role of the committees has been to serve in an advisory capacity, with the Agriculture Director exercising final decision-making authority.

Changes in their role in establishing rules for junior division livestock competitions have raised concern for some advisory committee members.

Members of various advisory committees told us that in 2007 the Agriculture Director transferred responsibility for providing feedback about junior division livestock competition rules from the advisory committees, which are organized by species and breed, to the Junior Livestock Advisory Committee, a cross-species advisory committee that includes junior exhibitors and representatives of various youth organizations and livestock industry associations. The Agriculture Director indicated that he made this change to facilitate communication and consistency among the species categories. However, some members of the advisory committees believe that even though the Junior Livestock Advisory Committee includes representatives from industry associations of the various species categories, the involvement of the full committees had allowed for greater input by the agriculture community, provided more transparency in the rule-development process, and prevented concentration of event management with a single individual.

In response, the Agriculture Director has noted that he continues to consult the advisory committees regarding open division rules. However, he also indicated that in some instances the advisory committees are not representative of all exhibitors who compete in livestock events at the Wisconsin State Fair. He stated that he must balance the benefit of receiving feedback from each of the numerous advisory committees with the remainder of his duties managing the agriculture events.

We interviewed state fair agriculture directors, or their equivalents, in Illinois, Iowa, and Minnesota. In each of these states, practices are in place to include exhibitors and members of the livestock industry in the development of competition rules. For example, changes to the competition rules for the Iowa State Fair require the approval of a designated competition committee. Minnesota's agriculture director receives input from advisory groups and may consult the rules subcommittee of the fair board regarding significant rule changes. Competition rules in Illinois are set by the agriculture director, with input from advisory groups.

The role of the Board's Agriculture Committee and the advisory committees in adopting competition rules should be clarified.

One way to provide for greater transparency in this process would be to require annual approval of competition rules for the livestock shows by the Agriculture Committee of the Board. Further, steps could be taken to clarify the reporting structure and communication requirements between the Agriculture Director and the various advisory committees. Although there may be concerns regarding the extent to which advisory committees in Wisconsin are representative of the exhibitor community at large, providing an opportunity for members of the agriculture community to participate in the process and voice their concerns is perceived as important for ensuring exhibitor trust and acceptance of competition rules.

During the course of our fieldwork, State Fair Park Board members and management discussed the role of the various advisory committees at the April 2008 meeting of the Board's Administration and Finance Committee. Board members and management were also concerned with ambiguity about the role of the committees and their involvement with the Agriculture Department. The Administration and Finance Committee requested that management prepare a written diagram and description explaining the current organizational structure of the committees and their involvement with the Agriculture Department.

☑ Recommendation

We recommend the State Fair Park Board and management:

- *require the State Fair Park Board's Agriculture Committee to annually approve the competition rules for livestock shows at the fair; and*
- *continue development of a more formalized structure for the advisory committees, including the various committees' roles, responsibilities, and the reporting structure.*

Operation of the Governor's Blue Ribbon Livestock Auction

The Governor's Livestock Auction is the premiere livestock event of the annual Wisconsin State Fair.

The Governor's Blue Ribbon Livestock Auction is the premiere livestock event of the annual Wisconsin State Fair. The Governor's Auction is managed by the 30-member Governor's Blue Ribbon Livestock Auction Committee, which includes youth exhibitors; members of the agriculture community; representatives of various youth and livestock industry organizations; and members of the State Fair Park Board and the State Fair Park Youth Foundation, who serve on the committee in an ex-officio capacity.

The State Fair Park Youth Foundation seeks to develop public and private partnerships to support youth programming and facilities development at State Fair Park. In addition, the Foundation provides financial and volunteer services to the Governor's Blue Ribbon Auction Committee. While the Auction Committee is responsible for the auction administration, including marketing, staffing, and event planning, it has contracted with the State Fair Park Youth Foundation to maintain and account for auction proceeds, which are recorded in the financial records of the Foundation and are not reflected in State Fair Park's financial statements.

In 2007, 80 percent of the proceeds from a Governor's Auction sale were provided to the junior exhibitor.

Champion animals in the market species and breed categories of the junior division are allowed entry into the Governor's Auction, where they are bid on by invited buyers. Under the payout structure in place for the 2007 fair, 80 percent of proceeds from a sale were provided to the junior exhibitor, while 20 percent were used for the Auction Committee's expenses, scholarships, and grants to junior fair participants. This payout structure is similar to that of Minnesota, Iowa, and Illinois. Appendix 5 summarizes and compares the Governor's Auction in Wisconsin with similar auctions in other states.

Some in the agriculture community have raised concerns that the large dollar payouts in the auction may create an environment of win at all costs, leading to unethical practices in showing livestock animals, such as using drugs to enhance the muscle content of animals. Unethical practices have occurred in recent years at several livestock shows, including the Wisconsin State Fair, the Fort Worth Livestock Show in Texas, and the National Western Livestock Show in Denver. State Fair Park officials have indicated problems at the Wisconsin State Fair have included misrepresentation of parentage and misuse of drugs. It is with these concerns in mind that State Fair Park officials indicated a desire to change the payout structure for the Governor's Auction.

In 2008, the payout structure for the Governor's Auction is graduated to increase the percentage of funds to youth scholarships and grants.

After several proposals and listening sessions with members of the agriculture community, the State Fair Park Board approved a new payout structure for the Governor's Auction in April 2007. The new payout structure, which is shown in Table 5 and will first be effective for the 2008 Wisconsin State Fair, is graduated so that a greater percentage of the sales proceeds are provided for youth scholarships and grants as the sales price increases. Consequently, payouts to some winning junior exhibitors will be reduced. For example, at the 2007 auction, the highest bid was \$35,000 for the champion steer, whose owner received 80 percent, or \$28,000. Under the new payout structure, the owner would have received 68 percent of the auction sales price, or \$23,800. However, the payout for 17 of the 28 exhibitors at the 2007 Wisconsin State Fair would not have changed since the animals sold for \$5,000 or less.

There are no written procedures determining how policies for the Governor's Auction are to be developed and approved.

Some members of the agriculture community believe this change in the payout structure does not appropriately consider the hard work junior exhibitors put into taking care of animals shown at the fair, and diminishes the financial reward to these junior exhibitors. Additionally, some members of the agriculture community have resisted the change because of concerns that the State Fair Park Board did not have authority to make it. However, as with the establishment of competition rules, State Fair Park has no written policies for developing and approving changes to the Governor's Auction. Until the State Fair Park Board, in April 2007, declared the Auction Committee a subcommittee of the Board's Agriculture Committee, the Auction Committee solely determined policy for the Governor's Auction and operated independently from State Fair Park. At this time, the Auction Committee continues to have authority over the disbursement of auction revenue through grants and scholarships.

Table 5

Payout Structure for the Governor's Blue Ribbon Livestock Auction
(Beginning with the 2008 Wisconsin State Fair)

Auction Sale Price	Percentage to Youth Exhibitor	Percentage to Scholarships and Grants
\$1 to \$5,000	80%	20%
\$5,001 to \$10,000	78	22
\$10,001 to \$15,000	76	24
\$15,001 to \$20,000	74	26
\$20,001 to \$25,000	72	28
\$25,001 to \$30,000	70	30
\$30,001 to \$35,000	68	32
\$35,001 to \$40,000	66	34
\$40,001 to \$45,000	64	36
\$45,001 to \$50,000	62	38
More than \$50,000	60	40

State Fair Park officials have indicated that a process is underway to respond to concerns that have been raised by clarifying the relationship between the Auction Committee and State Fair Park. Whether the Auction Committee separates from State Fair Park and becomes an independent organization or formalizes its role as a subcommittee under the authority of the State Fair Park Board will be determined by a vote of the members of the Auction Committee.

Recommendation

We recommend the State Fair Park Board and management continue to clarify the relationship of the Auction Committee to State Fair Park.

Judge Selection

Several processes are used for selecting and contracting with judges for open and junior division shows. A selection process for judges in each species of the open division has evolved over time. The process may involve the advisory committees, a breed association or other industry group, fair exhibitors, superintendents, and the Agriculture Director. Each year, a ranking of qualified judges for each species is provided to the Agriculture Director, who has final responsibility

for judge selection. The Agriculture Director has noted that he rarely selects a judge outside of the lists provided. A similar process for selection of open division judges is followed in the other states we contacted.

In fall 2006, on the advice of the Board's Agriculture Committee chair, the Agriculture Director assumed sole responsibility for the selection of judges for junior division shows.

Judge selection for the junior division may be more critical, given that champion animals in the junior market shows may be invited to participate in the Governor's Auction and potentially earn a large payout for the exhibitor. In the past, judge selection for the junior division followed a process similar to the open division. However, in fall 2006, the Agriculture Director was advised by the chair of the State Fair Park Board's Agriculture Committee to assume sole responsibility for the selection of judges for the junior division. While the Agriculture Director indicated that he still considers suggestions made by advisory committee members, breed associations, exhibitors, and superintendents, this is a significant change from a process in which the agriculture community determined the judge candidates from which the Agriculture Director made a final selection.

Some members of the agriculture community expressed concern with the change in responsibility for judge selection.

The Agriculture Director has indicated this change was made because of concerns that the existing process could allow members of the advisory committees to benefit from their judge-selection recommendations. However, some in the agriculture community have expressed concern with the concentration of responsibility for judge selection with the Agriculture Director, in part because he also participates in an outside business that buys and sells show cattle that may eventually be shown at Wisconsin State Fairs.

In the other states we contacted, we found variation in the process for selecting junior division judges. However, none of these states relied solely on their agriculture directors to select judges for the junior division. In Minnesota, 4-H committees that oversee the junior division select judges for the youth livestock shows, and the agriculture director is not involved in the selection process. In Iowa, breed associations and the competition committee submit judge nominations to the agriculture director, who hires judges based upon nominations and financial and scheduling considerations. In Illinois the junior division superintendents submit nominations to the agriculture director, who hires judges based upon nominations and financial and scheduling considerations.

Recommendation

We recommend the State Fair Park Board and management reevaluate the judge selection process, particularly judge selection for the junior division, to address the role of the various advisory committees.

Conflict of Interest Allegations

Conflicts may arise because individuals who participate in the agriculture industry are managing events at the fair.

Individuals involved in managing the Wisconsin State Fair, including the Agriculture Director and superintendents, have developed a level of expertise and knowledge through their long-time participation in the agriculture community. This expertise is what gives them the ability to manage and operate the livestock shows, and it is typically developed through years of involvement in the livestock industry. However, this level of involvement in the livestock industry can also make it difficult for these individuals to be free of any relationships or ties to the fair competitions.

Since being hired in September 2002, the incumbent Agriculture Director has sought to alleviate the potential for conflicts of interest by making changes in the staffing of livestock superintendent positions at State Fair Park. In the past five years, 5 of 23 superintendents have either been reassigned to a different division or breed or were not rehired. For example, in 2004, long-time junior and open division beef superintendents were not rehired for the junior division because their grandchildren would be showing animals in their division at the fair.

While eliminating conflicts of interest is important to ensure fairness in competitions, some members of the agriculture community have expressed concern that State Fair Park is losing expertise in managing the various agriculture shows. Others have indicated that knowledgeable superintendents are being replaced with individuals who may not have adequate experience in managing a fair event. Further, some members of the agriculture community have viewed the removal of superintendents because of potential conflicts of interest as unfair, given the Agriculture Director's own outside interest in the livestock industry.

Concerns have been raised about the Agriculture Director's participation in a business that buys and sells show cattle.

Before being hired by State Fair Park, the incumbent Agriculture Director worked as a research farm manager at the University of Wisconsin-Madison and as a livestock broker, selling show cattle to livestock exhibitors. He has indicated that he subsequently began transitioning away from working as a livestock broker. However, several interested parties in the agriculture community have raised concerns related to perceived conflicts of interest involving the Agriculture Director. Four instances were brought to our attention:

- The Agriculture Director owned a share of a heifer, including its future embryos and progeny, that won grand champion in its category when it was exhibited in the junior division at the 2005 Wisconsin State Fair.

- The Agriculture Director owned a share of a heifer, including its future embryos and progeny, that won reserve champion in its category when it was exhibited at the 2006 Wisconsin State Fair.
- The Agriculture Director arranged for one of his father's steers to be sold at a livestock auction in which the steer was sold to a junior exhibitor who subsequently showed the animal at the 2007 Wisconsin State Fair.
- The Agriculture Director presided over DNA testing for the 2007 market steer champions, which included a steer that had been sold by the son of one of his business partners.

Until recently, State Fair Park did not have formal policies in place to address potential conflicts created if the Agriculture Director maintained an ownership interest in animals exhibited at the Wisconsin State Fair, even though such an interest could reasonably be expected to create the perception of a conflict of interest because of the position's broad authority. The Agriculture Director has acknowledged his financial interest in the 2005 Wisconsin State Fair grand champion but has indicated that at the time of the 2005 fair he did not consider it to be a conflict of interest when the heifer was exhibited in the junior division competition because he did not have sole responsibility for selecting the junior division judges in 2005. We note the Agriculture Director did not submit written notification of the situation to State Fair Park's Executive Director, although the Executive Director and other State Fair Park officials have indicated that they were aware of the Agriculture Director's involvement in the livestock industry and did not consider it a conflict of interest at that time.

Five months before the 2006 fair, the Agriculture Director notified the Executive Director in writing that a heifer he had sold and in which he maintained a financial interest was to be exhibited in the junior division. The Executive Director has indicated that he informed the members of the Agriculture Committee of the situation and allowed the Agriculture Director to continue in his position without additional restrictions.

State Fair Park management did not reassign the Agriculture Director's responsibilities during the 2005 and 2006 fairs, despite his ownership interest in animals being exhibited.

The Executive Director told us he did not consider the Agriculture Director's activities in the 2005 and 2006 fairs to be conflicts of interest because the Agriculture Director was not a direct participant in the competitions and did not have sole authority for selecting the judges for the categories in which the animals competed. However, because the Agriculture Director has overall responsibility for managing the Wisconsin State Fair's agriculture competitions, he had discretion in selecting the junior division judges from among a list of nominees selected by advisory committees. Further, if a disqualification ruling had been issued by the superintendent in either 2005 or 2006, the Agriculture Director would have had authority to overturn or uphold the ruling. State Fair Park officials have stated that the Agriculture Director would have been removed from such a situation if it had occurred.

Before the 2007 fair, the Agriculture Director notified the Executive Director in writing about a potential conflict of interest related to a steer owned by the Agriculture Director's father. The Agriculture Director had arranged for the steer to be sold at a livestock auction. The steer was sold to a junior exhibitor at the auction and subsequently was entered in the junior steer competition at the 2007 Wisconsin State Fair. The Executive Director approved the Agriculture Director's activity with the condition that responsibility for selecting the judge for the junior steer competition be transferred to the chair of the Agriculture Committee. Additionally, the Executive Director has indicated that the chair of the Agriculture Committee or another State Fair Park official would have assumed responsibility for reviewing disqualification rulings for that animal if any had occurred.

Concerns over DNA testing occurred in 2007, when breed champion steers in the junior division were tested to verify the parentage and breed records on file with State Fair Park. Some members of the agriculture community expressed concerns that the Agriculture Director did not disqualify a steer which did not meet the DNA requirements because the steer had been sold by the son of one of the Agriculture Director's business partners. However, we found that the Agriculture Director applied the competition rules that were in effect at that time.

Despite the steps taken to prevent the Agriculture Director from being directly involved in decisions related to the judging or eligibility of livestock in which he had an interest in 2007, the Agriculture Director's broad authority over Wisconsin State Fair livestock competitions and his ongoing involvement in the livestock industry continue to raise concerns about a potential conflict of interest.

Ethics and Conflict of Interest Policy

In September 2007, the State Fair Park Board passed a resolution on ethical conduct of employees and conflicts of interest.

In response to these allegations, the State Fair Park Board passed a resolution on ethical conduct of employees and conflicts of interest at its meeting of September 17, 2007. The resolution prohibits employees and their immediate family members from showing animals in any competition that the employee is involved in either managing or judging. Further, the resolution states that employees shall not engage in any outside employment or activity in conflict with their duties and responsibilities at State Fair Park. The full resolution is included as Appendix 6. The Board's Chairman also established the Ethics Review Task Force, consisting of the Chairman; the Executive Director; two attorneys with experience in business ethics issues; a retired agribusiness professional; a University of Wisconsin-Madison animal sciences professor; and a livestock broker, who is the parent of a junior exhibitor at the Wisconsin State Fair. The task force was responsible for developing policies and procedures for implementing the Board's resolution.

The task force had two formal meetings and several informal discussions in which it developed an ethics and conflict of interest implementation policy. The final policy was approved by the State Fair Park Board in April 2008 and applies to all positions involved with processing entry forms, determining eligibility, selecting judges, judging, and the appeals process for competitive events. This includes the Executive Director, the Agriculture Director, the Agriculture Coordinator, superintendents, judges, and administrative staff that process entry forms. Individuals working in these positions are required to annually complete and submit an outside activities report and a potential conflict of interest report.

The outside activities report requires a description of any outside activity, including employment and volunteer work in which an employee plans to participate. These reports are reviewed and approved by the Executive Director. The Executive Director's outside activities report is to be reviewed and approved by the State Fair Park Board's Administration and Finance Committee. If the Executive Director is unable to easily make a determination based on review of the outside activities report, the issue is to be submitted to the State of Wisconsin Government Accountability Board (formerly the State Ethics Board) for an opinion.

Most employees involved in fair competitions will be required to complete a potential conflict of interest report.

Potential conflict of interest reports are to be reviewed by the employee's program manager responsible for hiring. Therefore, in the case of superintendents and judges hired for livestock events, the Agriculture Director reviews and approves the forms. The reports of program managers, such as the Agriculture Director, are reviewed by the Executive Director. The policy requires that when a

potential conflict of interest exists, steps will be taken to remove the employee from the competition, which may include assigning the employee to a position or show where there is no conflict. If this is not possible because of the employee's expertise, other checks and balances will be implemented to provide the public reasonable assurance that a conflict of interest could not occur.

State Fair Park is in the process of implementing the new ethics and conflict of interest policies and procedures. Therefore, we were unable to obtain the outside activities or potential conflicts of interest reports for any State Fair Park employees to determine whether there were other potential conflicts of interest that need review.

Although the Board's actions to adopt a resolution and implement related policies are positive first steps, we note the Agriculture Director continues to participate in selling show cattle, as part of his outside business. The Agriculture Director offered for sale embryos of show cattle at the Wisconsin Simmental Spring Spectacular sale in March 2007, and advertised the fact they were from the genetic relatives of Wisconsin State Fair champions. In addition, he offered show quality cattle for sale at the March 2008 Wisconsin Simmental Spring Spectacular, advertising the fact that the animals were expecting to give birth to show cattle in the near future.

State Fair Park will need to address the apparent conflict of interest related to the Agriculture Director's outside business interests.

As State Fair Park implements the new ethics and conflict of interest policies and procedures, we believe it will be important to address the apparent conflict of interest between the Agriculture Director's responsibilities to the fair and his participation in the livestock industry, and the perception that it creates.

Recommendation

We recommend State Fair Park seek an opinion from the Government Accountability Board on whether the Agriculture Director's outside business interests represent a conflict of interest with his responsibilities to State Fair Park.

■ ■ ■ ■

Audit Opinion ■

Independent Auditor's Report on the Financial Statements of the Wisconsin State Fair Park

We have audited the accompanying financial statements of the Wisconsin State Fair Park as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Wisconsin State Fair Park's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the State Fair Park Exposition Center, Inc., which represents 100 percent of the financial activity of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the State Fair Park Exposition Center, Inc., is based solely on their report.

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. The financial statements of the State Fair Park Exposition Center, Inc., were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. 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.

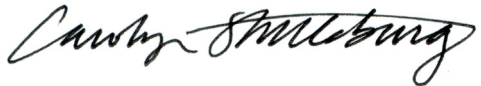
As discussed in Note 1, the financial statements referred to in the first paragraph present only Wisconsin State Fair Park and do not purport to, and do not, present fairly the financial position of the State of Wisconsin and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Wisconsin State Fair Park as of June 30, 2007, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Wisconsin State Fair Park. The supplementary information included as Management's Discussion and Analysis on pages 41 through 50 is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 30, 2008, on our consideration of the Wisconsin State Fair Park's internal control over financial reporting; and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

June 30, 2008

LEGISLATIVE AUDIT BUREAU

by Carolyn Stittleburg
Audit Director

Management's Discussion and Analysis ■

Prepared by State Fair Park's Management

This section presents management's discussion and analysis of the financial performance of State Fair Park for the fiscal year ended June 30, 2007. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of State Fair Park's management.

Description of Wisconsin State Fair Park

Wisconsin State Fair Park is located in the cities of West Allis and Milwaukee. The Wisconsin State Fair, which is held on State Fair Park grounds, is one of the State's oldest and largest events and typically hosts in excess of 800,000 people during its 11-day duration. In addition to the annual fair, State Fair Park hosts cultural, sporting, agricultural, domestic, and commercial interest events.

State Fair Park is a separate state agency, which is attached to the Department of Tourism for administrative purposes. State Fair Park is governed by a 13-member board. The current charter of the Wisconsin State Fair Park Board reads as follows:

The State Fair Park Board is directed to manage State Fair Park and supervise its use for fairs, exhibits, or promotional events for agricultural, commercial, educational, and recreational purposes, to lease or license the property's use for other purposes when not needed for a public purpose, and to charge reasonable rents and fees for use of the premises. The Board is also directed to develop new facilities at State Fair Park and to provide a permanent location for an annual Wisconsin State Fair, major sports events, agricultural and industrial expositions, and other programs of civic interests.

State Fair Park's financial activity is reported as an enterprise fund in the State of Wisconsin's financial statements.

State Fair Park Exposition Center, Inc., which owns and manages the Wisconsin Exposition Center, is considered a component unit of the State of Wisconsin for financial reporting purposes. It is shown as a discretely presented component unit in the State of Wisconsin's Comprehensive Annual Financial Report and, because of its financial and operational affiliation with the State Fair Park Fund, it is also presented with the State Fair Park Fund's financial statements.

Financial Highlights

At the end of FY 2006-07, the assets of the State Fair Park Fund exceeded its liabilities by \$7.9 million. These net assets consists of \$18.9 million invested in capital assets, net of related debt, and a deficit of \$11.0 million in unrestricted net assets.

The State Fair Park Fund's total net assets increased by \$1.9 million during FY 2006-07.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial statements of Wisconsin State Fair Park.

The Statement of Net Assets includes all assets and liabilities. Over time, increases and decreases in net assets are an indicator of State Fair Park's financial health.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year on an accrual basis. Activities are reported as either operating or nonoperating. The utilization of capital assets is reflected in the financial statements as depreciation expense, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows and helps measure the ability to meet financial obligations as they mature.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the State Fair Park Fund

An analysis of the State Fair Park Fund's financial position begins with a review of the Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets. These two statements report the net assets and changes therein. As noted, changes in net assets may serve as a useful indication of the State Fair Park Fund's financial condition.

The State Fair Park Fund has \$18.9 million of net assets that are invested in capital assets (e.g., land, buildings, equipment, improvements, and construction in progress), net of related debt. The total net capital assets are \$48.1 million, while the related outstanding debt is \$29.2 million. State Fair Park uses these assets to provide services to users of the fairgrounds; thus, they are not available for future spending. Although the State Fair Park Fund's investment in its capital assets is net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table A presents summary financial information with comparisons to the prior year.

Table A
Condensed Financial Information
 State Fair Park Fund

	FY 2006-07	FY 2005-06	Dollar Increase/(Decrease)
Current Assets	\$2,631,798	\$1,212,735	\$1,419,063
Noncurrent Assets	4,171,182	0	4,171,182
Capital Assets (Net of Depreciation)	48,107,458	57,198,122	(9,090,664)
Other Assets	144,372	172,376	(28,004)
Total Assets	<u>55,054,810</u>	<u>58,583,233</u>	<u>(3,528,423)</u>
Current Liabilities	15,018,946	18,426,341	(3,407,395)
Noncurrent Liabilities	32,146,761	34,156,506	(2,009,745)
Total Liabilities	<u>47,165,707</u>	<u>52,582,847</u>	<u>(5,417,140)</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	18,875,920	21,301,964	(2,426,044)
Unrestricted (Deficit)	(10,986,817)	(15,301,578)	4,314,761
Total Net Assets	<u>7,889,103</u>	<u>6,000,386</u>	<u>1,888,717</u>
Operating Revenues	18,079,146	17,296,338	782,808
Operating Expenses	15,814,012	21,094,466	(5,280,454)
Operating Gain/(Loss)	2,265,134	(3,798,128)	6,063,262
Nonoperating Revenues (Expenses)	(2,018,258)	(1,653,537)	(364,721)
Transfers In	1,770,701	662,132	1,108,569
Transfers Out	(128,860)	(22,249)	(106,611)
Changes in Net Assets	1,888,717	(4,811,782)	6,700,499
Net Assets—Beginning of the Year	6,000,386	10,812,168	(4,811,782)
Net Assets—End of the Year	<u>\$7,889,103</u>	<u>\$6,000,386</u>	<u>\$1,888,717</u>

Financial Commentary for the State Fair Park Fund

Operating Revenues

The source of operating revenues for the State Fair Park Fund is program generated. That is, various activities conducted on State Fair Park grounds and in State Fair Park facilities generate numerous types of revenues.

Table B includes a comparison of revenues by activity (rounded to the nearest \$1,000) for FY 2006-07 and FY 2005-06.

Table B

Revenues by Activity State Fair Park Fund

	FY 2006-07	Percentage of Total	FY 2005-06	Percentage of Total	Dollar Increase/(Decrease)
Annual State Fair	\$13,153,000	72.8%	\$11,662,000	67.4%	\$1,491,000
Promoter Events	1,179,000	6.5	855,000	4.9	324,000
Racing	1,111,000	6.1	2,852,000	16.5	(1,741,000)
Other Park-Sponsored Events	465,000	2.6	484,000	2.8	(19,000)
General Operations ¹	2,171,000	12.0	1,443,000	8.4	728,000
Total	<u>\$18,079,000</u>		<u>\$17,296,000</u>		<u>\$ 783,000</u>

¹ Major components are the Pettit Center rent payments, the RV park, and the Youth Center.

While Wisconsin State Fair attendance was approximately the same (860,000) in FY 2005-06 and FY 2006-07, there was a significant increase in revenues for FY 2006-07. Major increases were in the areas of general and midway admissions; vendor payments for food, beverage, and space; and sponsorships and parking. Midway revenues hit a record high for the August 2006 fair, while increased revenues in other areas were primarily the result of rate increases.

The increase in revenue from promoter events reflects State Fair Park providing additional billable services for Milwaukee Mile events. The events were primarily races, and the services provided were grounds and police labor, utilities, and equipment. State Fair Park also received a one-time payment of \$103,684 when Cingular Wireless chose to end its Youth Center roof rental lease contract. The initial term of the lease was a period of ten years ending in May 2011. The release and settlement agreement was effective on February 7, 2007, with payment received on April 19, 2007.

Decreases in race revenues are the result of State Fair Park entering into a license agreement with Milwaukee Mile Holdings that became effective on January 1, 2006. Under this agreement, Milwaukee Mile Holdings operates the racetrack and pays an annual license fee to State Fair Park. Revenues in FY 2006-07 reflect a partial payment made by Milwaukee Mile Holdings on the contractual payment that was due June 19, 2007.

The FY 2006-07 decrease in other State Fair Park-sponsored revenues reflects the discontinuation of State Fair Park subsidization of the Wednesday Night event, which was held primarily in the months of June and July. The event featured local entertainers and was funded by State Fair Park. No admission fee was charged. Revenues were generated from parking and concessions.

More than one-half of the increase in general operation revenues between FY 2005-06 and FY 2006-07 relates to payments made by Pettit National Ice Center, Inc., to State Fair Park, including direct payments made by Pettit National Ice Center, Inc., to State Fair Park and debt service reimbursement to State Fair Park from proceeds of the sale of the Pettit National Ice Center. The balance of the increase in general operations revenues is related to Youth Center and RV park revenues.

Operating Expenses

Table C includes a comparison of operating expenses (rounded to the nearest \$1,000) between FY 2006-07 and FY 2005-06.

Table C

Operating Expenses State Fair Park Fund

	FY 2006-07	Percentage of Total	FY 2005-06	Percentage of Total	Dollar Increase/(Decrease)
Personal Services	\$ 4,955,000	31.3%	\$ 4,788,000	22.7%	\$ 167,000
Advertising	678,000	4.3	828,000	3.9	(150,000)
Entertainment	1,386,000	8.8	1,498,000	7.1	(112,000)
Other Expenses ¹	5,479,000	34.6	10,436,000	49.5	(4,957,000)
Depreciation	3,316,000	21.0	3,544,000	16.8	(228,000)
Total	<u>\$15,814,000</u>		<u>\$21,094,000</u>		<u>\$(5,280,000)</u>

¹ Includes adjustments to accounts receivable and supplies and services expenses not related to advertising or entertainment costs.

Personal services expenses include both permanent and limited-term employee salaries, as well as associated fringe benefits. Costs increased slightly due to State Fair Park changes in permanent staff and increases primarily due to replacement of consultants by limited-term employees.

Licensing of the Milwaukee Mile racetrack operation accounted for \$220,000 of the reduction in advertising expenses. In addition, advertising expenses relating to the fair event increased slightly.

FY 2006-07 entertainment costs, which include fees paid to entertainers at the Wisconsin State Fair, decreased \$104,000 due to a conscious decision by State Fair Park to reduce performer costs.

Other expenses decreased by \$5.0 million compared to FY 2005-06 amounts. A majority of this decrease relates to the licensing of the Milwaukee Mile racetrack to outside parties, which resulted in a decrease of \$3.8 million. In addition, bad debt expense decreased by \$585,132 because of a reduction in uncollectible amounts from FY 2005-06 to FY 2006-07. The bad debt expense for FY 2006-07 includes \$358,165 that will not be collected from Milwaukee Mile Holdings.

Capital Assets

Table D includes a comparison of capital assets between FY 2006-07 and FY 2005-06.

Table D

Capital Assets State Fair Park Fund

	FY 2006-07	FY 2005-06	Dollar Increase/(Decrease)
Capital Assets	\$78,314,971	\$90,800,237	\$(12,485,266)
Accumulated Depreciation	(30,207,513)	(33,602,115)	(3,394,602)
Net Capital Assets	<u>\$48,107,458</u>	<u>\$57,198,122</u>	<u>\$(9,090,664)</u>
Depreciation Expense	\$3,316,206	\$3,543,936	\$(227,730)

Capital assets, net of depreciation, were reduced by \$9.1 million during FY 2006-07. The sale of the Pettit National Ice Center to Pettit National Ice Center, Inc., on January 5, 2007, contributed \$6.2 million of the decrease. Terms of the sale are discussed in Note 11 to the financial statements. In addition, FY 2006-07 depreciation expense was \$3.3 million, while capital asset additions were \$0.4 million.

Debt—Program Revenue Funded

Table E includes a comparison between FY 2006-07 and FY 2005-06 of debt funded with program revenue.

Table E

Program Revenue–Funded Debt for State Fair Park
State Fair Park Fund

	FY 2006-07	FY 2005-06	Dollar Increase/(Decrease)
Commercial Paper	\$ 769,231	\$ 922,894	\$ (153,663)
General Obligation Bonds	32,955,216	34,618,534	(1,663,318)
Total Debt	<u>\$33,724,447</u>	<u>\$35,541,428</u>	<u>\$(1,816,981)</u>

The change in commercial paper debt reflects payments on the existing debt. The change in general obligation bonds reflects the issuance of bonds for new projects; principal payments on existing debt; and the refunding of debt, which involves paying off some bonds with the issuance of new bonds.

Table F provides the future debt service requirements as of June 30, 2007, to be paid from State Fair Park's program revenue.

Table F

Program Revenue–Funded Debt Service Requirements
State Fair Park Fund

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service
2008	\$ 1,974,594	\$1,671,243	\$ 3,645,837
2009	2,087,425	1,500,618	3,588,043
2010	2,180,715	1,406,680	3,587,395
2011	2,285,356	1,304,408	3,589,764
2012	2,578,199	1,190,013	3,768,212
2013-2027	22,618,158	6,233,233	28,851,391
Total	<u>\$33,724,447</u>	<u>\$13,306,195</u>	<u>\$47,030,642</u>

Debt—General Fund

Table G includes a comparison between FY 2006-07 and FY 2005-06 of debt funded by the State's General Fund.

Table G

General Purpose Revenue–Funded Debt for State Fair Park

	FY 2006-07	FY 2005-06	Dollar Increase/(Decrease)
Commercial Paper	\$1,054,532	\$ 774,987	\$279,545
Bonds	23,675,858	23,894,905	(219,047)
Total	<u>\$24,730,390</u>	<u>\$24,669,892</u>	<u>\$ 60,498</u>

The change in commercial paper debt reflects payments on the existing debt offset by the issuance of two additional notes. The change in general obligation bonds reflects the issuance of bonds for new projects; principal payments on existing debt; and the refunding of debt, which involves paying off some bonds with the issuance of new bonds.

Table H provides the future debt service requirements as of June 30, 2007, to be paid from the State's General Fund.

Table H

General Purpose Revenue–Funded Debt Service Requirements Related to State Fair Park

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service
2008	\$ 1,226,042	\$1,279,948	\$ 2,505,990
2009	1,287,931	1,174,827	2,462,758
2010	1,269,867	1,113,840	2,383,707
2011	1,357,862	1,049,545	2,407,407
2012	1,606,072	972,233	2,578,305
2013-2027	17,982,616	5,021,705	23,004,321
Total	<u>\$24,730,390</u>	<u>\$10,612,098</u>	<u>\$35,342,488</u>

Other Known Facts

Program revenue lapses to the State's General Fund and other assessments have also affected the State Fair Park Fund. During the 2001-03 biennium, the State Fair Park Fund was required to lapse nearly \$2.4 million. An additional \$365,700 was required to be lapsed during the 2003-05 biennium. In FY 2005-06, the State Fair Park Fund was assessed \$97,132 compared to an assessment of \$12,042 in FY 2006-07 related to the State's Accountability, Consolidation and Efficiency (ACE) Initiative program.

Component Unit

The State Fair Park Exposition Center, Inc., is organized as a separate not-for-profit organization and reports on a calendar year. Following the guidance of the Governmental Accounting Standards Board (GASB), the Exposition Center is reported as a discretely presented component unit of the State of Wisconsin and, because of its close relationship with the State Fair Park Fund, is included in these financial statements as well. The purpose of the Exposition Center is to finance, build, manage, and maintain an exposition center on the Wisconsin State Fair Park grounds. Upon repayment of the debt issued to finance construction of the Exposition Center, the title to it will transfer to State Fair Park and the not-for-profit organization will be dissolved.

The component unit is reported for the year ended December 31, 2006. Financial highlights include:

- 1) Cash and cash equivalents increased \$0.4 million from 2005, to \$4.8 million.
- 2) Total operating revenue decreased \$48,243 from 2005 to 2006, while operating expenses increased by \$382,588.
- 3) Interest expense decreased \$108,455 from 2005, to \$2.4 million for 2006.
- 4) The Exposition Center's income from operations was \$1.4 million in 2006, compared to \$1.8 million for 2005.
- 5) The Exposition Center's unrestricted net assets decreased by \$0.9 million from 2005, to (\$2.3 million) for 2006.

Contacting State Fair Park and Exposition Center Management

This financial report is designed to provide a general overview of State Fair Park's financial performance for FY 2006-07 and the State Fair Park Exposition Center's financial performance for the calendar year 2006. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

State Fair Park

Craig Barkelar, Deputy Director
640 S. 84th Street
West Allis, Wisconsin 53214

State Fair Park Exposition Center, Inc.

Jon C. Gaines, Vice-President of Administration and Finance
8200 West Greenfield Avenue
West Allis, Wisconsin 53214

■ ■ ■ ■

Financial Statements ■

Statement of Net Assets

	State Fair Park Fund (As of June 30, 2007)	Component Unit— State Fair Park Exposition Center, Inc. (As of December 31, 2006)	Total (Memorandum Only)
ASSETS			
Current Assets:			
Cash and cash equivalents (Notes 2C and 6)	\$ 120,500	\$ 4,771,070	\$ 4,891,570
Marketable securities	0	527,429	527,429
Receivables (net of estimated uncollectible accounts) (Note 9)	1,370,104	97,988	1,468,092
Due from other funds (Note 2G and 9)	945,378	0	945,378
Inventories	39,619	0	39,619
Prepaid Items	156,197	52,603	208,800
Total Current Assets	<u>2,631,798</u>	<u>5,449,090</u>	<u>8,080,888</u>
Noncurrent Assets:			
Receivables (Note 9)	425,000	0	425,000
Due from other funds (Note 2G and 9)	3,746,182	0	3,746,182
Deferred charges	144,372	381,250	525,622
Capital assets (net of accumulated depreciation) (Notes 2E and 3)	48,107,458	33,969,170	82,076,628
Total Noncurrent Assets	<u>52,423,012</u>	<u>34,350,420</u>	<u>86,773,432</u>
TOTAL ASSETS	<u>\$ 55,054,810</u>	<u>\$ 39,799,510</u>	<u>\$ 94,854,320</u>
LIABILITIES			
Current Liabilities:			
Accounts payable (Note 9)	\$ 606,773	\$ 85,848	\$ 692,621
Due to other funds (Notes 2G and 9)	190,309	0	190,309
Interfund payables (Note 9)	8,623,078	0	8,623,078
Tax and other deposits	140,262	0	140,262
Deferred revenue (Note 2D)	3,050,012	0	3,050,012
Interest payable	286,926	208,566	495,492
Capital leases (Note 4)	91,361	0	91,361
Compensated absences (Notes 2F and 8)	55,631	0	55,631
Other accrued expenses	0	277,930	277,930
Unearned license fees	0	692,856	692,856
Notes payable (Note 5)	176,381	0	176,381
General obligation bonds payable (Note 5)	1,798,213	0	1,798,213
Total Current Liabilities	<u>15,018,946</u>	<u>1,265,200</u>	<u>16,284,146</u>
Noncurrent Liabilities:			
Capital leases (Note 4)	328,161	0	328,161
Compensated absences (Notes 2F and 8)	68,747	0	68,747
Notes payable (Note 5)	592,850	0	592,850
General obligation bonds payable (Note 5)	31,157,003	0	31,157,003
Industrial revenue bonds payable (Note 13)	0	40,795,000	40,795,000
Total Noncurrent Liabilities	<u>32,146,761</u>	<u>40,795,000</u>	<u>72,941,761</u>
TOTAL LIABILITIES	<u>47,165,707</u>	<u>42,060,200</u>	<u>89,225,907</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	18,875,920	0	18,875,920
Unrestricted	(10,986,817)	(2,260,690)	(13,247,507)
TOTAL NET ASSETS	<u>\$ 7,889,103</u>	<u>\$ (2,260,690)</u>	<u>\$ 5,628,413</u>

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets

	State Fair Park Fund (For the Year Ended June 30, 2007)	Component Unit— State Fair Park Exposition Center, Inc. (For the Year Ended December 31, 2006)	Total (Memorandum Only)
OPERATING REVENUES			
Charges for Sales and Services	\$ 18,069,995	\$ 4,084,972	\$ 22,154,967
Other Income	9,151	397,438	406,589
Total Operating Revenues	18,079,146	4,482,410	22,561,556
OPERATING EXPENSES			
Personal Services	4,954,919	982,256	5,937,175
Supplies and Services	7,182,880	1,052,165	8,235,045
Depreciation Expense (Notes 2E and 3)	3,316,206	1,035,949	4,352,155
Bad Debt Expense (Note 12)	360,007	0	360,007
Other Expenses	0	7,631	7,631
Total Operating Expenses	15,814,012	3,078,001	18,892,013
OPERATING INCOME (LOSS)	2,265,134	1,404,409	3,669,543
NONOPERATING REVENUES (EXPENSES)			
Investment and Interest Income	16,901	37,558	54,459
Gifts and Donations	17,000	0	17,000
Interest Expense	(1,454,636)	(2,386,764)	(3,841,400)
Loss on Sale of Capital Assets	(597,523)	0	(597,523)
Total Nonoperating Revenues (Expenses)	(2,018,258)	(2,349,206)	(4,367,464)
Income (Loss) Before Operating Transfers	246,876	(944,797)	(697,921)
Transfers In (Notes 2H and 10)	1,770,701	0	1,770,701
Transfers Out (Notes 2H and 10)	(128,860)	0	(128,860)
CHANGE IN NET ASSETS	1,888,717	(944,797)	943,920
NET ASSETS			
Total Net Assets—Beginning of Year	6,000,386	(1,315,893)	4,684,493
Total Net Assets—End of the Year	<u>\$ 7,889,103</u>	<u>\$ (2,260,690)</u>	<u>\$ 5,628,413</u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows—State Fair Park Fund for the Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 16,327,451
Cash Payments to Suppliers for Goods and Services	(7,690,655)
Cash Payments to Employees for Services	(4,917,319)
Other Operating Revenues	9,151
Net Cash Provided by Operating Activities	<u>3,728,628</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Transfers Out	(45,931)
Proceeds from Gifts and Donations	17,000
Change in Interfund Loans	(1,453,523)
Net Cash Used by Noncapital Financing Activities	<u>(1,482,454)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Issuance of Debt	7,103,646
Transfers In	1,770,701
Transfers Out	(82,929)
Repayment of Long-Term Debt	(8,920,627)
Interest Paid	(1,442,366)
Capital Lease Payments	(107,584)
Proceeds from Sale of Capital Assets	875,690
Purchase of Capital Assets	(1,427,610)
Debt Issuance Costs	28,004
Net Cash Used by Capital and Related Financing Activities	<u>(2,203,075)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment and Interest Receipts	<u>16,901</u>
Net Cash Provided by Investing Activities	<u>16,901</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>60,000</u>
Cash and Cash Equivalents—Beginning of the Year	<u>60,500</u>
Cash and Cash Equivalents—End of the Year	<u>\$ 120,500</u>

The accompanying notes are an integral part of this statement.

**RECONCILIATION OF NET OPERATING LOSS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income (Loss)	\$	2,265,134
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense		3,316,206
Change in Provision for Uncollectible Accounts		360,007
Changes in Assets and Liabilities:		
Decrease (Increase) in receivables		(1,330,895)
Decrease (Increase) in due from other funds		990
Decrease (Increase) in inventories		86,317
Decrease (Increase) in prepaid items		44,708
Increase (Decrease) in accounts payable		(628,424)
Increase (Decrease) in due to other funds		38,629
Increase (Decrease) in deposits		29,329
Increase (Decrease) in deferred revenues		(441,968)
Increase (Decrease) in compensated absences		(11,405)
Total Adjustments		<u>1,463,494</u>
Net Cash Provided by Operating Activities	\$	<u>3,728,628</u>
Noncash Investing, Capital and Financing Activities:		
Loss on sale of capital assets—Pettit Center	\$	597,523

The accompanying notes are an integral part of this statement.

Statement of Cash Flows: Component Unit—Exposition Center for the Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (944,797)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:	
Loss on Sale of Marketable Securities	17,815
Depreciation Expense	1,035,949
Amortization Expense	42,553
Changes in Assets and Liabilities:	
Decrease (Increase) in receivables	133,853
Decrease (Increase) in prepaid items	(2,018)
Increase (Decrease) in accounts payable	(105,876)
Increase (Decrease) in accrued bond interest	(1,349)
Increase (Decrease) in other accrued expenses	146,003
Increase (Decrease) in unearned license fees	137,519
Total Adjustments	1,404,449
Net Cash Provided by Operating Activities	459,652

CASH FLOWS FROM FINANCING ACTIVITIES

Repayment of Letter of Credit Fees	(4,926)
Net Cash Used by Capital and Related Financing Activities	(4,926)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sale of Marketable Securities	469,097
Purchase of Marketable Securities	(524,347)
Purchase of Fixed Assets	(28,168)
Net Cash Used by Investing Activities	(83,418)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	371,308
Beginning of the Year—Cash and Cash Equivalents	4,399,762
End of the Year—Cash and Cash Equivalents	\$ 4,771,070
Supplemental Disclosure:	
Cash paid during the year for:	
Interest	\$ 2,511,902

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements ■

1. DESCRIPTION OF STATE FAIR PARK

State Fair Park is located in the cities of West Allis and Milwaukee. In addition to holding the annual Wisconsin State Fair, State Fair Park hosts cultural, sporting, agricultural, domestic, and commercial interest events.

State Fair Park is a separate state agency within the administrative structure of the State of Wisconsin. State Fair Park's financial activity is accounted for within the State Fair Park Fund, which is part of the State of Wisconsin financial reporting entity.

The Wisconsin Exposition Center, which is located on State Fair Park grounds, is operated by the State Fair Park Exposition Center, Inc., a nonstock, not-for-profit corporation. In accordance with Governmental Accounting Standards Board (GASB) Statement 14, the Exposition Center is considered a discrete component unit of the State of Wisconsin. In addition, although the Exposition Center is legally separate from the State of Wisconsin and the State Fair Park Fund, its relationship with the State Fair Park Fund is such that exclusion may cause the State Fair Park Fund's financial statements to be misleading or incomplete. Therefore, financial statements for the Exposition Center are included. The Board of the Exposition Center includes the chairperson of the State Fair Park Board, one other member of the State Fair Park Board, and three members appointed by the Exposition Center Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE STATE FAIR PARK FUND

A. Fund Accounting and Basis of Presentation

The financial statements of the State Fair Park Fund have been prepared in conformance with generally accepted accounting principles (GAAP) for proprietary funds as prescribed by GASB. The accompanying financial statements were prepared based upon the flow of economic resources measurement focus and full accrual basis of accounting, with revenues recognized when earned and expenses recognized when incurred.

The Statement of Revenues, Expenses, and Changes in Net Assets classifies the State Fair Park Fund's fiscal year activity as either operating or nonoperating. Because the State Fair Park Fund is an enterprise fund, which is a type of proprietary fund, it accounts for operations in a manner similar to private businesses in which operating revenues are derived from exchange transactions, such as sales. Operating expenses include salaries, supplies, and depreciation of capital assets.

Certain revenues and expenses that are not related to the State Fair Park Fund's primary purpose, such as the gain or loss on the disposal of capital assets and interest expense, are reported as nonoperating revenues and expenses.

The State Fair Park Fund applies all GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

B. Revenue Recognition

The State Fair Park Fund derives the majority of its revenue from events such as the annual State Fair held at the park site. Revenue for the events is recognized at the time the events are held.

C. Cash and Cash Equivalents

Cash and cash equivalents reported on the State Fair Park Fund's Statement of Net Assets and the Statement of Cash Flows include:

- cash deposited with a commercial financial institution;
and
- currency on hand at State Fair Park.

D. Deferred Revenue

For cash receipts collected in advance of events from vendors or the general public, revenue is not recognized until the event occurs. Therefore, deferred revenue is recorded based upon payments received before events occur.

E. Capital Assets

Capital assets purchased for \$5,000 or more are recorded at cost and are depreciated using the straight-line method according to the following schedule:

	<u>Estimated Life</u>
Buildings and Improvements	15 to 31.5 years
Machinery and Equipment	3 to 7 years

F. Employee Compensated Absences

The State Fair Park Fund’s compensated absence liability consists of accumulated unpaid leave, compensatory time, personal holiday hours, and Saturday/legal holiday hours earned and vested as of June 30, 2007. The liability and expense for compensated absences are based on current rates of pay.

G. Due to (from) Other State Funds

During the course of operations, transactions for goods provided or services rendered occur among individual state programs. The statement of net assets classifies these receivables and payables as “Due from Other Funds” or “Due to Other Funds.”

H. Transfers In (Out)

Transfers In (Out) represent transfers of cash between state agencies. “Transfers In” consist of general purpose revenue provided to the State Fair Park Fund to fund improvement, repair, or construction of State Fair Park’s facilities and grounds. “Transfers Out” consist of transfers made to the Wisconsin Department of Administration to cover costs paid by other state funds.

I. Net Assets

Net assets represent the difference between the State Fair Park Fund’s assets and liabilities and are reported in two categories: invested in capital assets, net of related debt, and unrestricted. Unrestricted net assets represent amounts that, if positive, could be used at State Fair Park’s discretion.

3. CAPITAL ASSETS

The State Fair Park Fund's capital asset transactions for the year ended June 30, 2007, are summarized as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital Assets Not Being Depreciated:				
Land	\$ 998,504	\$ 0	\$ 0	\$ 998,504
Construction in Progress	<u>1,011,443</u>	<u> </u>	<u>(1,011,443)</u>	<u>0</u>
Total Capital Assets Not Being Depreciated	2,009,947	0	(1,011,443)	998,504
Capital Assets Being Depreciated:				
Buildings and Improvements	86,620,771	1,400,677	(12,875,393)	75,146,055
Machinery and Equipment	<u>2,169,519</u>	<u>893</u>	<u>0</u>	<u>2,170,412</u>
Total Capital Assets Being Depreciated	88,790,290	1,401,570	(12,875,393)	77,316,467
Less Accumulated Depreciation for:				
Buildings and Improvements	(31,930,652)	(3,194,667)	6,710,808	(28,414,511)
Machinery and Equipment	<u>(1,671,463)</u>	<u>(121,539)</u>	<u>0</u>	<u>(1,793,002)</u>
Total Accumulated Depreciation	<u>(33,602,115)</u>	<u>(3,316,206)</u>	<u>6,710,808</u>	<u>(30,207,513)</u>
Total Capital Assets Being Depreciated, Net	<u>55,188,175</u>	<u>(1,914,636)</u>	<u>(6,164,585)</u>	<u>47,108,954</u>
Total Capital Assets, Net	<u>\$57,198,122</u>	<u>\$(1,914,636)</u>	<u>\$(7,176,028)</u>	<u>\$48,107,458</u>

See Note 13 for information about the Wisconsin Exposition Center's capital assets.

4. LEASE OBLIGATIONS

Equipment items, including street signs and other signage to direct visitors to and around the fairgrounds have been leased through capital leases and are included in the State Fair Park Fund's capital assets. Leased equipment is depreciated over a period of between two and seven years. The accumulated depreciation on this leased equipment totaled \$581,517, resulting in a net book value of \$345,646. Total lease payments for the fiscal year ended June 30, 2007, were \$107,584. Future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2007, are as follows:

For the Year Ending:	
June 30, 2008	\$ 111,022
June 30, 2009	111,013
June 30, 2010	103,981
June 30, 2011	96,956
June 30, 2012	<u>48,478</u>
Total Minimum Lease Payments	471,450
Less: Amount Representing Interest	<u>(51,928)</u>
Present Value of Minimum Lease Payments	<u>\$419,522</u>

During the year ended June 30, 2007, the following changes occurred in the State Fair Park Fund’s capital lease liability:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
Capital Leases	<u>\$527,106</u>	<u>\$ 0</u>	<u>\$(107,584)</u>	<u>\$419,522</u>	<u>\$91,361</u>

5. DEBT OBLIGATIONS

State of Wisconsin general obligation bonds and commercial paper are issued to finance the construction, development, improvement, and major repair of facilities on the State Fair Park grounds and to refund existing debt. All general obligation bonds authorized and issued by the State are secured by the full faith, credit, and taxing power of the State of Wisconsin. Funding to cover debt service payments comes from program revenue received from State Fair Park Fund operations, as well as from general purpose revenue of the State of Wisconsin.

Debt to Be Repaid from State Fair Park Fund Program Revenue

Program revenue-supported bonding is reported on the State Fair Park Fund’s statement of net assets. The changes in the State Fair Park Fund’s portion of long-term debt are as follows:

	Balance June 30, 2006	New Debt Proceeds	Principal Payments and Refunds	Balance June 30, 2007
Notes Payable—				
Commercial Paper	\$ 922,894	\$ 0	\$ (153,663)	\$ 769,231
Bonds	<u>34,618,534</u>	<u>7,103,646</u>	<u>(8,766,964)</u>	<u>32,955,216</u>
Total	<u>\$35,541,428</u>	<u>\$7,103,646</u>	<u>\$(8,920,627)</u>	<u>\$33,724,447</u>

The bond debt has fixed interest rates, while the commercial paper has a variable interest rate which changes daily. New debt proceeds from bonds include amounts received from bonds issued to fund payments on outstanding debt. Reductions in the long-term liability for bonds reflect principal payments on outstanding debt and refunds of existing debt.

As of June 30, 2007, estimated future debt service requirements to be paid from State Fair Park Fund program revenue are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service
2008	\$ 1,974,594	\$ 1,671,243	\$ 3,645,837
2009	2,087,425	1,500,618	3,588,043
2010	2,180,715	1,406,680	3,587,395
2011	2,285,356	1,304,408	3,589,764
2012	2,578,199	1,190,013	3,768,212
2013-2017	10,811,532	4,309,714	15,121,246
2018-2022	9,915,605	1,815,769	11,731,374
2023-2027	<u>1,891,021</u>	<u>107,750</u>	<u>1,998,771</u>
Total	<u>\$33,724,447</u>	<u>\$13,306,195</u>	<u>\$47,030,642</u>

Debt to Be Repaid from State of Wisconsin General Purpose Revenue

Debt service payments to be made from State general purpose revenue are not a debt of the State Fair Park Fund. The debt liability and debt service payments are reported as governmental activities of the State of Wisconsin, while the related assets and repair expense are reported in the financial statements of the State Fair Park Fund. Changes in long-term debt of the State's General Fund to be paid on behalf of the State Fair Park Fund are as follows:

	Balance June 30, 2006	New Debt Proceeds	Principal Payments and Refunds	Balance June 30, 2007
Commercial Paper	\$ 774,987	\$ 407,724	\$ (128,179)	\$ 1,054,532
Bonds	<u>23,894,905</u>	<u>4,469,523</u>	<u>(4,688,570)</u>	<u>23,675,858</u>
Total	<u>\$24,669,892</u>	<u>\$4,877,247</u>	<u>\$(4,816,749)</u>	<u>\$24,730,390</u>

The bond debt has fixed interest rates, while the commercial paper has a variable interest rate which changes daily. New debt proceeds from bonds include amounts received from bonds issued to refund existing debt. Reductions in the long-term liability for bonds reflect principal payments on outstanding debt and refunds of existing debt.

As of June 30, 2007, estimated future debt service requirements to be paid from State of Wisconsin general purpose revenue are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service
2008	\$ 1,226,042	\$ 1,279,948	\$ 2,505,990
2009	1,287,931	1,174,827	2,462,758
2010	1,269,867	1,113,840	2,383,707
2011	1,357,862	1,049,545	2,407,407
2012	1,606,072	972,233	2,578,305
2013-2017	9,376,373	3,519,989	12,896,362
2018-2022	6,918,656	1,350,575	8,269,231
2023-2027	<u>1,687,587</u>	<u>151,141</u>	<u>1,838,728</u>
Total	<u>\$24,730,390</u>	<u>\$10,612,098</u>	<u>\$35,342,488</u>

See Note 13 for information about the Wisconsin Exposition Center’s debt obligations.

6. DEPOSITS

GASB Statement 40, *Deposit and Investment Risk Disclosures—an Amendment of GASB Statement 3*, requires certain disclosures related to custodial credit risk. Custodial credit risk is the risk that in the event of a failure of a depository financial institution, deposits may not be returned. The Federal Deposit Insurance Corporation insures deposits of up to \$100,000 at each depository institution. As of June 30, 2007, \$76,807 of the State Fair Park Fund’s cash balance was deposited in a commercial checking account. The remaining \$43,693 was on hand at State Fair Park for use during State Fair Park events.

See Note 13 for information about the Wisconsin Exposition Center’s cash and cash equivalent balances.

7. EMPLOYEE RETIREMENT PLAN

Permanent, full-time employees of State Fair Park are participants in the Wisconsin Retirement System, a cost-sharing, multiple employer, defined benefit plan governed by Chapter 40 of Wisconsin Statutes. State and local government public employees are entitled to an annual formula retirement benefit based on: 1) the employee’s final average earnings, 2) years of creditable service, and 3) a formula factor. If an employee’s contributions, matching employer’s contributions, and interest credited to the employee’s account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit. The Wisconsin Retirement

System is considered part of the State of Wisconsin’s financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information may be obtained by writing to:

Department of Employee Trust Funds
 801 West Badger Road
 P.O. Box 7931
 Madison, WI 53707-7931

The report is also available on the Department of Employee Trust Funds’ Web site, <http://etf.wi.gov>.

Generally, the State’s policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the retirement system. Prior service costs are amortized over 40 years, beginning January 2, 1990. However, in December 2003 the State issued bonds and subsequently liquidated its prior service liability balance as of January 2003. In addition, state agencies are required to make contributions to fund bond payments.

The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee’s classification, plus employer contributions at a rate determined annually. The State Fair Park Fund’s contributions to the plan were \$227,592 for FY 2006-07. The relative position of the State Fair Park Fund in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multi-employer plan.

8. COMPENSATED ABSENCES

The State Fair Park Fund’s compensated absences activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Compensated Absences	<u>\$135,783</u>	<u>\$55,948</u>	<u>\$67,353</u>	<u>\$124,378</u>	<u>\$55,631</u>

9. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Accounts Receivable and Accounts Payable balances, which are combined on the State Fair Park Fund’s financial statements, are disaggregated as follows:

A. State Fair Park Fund Accounts Receivable and Due from Other Funds

	<u>Fiscal Year 2006-07</u>
Accounts Receivable:	
Racing Activities	\$ 1,444,269
State Fair Park Youth Foundation	50,000
Miscellaneous	<u>300,835</u>
Total Accounts Receivable	<u>\$1,795,104</u>
Due from Other Funds:	
Bond Security and Redemption	\$4,691,372
Miscellaneous	<u>188</u>
Total Due from Other Funds	<u>\$4,691,560</u>

The Wisconsin State Fair Park Youth Foundation seeks to develop public and private partnerships to support youth programming and facilities development at State Fair Park. In addition, the Foundation provides financial and volunteer services to the Governor’s Blue Ribbon Auction Committee. In February 2007, State Fair Park provided a \$50,000 interest-free loan to the Foundation. Another \$50,000 interest-free loan was made in January 2008. These loans were provided to fund the hiring of a new full time Executive Director for the Foundation. Both loans are to be repaid, beginning in 2009, over a period not to exceed five years.

B. State Fair Park Fund Accounts Payable, Due to Other Funds, and Interfund Payables

	<u>Fiscal Year 2006-07</u>
Accounts Payable:	
Vendors	\$ 487,602
Employees	<u>119,171</u>
Total Accounts Payable	<u>\$ 606,773</u>
Due to Other Funds:	
Due to Other State Programs	<u>\$ 190,309</u>
Total Due to Other Funds	<u>\$ 190,309</u>
Interfund Payables:	
Amounts Due to Other Funds for Short-Term Loans to Cover the State Fair Park Fund’s Cash Overdraft	<u>\$8,623,078</u>
Total Interfund Payables	<u>\$8,623,078</u>

10. INTERFUND TRANSFERS

Interfund transfers that occurred during FY 2006-07 are as follows:

A. State Fair Park Fund Transfers In

For Capital Building Projects	<u>\$1,770,701</u>
-------------------------------	--------------------

B. State Fair Park Fund Transfers Out

Transfers Out:

For Capital Building Projects	\$ 82,929
For Prior Service Cost Bond Contributions	<u>45,931</u>
Total Transfers Out	<u>\$128,860</u>

11. PETTIT NATIONAL ICE CENTER BUILDING SALE

On January 5, 2007, State Fair Park sold the Pettit National Ice Center to Pettit National Ice Center, Inc., for \$5.6 million. As a result of the sale, State Fair Park received a one-time payment of \$748,658 for reimbursement of debt service costs it had paid in FY 2006-07. The remaining proceeds from the sale were deposited into the State's Bond Security and Redemption Fund and are reported as "Due from Other Funds" on State Fair Park's financial statements. They will be used to pay debt service on the bonds used to construct the facility. As a result of the sale, the State Fair Park Fund's capital assets, net of accumulated depreciation were reduced by \$6.2 million in FY 2006-07. In addition, the State Fair Park Fund reported a loss of \$0.6 million on the transaction.

12. SUBSEQUENT EVENTS FOR STATE FAIR PARK FUND**A. Milwaukee Mile License Agreement**

On February 20, 2008, State Fair Park entered into a new track and grandstand License Agreement with Milwaukee Mile Holdings, LLC, superseding the prior agreement, which was entered into on December 19, 2005. Milwaukee Mile Holdings continues to have operational and promotional rights to the premises, including the oval racetrack, infield activities, retaining walls and barriers, and Milwaukee Mile office buildings, and parking lot.

Under the terms of the new agreement, State Fair Park agreed to waive \$322,000 and defer \$400,000 of the \$1.8 million license fee due in FY 2006-07. In addition:

- Average annual license fees will be reduced to \$1,003,700 a year. A portion of the fee is deferred each year until 2017, when Milwaukee Mile Holdings is expected to begin paying a portion of the deferred amounts to State Fair Park.

- Fees will be secured by a \$3.6 million letter of credit and unspecified real estate, for deferred fee amounts that raise the total fees needing to be secured above the \$3.6 million level.
- The number of use days under the agreement decreases from 134 to 75.
- The option to purchase 9.35 acres of state land is replaced with an option for a 30-year ground lease on a 6.35 acre parcel. Ground lease rent is set at 6.0 percent of the appraised value of the land or a base rent of \$113,280, with annual increases of 1.5 percent. The option must be exercised by December 31, 2008, or one year earlier than allowed in original agreement.

Milwaukee Mile Holdings, LLC, may terminate the agreement at any time by providing three years' written notice. Separate termination rules apply in the event that NASCAR does not run an event at the track.

B. Debt Obligations

In December 2007, the State issued \$154.9 million of 2007 Series C general obligation bonds. The State Fair Park Fund's portion of this bond issue was \$600,000 in program revenue-supported borrowing. The interest rate is 5.0 percent and is payable semiannually beginning on May 1, 2008. The bonds mature on May 1 of the years 2009 through 2028.

13. COMPONENT UNIT—WISCONSIN STATE FAIR PARK EXPOSITION CENTER, INC.

A. Summary of Significant Accounting Policies

Organization

The purpose of the Wisconsin State Fair Park Exposition Center, Inc., is to finance, build, manage, and maintain an exposition center on the Wisconsin State Fair Park grounds in West Allis, Wisconsin. The Exposition Center was substantially complete and placed in service as of August 1, 2002. Upon repayment of the bond issued to finance the construction of the Exposition Center, the title to the structure will be transferred to State Fair Park, and the State Fair Park Exposition Center, Inc., will be dissolved. The Exposition Center reports on a fiscal year ended December 31.

The State Fair Park Exposition Center, Inc., is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation. Accordingly, no accrual for income taxes has been included in these financial statements.

Copies of the Exposition Center's separately issued financial report that includes financial statements and required supplementary information may be obtained by writing to:

State Fair Park Exposition Center, Inc.
8200 West Greenfield Avenue
West Allis, WI 53214-0307

Basis of Accounting

The financial statements for the Exposition Center have been prepared on the accrual basis of accounting.

Basis of Presentation

The Exposition Center reports under the provisions of FASB Statement of Financial Accounting Standards No. 117, *Financial Statements for Not-for-Profit Organizations*.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Exposition Center considers all short-term investments with a maturity of three months or less to be a cash equivalent. Cash and cash equivalents includes \$3.3 million as of December 31, 2006, which is held in trust accounts and restricted in accordance with the terms of the Exposition Center's industrial revenue bonds payable.

Accounts Receivable

The Exposition Center uses the allowance method for recording bad debts.

Capital Assets

Capital assets greater than \$500 are capitalized at cost and are depreciated using the straight-line method over their estimated useful lives of 39 years for buildings and 5 to 7 years for equipment and improvements.

Bond Issuance and Letter of Credit Costs

Bond issuance costs of \$537,185 are being amortized using the effective-interest method over the 28-year life of the related bonds. Amortization of bond issuance costs for the year ended December 31, 2006, was \$28,788 and is included in interest expense. Letter of credit costs of \$4,926 were incurred in 2006 and are being amortized over the life of the

letter of credit, which is twelve months for 2006. Amortization of letter of credit costs was \$13,765 in 2006 and is included in interest expense.

Total Bond Issuance and Letter of Credit Costs	\$569,237
Accumulated Amortization	<u>(187,987)</u>
Unamortized Bond Issuance and Letter of Credit Costs at December 31, 2006	<u>\$381,250</u>

Government Grants

The Exposition Center received a Homeland Security Grant of \$56,900 in 2005, which was used to upgrade the Exposition Center’s security system. These funds are recognized as revenue in the accounting period in which the expenses are incurred. If it is subsequently determined that a surplus exists within a program, the funding sources have the right to request reimbursement of the surplus. Any refunds disbursed are shown as a charge to support in the year in which they occur. The entire grant was expended and, therefore, there will not be a refund.

Unearned License Fees

Unearned license fees consist of advance deposits received for Exposition Center events held in the following years.

Advertising and Marketing Costs

The Exposition Center expenses advertising and marketing costs as incurred. Advertising and marketing expenses, which are included in supplies and services expenses on the operating statement, totaled \$20,160 in 2006.

B. Concentration of Credit Risk for Cash and Cash Equivalents

The Exposition Center maintains cash balances at two banks. Accounts at the bank are insured by the Federal Deposit Insurance Corporation up to \$100,000. The uninsured portion, without regard to outstanding checks and deposits in transit, is \$1.3 million as of December 31, 2006.

The Exposition Center maintains cash equivalent balances in trust accounts at another bank. The accounts are invested in uninsured investment-grade money market funds with a rating of AA. The uninsured amount, without regard to outstanding checks and deposits in transit, is \$3.3 million as of December 31, 2006.

C. Notes Payable

The Exposition Center had a \$125,000 non-interest bearing note payable, which was paid off in September 2005.

D. Retirement Plan

Effective January 1, 2003, the Exposition Center has a Simple IRA retirement plan covering substantially all employees. Participants may elect to make voluntary pre-tax contributions of their compensation, up to the amount allowable by the IRS, for 2005. The Exposition Center matches 100.0 percent of the participant's voluntary contributions, up to 3.0 percent of the participant's compensation. The Exposition Center contributed \$18,356 to the plan for the year ended December 31, 2006.

E. Related Party Transactions

The Exposition Center's Board of Directors is required to have two members who are also members of the State Fair Park Board. The Exposition Center entered into a ground lease agreement with the State Fair Park Board effective August 1, 2001. The operating lease allows the Exposition Center to construct and operate an exposition center on State Fair Park grounds. The term of the lease ends in August of 2030, with options for five one-year extensions. The Exposition Center shall pay rent equal to the excess of its annual gross revenues from all sources over its annual expenses of operating the Exposition Center, including debt service of any type, debt reserves, operating costs, and reserves. Rents are due annually in arrears each January 15. However, no rents were payable relating to this ground lease agreement as of December 31, 2006.

The Exposition Center has also entered into a license agreement with the State Fair Park Board granting the State Fair Park Board the sole right to use the entire Exposition Center during the two-week period in August of each year when the State Fair Park Board holds its annual State Fair. The license fee to be paid shall be negotiated each year for all rental space. All parking fees generated during the two weeks of the State Fair are the sole revenue of the State Fair Park Board. The agreement continues in effect until the Exposition Center's ground lease expires or terminates. License fees pursuant to this agreement totaled \$225,000 in 2006.

Accounts receivable includes \$169,803 from the State Fair Park Board as of December 31, 2005, primarily for reimbursement of parking and payroll for use of employees. Accounts payable and accrued expenses include \$33,290 to the State Fair Park Board as of December 31, 2006, primarily for contracted labor and services.

F. Marketable Securities

Marketable securities are stated at the fair market value. Realized gains or losses on the sale of marketable securities are recognized using the specific identification method. Aggregate cost was \$518,577 as of December 31, 2006. The portfolio of marketable securities classed as current includes gross unrealized gains of \$30,043 as of December 31, 2006. Realized losses on the sale of Marketable Securities totaled \$17,815 for the year ended December 31, 2006.

G. Industrial Revenue Bonds Payable

On August 1, 2001, \$44.9 million worth of City of West Allis, Wisconsin, Variable Rate Demand Revenue Bonds, Series 2001 were issued to finance the construction of the Exposition Center. The bonds call for monthly interest-only payments until the date of maturity. The bonds have a final maturity of August 1, 2028. The bonds require a mandatory redemption to the extent of unused bond proceeds. Repayment of the bonds is guaranteed by a letter of credit which expired on April 15, 2008. The Exposition Center has not been notified of any event of default with respect to the industrial revenue bonds payable restrictive covenants as of December 31, 2006.

The balance outstanding on the industrial revenue bonds payable was \$40.8 million as of December 31, 2006. In January 2003, the Exposition Center redeemed \$4.1 million of bonds in accordance with the mandatory redemption requirements for unused bond proceeds.

A summary of interest expense for 2006 is as follows:

	<u>Interest Expense</u>
Interest Incurred	\$ 2,509,284
Letter of Credit and Remarketing Fees	30,765
Amortization of Bond issuance Costs	28,788
Interest Earned	<u>(182,073)</u>
Total	<u>\$2,386,764</u>

H. Subsequent Event for State Fair Park Exposition Center, Inc.

The Exposition Center refinanced the industrial revenue bonds on July 1, 2007. The refinancing locked in a 6.1 percent interest rate, does not require a letter of credit, and requires semi-annual interest payments. Further, the refinancing requires principal payments to be made to a bond sinking fund beginning in 2017. The bonds continue to have a final maturity of August 1, 2028.

A summary of future payments on bonds payable as of December 31, 2006, follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 0	\$ 2,488,495	\$ 2,488,495
2008	0	2,488,495	2,488,495
2009	0	2,488,495	2,488,495
2010	0	2,488,495	2,488,495
2011	0	2,488,495	2,488,495
2012-2016	0	12,422,475	12,422,475
2017-2021	9,955,000	11,527,475	21,482,475
2022-2026	20,690,000	7,030,860	27,720,860
2027-2028	<u>10,150,000</u>	<u>937,875</u>	<u>10,087,875</u>
Total	<u>\$40,795,000</u>	<u>\$44,361,160</u>	<u>\$85,156,160</u>

Report on Control and Compliance ■

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the Wisconsin State Fair Park as of and for the year ended June 30, 2007, and have issued our report thereon dated June 30, 2008. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the State Fair Park Exposition Center, Inc., as described in our report on Wisconsin State Fair Park's financial statements. The financial statements of the State Fair Park Exposition Center, Inc., were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the Wisconsin State Fair Park's internal control over financial reporting 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 Wisconsin State Fair Park's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Wisconsin State Fair Park's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, as discussed in the following paragraphs, we identified certain deficiencies in internal control over financial reporting 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. We identified two deficiencies that we consider to be significant deficiencies in internal control over financial reporting.

First, State Fair Park's process for preparing, reviewing, and approving the financial statements was not effective in ensuring that the financial statements were free of material errors. As a result, State Fair Park did not prevent or detect misstatements in the financial statements. We identified the following material errors in the financial statements:

- On the Statement of Net Assets, \$4.8 million in long-term liabilities related to the Pettit Center were inappropriately included in the determination of the amount reported as "Invested in Capital Assets, Net of Related Debt." As a result, "Invested in Capital Assets, Net of Related Debt" was understated by \$4.8 million and "Unrestricted Net Assets" were overstated by the same amount.
- Proceeds of \$4.7 million from the sale of the Pettit Center were reflected as a cash flow from operating activities, rather than as proceeds from the sale of capital assets in the cash flows from capital and related financing section of the Statement of Cash Flows.
- \$1.4 million in additions to capital assets was inappropriately reported as a reduction of the amount of proceeds from the sale of capital assets, in the cash flows from capital and related financing activities section of the Statement of Cash Flows.
- \$3.7 million in "Due from Other Funds" was inappropriately reported as a current asset on the Statement of Net Assets. The "Due from Other Funds" account relates to amounts due from the State's Bond Security and Redemption Fund for payment of future annual debt service on the Pettit Center and should have been reflected as a noncurrent asset.

Management corrected the errors in the financial statements and noted that in the future, it will coordinate the reporting of non-recurring transactions, such as the sale of the Pettit Center, with staff in the State Controller's Office or it will devote the necessary time to research appropriate presentation of unique transactions. In addition, management indicates plans to conduct additional analytical reviews before the financial statements are provided to the auditors.

Second, duties related to the collection of receipts are not properly separated to reduce the risk of errors or misappropriation of assets and to detect such activities if they do occur. State Fair Park receives money from vendors and others on a regular basis, including payments for event billings, ticket sales, and space rentals. The financial specialist who is responsible for record-keeping over the receipting process also receives cash and checks and has access to enter, correct, and remove transactions from the accounts receivable system.

Management agrees to implement controls to improve the receipting process, such as requiring that a second employee reconcile transactions in the accounts receivable ledger to deposits in the bank account. Further, management plans to review the entire receipting process after the 2008 fair to identify cost-effective procedures to increase security and accountability.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results 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. Of the significant deficiencies described above, we consider the concerns noted with State Fair Park's process for preparing, reviewing, and approving the financial statements to be a material weakness.

COMPLIANCE AND OTHER MATTERS


As part of obtaining reasonable assurance about whether the Wisconsin State Fair Park's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Wisconsin State Fair Park's written responses to the findings identified are described in the preceding paragraphs. We did not audit the Wisconsin State Fair Park's responses and, accordingly, express no opinion on them.

This independent auditor's report is intended for the information and use of the Wisconsin State Fair Park Board and management, and the Wisconsin Legislature. This independent auditor's report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. However, because we do not express an opinion on the effectiveness of the Wisconsin State Fair Park's internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

June 30, 2008

LEGISLATIVE AUDIT BUREAU

by 
Carolyn Stittleburg
Audit Director

Appendix 1

Other Financial Information: Pettit Center and Wisconsin Exposition Center

Pettit Center

The Pettit Center's financial results are not reported in State Fair Park's financial statements because the facility is owned by a private not-for-profit corporation, and it is not controlled by State Fair Park. The Pettit Center facility was sold to the Pettit National Ice Center, Inc., a private not-for-profit corporation, on January 5, 2007. The proceeds from the sale of the Pettit Center, plus interest earnings, were designed to provide for the debt service costs on that facility. At the end of FY 2006-07, \$5.6 million in debt service costs were outstanding, and \$4.7 million in sales proceeds were available in the State's Bond Security and Redemption Fund to pay future debt service costs. The difference is expected to be funded by interest earnings on the sales proceeds. However, if interest earnings on the sales proceeds are lower than expected, State Fair Park will be required to use its program revenues to fund the shortfall.

One of the terms of the sale of the Pettit Center was to provide the State with the first option to repurchase the Pettit Center should the not-for-profit corporation choose to sell it. State Fair Park included a provision in its 2007-09 capital budget request for \$5.3 million in program revenue-supported bonding authority to finance this option. However, the Legislature did not include funding for this purchase as part of the 2007-09 biennial budget.

Wisconsin Exposition Center

Construction of the Exposition Center was financed with \$44.9 million in industrial revenue bonds issued by the City of West Allis. This debt is expected to be repaid by revenue generated from the Exposition Center. In 2007, the Exposition Center finalized a refinancing agreement with a private lender, which lowered the interest rate and required the Exposition Center to begin making principal payments to a bond sinking fund in 2017. The entire principal balance is due when the bonds mature in 2028. The annual debt service payment is expected to decline by \$60,000 each year as a result of the refinancing.

We did not focus on the Wisconsin Exposition Center in this audit but note that the financial statements, which were audited by a private firm, indicated continued and worsening deficits. As of December 31, 2006, the deficit was \$2.3 million, an increase of \$945,000 from December 31, 2005. Without an increase in revenue, financial support from state or local governments may be necessary in order for the Exposition Center to remain viable.

Because the finances of both the Pettit Center and the Wisconsin Exposition Center warrant close scrutiny, we will continue to monitor the status of these entities in future audits.

Appendix 2

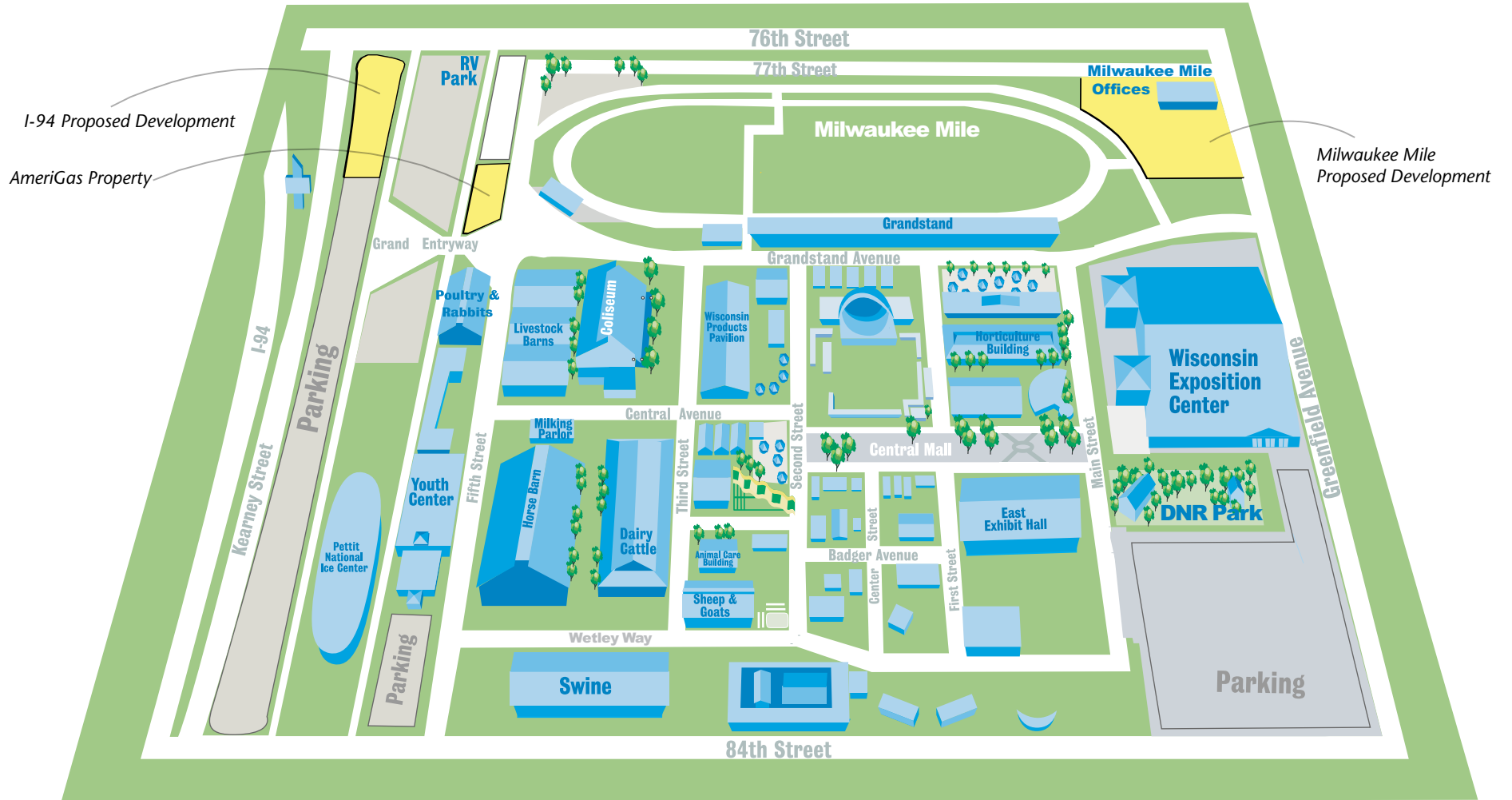
**Current Schedule of Milwaukee Mile
License Fees and Deferrals¹**

Year	Annual License Fee	Deferred Payment ²	Current License Fee Payment	Cumulative Deferrals
2008	\$1,003,655	\$303,655	\$ 700,000	\$ 303,655
2009	1,003,655	278,655	725,000	582,310
2010	1,003,655	253,655	750,000	835,965
2011	1,003,655	228,655	775,000	1,064,620
2012	1,003,655	203,655	800,000	1,268,275
2013	1,003,655	159,655	844,000	1,427,930
2014	1,003,655	113,235	890,420	1,541,165
2015	1,003,655	64,262	939,393	1,605,427
2016	1,003,655	12,595	991,060	1,618,022
2017	1,003,655	(41,913)	1,045,568	1,576,109
2018	1,003,655	(99,419)	1,103,074	1,476,690
2019	1,003,655	(160,088)	1,163,743	1,316,602
2020	1,003,655	(224,094)	1,227,749	1,092,507
2021	1,003,655	(291,620)	1,295,275	800,887
2022	1,003,655	(362,861)	1,366,516	438,026
2023	1,003,655	(438,026)	1,441,674	0
Totals	\$16,058,480		\$16,058,480	

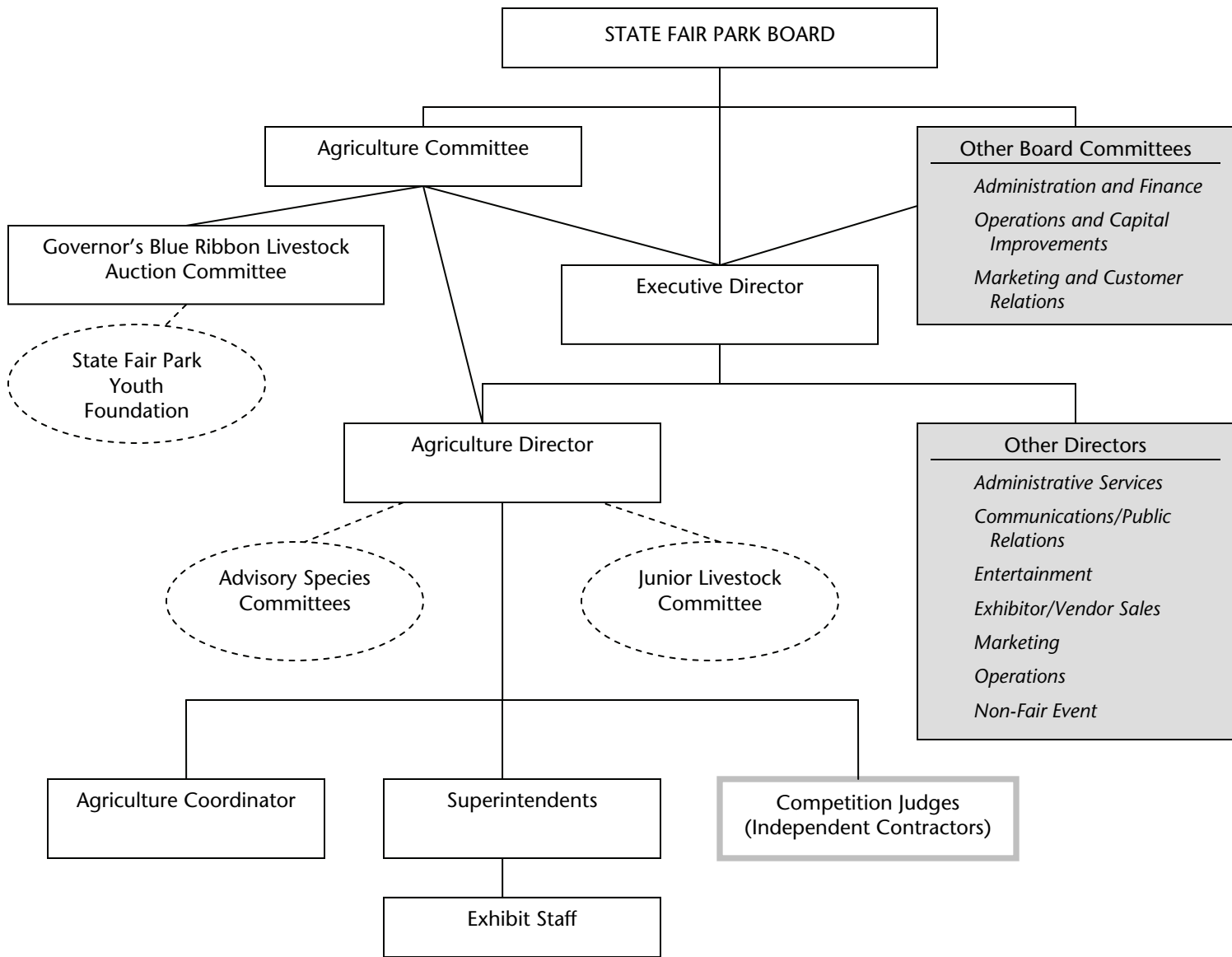
¹ Table does not include the \$400,000 deferral from 2007 that will be repaid at a rate of \$25,000 per year and is payable on June 19 of each year.

² If operations end before 2023, all outstanding deferrals must be paid by June 19 in the last year of operations.

Wisconsin State Fair Park



Organizational Structure



Appendix 5

Comparison of Midwestern State Fairs

	Wisconsin State Fair	Illinois State Fair	Iowa State Fair	Minnesota State Fair
Entity Structure	State agency— State Fair Park	Part of Illinois Department of Agriculture	Quasi-State Agency—Iowa State Fair Authority	Quasi-State Agency—Minnesota State Agricultural Society
Oversight	Oversight provided by a 13-member board	N/A	Oversight provided by a 13-member board	Oversight provided by a 10-member board
2007 attendees	801,420	613,110	1,002,464	1,681,678
Name of Junior Livestock Auction	Governor’s Blue Ribbon Livestock Auction	Governor’s Sale of Champions	Sale of Champions	4H Purple Ribbon Livestock Auction
Junior Livestock Auction Exhibitors	28	7	14	94
Livestock Auction Buyers	69	15	48	525 ²
2007 Junior Livestock Auction Proceeds	\$156,250	\$104,050	\$297,000	\$280,000
Highest Individual Bid in 2007 ¹	\$35,000	\$45,000	\$40,000	\$13,700
2007 Payout Structure	80% of proceeds to winning exhibitors, 20% maintained by Wisconsin State Fair Youth Foundation for scholarships and auction related expenses	80% of proceeds to winning exhibitor, 10% each to 4H and FFA organizations	80% of proceeds to winning exhibitors, 20% maintained by Iowa Foundation for Agriculture Advancement for scholarships	80% of proceeds to winning exhibitors, 20% to Minnesota Livestock Association for programming and scholarships.

¹ The actual amount paid to the exhibitor depends on the auction payout structure.

² Represents total buyers, however, several buyers typically consolidate as a group to bid and purchase an animal.

Wisconsin State Fair Park Board
Resolution Number 014-07

Resolution stating Board policy on ethical conduct of employees and conflicts of interest.

WHEREAS, as identified in Article 3.01(2)-Board Responsibilities, Rules of Procedures of the State Fair Park Board, the Wisconsin State Fair Park Board shall provide overall direction and shall adopt such policies as are necessary for the management of State Fair Park including the supervision and conduct of fairs, exhibits and promotional events at State Fair Park; and

WHEREAS, the Wisconsin State Fair Park Board has determined that it is in the best interest of State Fair Park and its employees to have clear statements as to appropriate employee conduct. Now, therefore be it

RESOLVED that the Wisconsin State Fair Park Board approves the following standards for Wisconsin State Fair Park employee conduct regarding ethical behavior and conflicts of interest:

1. The conduct of persons employed by the Wisconsin State Fair Park shall comply in all respects to the State of Wisconsin's Code of Ethics, Chapter ER-MRS 24, CODE OF ETHICS.
2. Employees shall avoid direct, indirect and apparent conflicts of interest. Such conflicts often occur when an employee's private interest, usually of a personal financial or beneficial nature, is contrary to or in some way undermines his or her job duties and responsibilities.
3. Employees hold a position of public trust and shall not use their positions for personal gain, whether that gain is financial or otherwise. Employees shall not receive compensation other than from their job as a Wisconsin State Fair Park employee for services rendered in any matters that affect any outcome at State Fair Park.
4. Employees shall not directly or indirectly solicit, accept, or agree to accept from another person or entity anything of value that would, or would appear to, influence them in the performance of their job or create an opportunity for the commission of fraud against the State.
5. Employees shall not participate in any business transacted between the Wisconsin State Fair Park and private concerns in which the employee or his or her spouse, children, parents, siblings and other persons permanently residing in the employee's household have a financial or beneficial interest.
6. Employees and certain members of their family shall not be allowed to own or exhibit any animals or articles in any competition or competitive event in which the employee is involved in either the management (defined as having a role in determining eligibility of entries or having direct or apparent authority over those that determine eligibility) or judging (defined as having a role in the selection of a judge, actual judging, the appeals process after judging is complete or having direct or apparent authority over those in these positions). Family members shall be defined as spouse, children, parents, siblings and other persons permanently residing in the employee's household.

7. All outside employment or activity is subject to direct and indirect official control, inspection, review, and audit. Employees must obtain prior written approval from the Executive Director for any outside employment or activity. The Executive Director must obtain prior written approval from the Administrative and Finance Committee for any outside employment or activity conducted by him or her.

Approval shall not be provided for any outside employment or activity which is in conflict with an employee's duties and responsibilities at State Fair Park. Employees shall submit an annual report on outside employment and activity, which shall include a statement certifying that outside employment and activities do not conflict with employment duties and responsibilities, by June 30th of each year to the Executive Director. The Executive Director shall submit an annual report on outside employment and activity, which shall include a statement certifying that outside employment and activities do not conflict with employment duties and responsibilities, by June 30th of each year to the Administrative and Finance Committee.

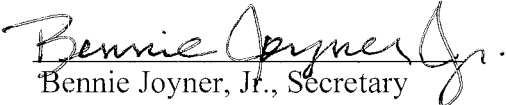
The Executive Director shall submit a report to the Board of Directors by June 30th of each year that identifies instances of noncompliance with the outside employment and activity policy and a list of outside employment and activity requests that were denied, including the reason(s) for denial. Now, therefore be it

FURTHER RESOLVED that the Executive Director take all actions necessary to effectively implement this policy, including updating rules and regulations for each competitive program operated as part of the State Fair as well as other activities and events produced or undertaken by State Fair Park. Changes to rules and regulations shall be submitted for approval by the appropriate Wisconsin State Fair Park Board committee and special advisory committee by January 31, 2008. Now, therefore be it

FURTHER RESOLVED that one of the rules submitted for approval be a requirement that any ownership or beneficial interest by a State Fair Park employee in any entry in a competitive event be disclosed in entry or other documents. Now, therefore be it

FURTHER RESOLVED that the State Ethics Board shall be contacted for an opinion in situations where there is a significant concern over the application of this policy including its rules and regulations.

Attested to by:


Bennie Joyner, Jr., Secretary

September 17, 2007



Wisconsin State Fair Park

July 3, 2008

Janice Mueller, State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703

Dear Ms. Mueller:

Thank you for the comprehensive audit of State Fair Park. It is good to know that there were no issues that came to your attention during the audit that were not already publicly disclosed and already being addressed by the Fair Park staff. Speaking for the Wisconsin State Fair Park Board and staff, we appreciate the independent analyses completed by your very professional auditors and look forward to implementing all of their recommendations as a means to continue to improve Fair Park operations.

After six years of losses, State Fair Park generated \$1.3 million more in revenues than it spent in fiscal year (FY) 2006-07 and was able to reduce its cumulative deficit by \$1.5 million. Further, even after providing a \$1.1 million concession to track promoters in FY 2007-08, the Fair Park expects to generate at least a \$400,000 surplus in the current fiscal year just ended. Nevertheless, two years of excellent performance does not mean the Fair Park's financial problems are solved. With an expected \$9.5 million cumulative deficit remaining when the books for FY 2007-08 are closed, the Fair Park must continue to exercise restraint in its expenditures and be creative in generating new revenue while maintaining the quality and affordability of the annual State Fair. I look forward to reporting to the Legislature's Joint Audit Committee by March 31, 2009 on current and future initiatives to increase revenues, control costs and reduce the cumulative deficit over time.

In order to host and operate animal shows during the State Fair, the two permanent agricultural department employees and many of the limited term employees hired for the State Fair must be familiar with the agricultural industry. Many have or do work in the industry. While this ensures competent show management, it also raises potential conflicts of interest for those involved. Examples of potential and perceived conflicts include determining entry eligibility, evaluating appeals and selecting judges. In recognition of this, the Wisconsin State Fair Park Board adopted an ethics policy in September 2007 and at the same time, created a special ethics committee to develop reporting standards and a process for evaluating and addressing potential conflicts.

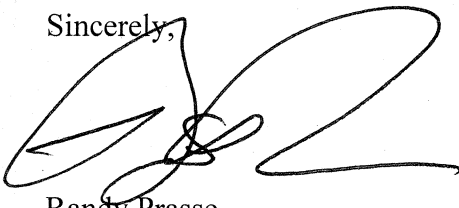
Ms. Mueller
July 3, 2008
Page 2

Because the Fair Park Agriculture Director maintains a family cattle enterprise, his outside activities must be closely reviewed to ensure potential conflicts are eliminated or compensated for in one way or another. After reviewing the Agriculture Director's *Outside Employment Request* form and the details of each request, I decided it would be prudent if an independent entity with specific expertise, such as the Government Accountability Board (formerly the State Ethics Board), also evaluated it. Without benefit of considering the Agriculture Director's actual completed *Outside Employment Request* approval form, the Legislative Audit Bureau came to a similar conclusion. The Agriculture Director's outside activity request report will be submitted to the Government Accountability Board for review and the results of its evaluation will be shared with the Legislative Audit Bureau.

Often times, programs operate for many years in the same way while external circumstances change. At a point, and sometimes as a result of a fresh perspective, it becomes obvious that significant improvements are needed to come into step with current conditions. State Fair Park found itself in such a situation concerning its agricultural programming several years ago and has been making necessary changes ever since. However, the methods used to make decisions have varied. The audit report underscores the Wisconsin State Fair Park Board's directives to develop written policies and procedures as well as taking whatever actions are necessary to clarify the roles of the Board's Agricultural Committee, Governor's Blue Ribbon Livestock Auction Committee, various industry association advisory committees and other interested parties so the decision process for changing competition rules, selecting judges and operating the livestock auction is consistent, decisions are appropriately approved and the process is transparent. The Fair Park will continue the initiatives that it has underway to resolve these issues, which will also address recommendations made in the audit report.

Again, I would like to thank you and your staff for their contributions to the financial stability of State Fair Park and its good management practices.

Sincerely,

A handwritten signature in black ink, appearing to read 'Randy Prasse', with a large, stylized flourish extending to the right.

Randy Prasse
Executive Director