

Report 06-7
June 2006

An Audit

State Fair Park

2005-2006 Joint Legislative Audit Committee Members

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Map of Wisconsin State Fair Park

Response

From the Executive Director of State Fair Park



STATE OF WISCONSIN

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State Auditor

June 23, 2006

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler 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) 2004-05 financial statements and have continued to monitor its financial condition and efforts to improve its financial performance.

State Fair Park's expenditures have exceeded revenues in each year since FY 1999-2000. In FY 2004-05, it reported a loss of \$3.6 million, and its accumulated cash deficit increased to \$9.7 million.

In an attempt to limit future losses, State Fair Park has entered into an agreement that licenses a private promoter to operate the Milwaukee Mile racetrack. The promoter is responsible for all future racetrack improvements and will provide annual license fees to fund State Fair Park's debt service costs related to prior racetrack improvements. However, State Fair Park will continue to incur racing-related costs of nearly \$1.8 million in 2006.

The Pettit Center, which is owned by State Fair Park but operated by a not-for-profit corporation, has reported net losses in each of the past five years. By June 30, it is expected to owe State Fair Park \$1.3 million in past-due rent, which was intended to cover debt service costs that State Fair Park pays on the Center's behalf. Legislation to sell the Pettit Center to its not-for-profit corporation was introduced but not enacted during the most recent legislative session. As proposed, the sale would have required \$2.6 million in general purpose revenue to fund future debt service costs related to the Pettit Center.

State Fair Park continues to pursue the option of selling the Pettit Center. Decisions regarding future state support may be needed if the Wisconsin Exposition Center continues to experience cash flow difficulties and if further capital improvements are proposed for the fairgrounds.

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 appendix.

Respectfully submitted,

A handwritten signature in black ink that reads "Janice Mueller".

Janice Mueller
State Auditor

JM/JG/ss

Report Highlights ■

State Fair Park's financial condition continues to deteriorate.

Under a new agreement with a private promoter, State Fair Park no longer manages racing activities at the Milwaukee Mile.

State Fair Park has proposed selling the Pettit Center to limit future demands on the fairgrounds' financial resources.

Eliminating State Fair Park's current cash deficit may require at least 20 years.

State Fair Park, the 190-acre fairgrounds located in West Allis and Milwaukee, has been home to the Wisconsin State Fair since 1892. That annual event remains its primary source of funding, but its financial condition is also affected by:

- racing activities at the Milwaukee Mile racetrack and grandstand, which were managed by a private promoter until May 2003 and by State Fair Park from that date through December 2005;
- the Pettit National Ice Center, a United States Olympic training facility that is owned by State Fair Park but operated by a private not-for-profit corporation; and
- the Wisconsin Exposition Center, which is owned by a not-for-profit organization, used exclusively for the Wisconsin State Fair each August, and available for other events throughout the year.

The State Fair Park Board, which is attached to the Department of Tourism for administrative purposes, is responsible for State Fair Park's management. We are required by statutes to perform an annual financial audit of State Fair Park.

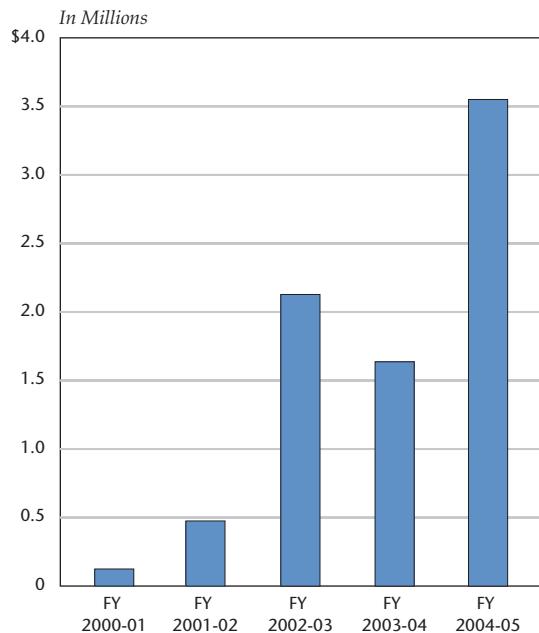
We have issued an unqualified audit opinion on State Fair Park's fiscal year (FY) 2004-05 financial statements, which are included in our report. We also followed up on concerns raised in previous audit reports regarding State Fair Park's financial condition.

Fiscal Decline

Since FY 1999-2000, State Fair Park's annual expenditures, including operating, capital, and debt service costs, have exceeded total revenues. As shown in Figure 1, the \$3.6 million loss reported in FY 2004-05 was the largest in recent years.

Figure 1

State Fair Park Annual Deficit FY 2000-01 through FY 2004-05



Final financial data are not yet available for FY 2005-06, but State Fair Park officials project a loss of \$2.0 million. State Fair Park's program revenue appropriation accumulated a cash deficit of \$9.7 million as of June 30, 2005.

State Fair Park is projected to save \$493,000 in FY 2005-06 because of cost-saving measures that include eliminating some staff positions and consulting contracts. Furthermore, agency officials have made a priority of changing State Fair Park's relationships with the Milwaukee Mile and the Pettit Center, which in recent years have placed significant demands on State Fair Park's financial resources.

The Milwaukee Mile

Under State Fair Park's management, Milwaukee Mile losses totaled nearly \$7.3 million over a three-year period. State Fair Park staff attribute these losses to increases in debt service costs and a limited fan base for some races. Debt service payments related to construction of the grandstand and other projects increased from nearly \$706,900 in 2003 to more than \$1.9 million in 2005. One major racing event draws near sell-out crowds, but others do not generate the same fan support.

We also found examples of poor business planning. For example, the State Fair Park Board did not adopt a 2005 draft plan prepared by the Milwaukee Mile's general manager because it contained overly optimistic financial projections. The plan projected a 40.7 percent increase in revenues from admissions, concessions and parking, and sponsorships and naming rights, from \$6.7 million in the 2004 racing season to nearly \$9.5 million in 2005. Actual 2005 racing revenues totaled \$7.1 million. Milwaukee Mile staff were not directed to develop revised projections or to identify new operational or management strategies to achieve those projections.

In December 2005, State Fair Park entered into a license agreement with a private promoter, Milwaukee Mile Holdings, LLC, to manage the fairgrounds' racing activities. The agreement:

- guarantees that State Fair Park will be able to use the Milwaukee Mile premises for the Wisconsin State Fair;
- requires Milwaukee Mile Holdings to assume responsibility for all future capital improvements and maintenance to the premises;
- provides for a land exchange involving State Fair Park property and other property that is surrounded by the fairgrounds and currently owned by a third party; and
- requires the promoter to provide annual license fees to State Fair Park and to guarantee their payment through a letter of credit.

State Fair Park's debt service costs for past Milwaukee Mile capital improvements were the starting point for negotiating the license fee amounts. In consideration of losses expected to be incurred by Milwaukee Mile Holdings during the first year, State Fair Park will provide a one-time license fee reduction of \$1.5 million in 2006. As shown in Table 1, we estimate that State Fair Park will also incur almost \$300,000 in other costs related to the Milwaukee Mile.

Table 1
State Fair Park's 2006 Milwaukee Mile Costs

	Amount
One-time Fee Reduction	\$1,500,000
Debt Service Costs	179,000
Letter of Credit Fee	73,000
Municipal Fees	25,800
Other	14,900
Total Costs	\$1,792,700

The Pettit Center

The Pettit Center's expenses have exceeded revenues in each of the past five years. By June 30, 2006, the Pettit Center is also expected to owe State Fair Park \$1.3 million in past-due rent, which was intended to cover debt service costs that State Fair Park pays on the Pettit Center's behalf.

To limit future demands the Pettit Center may place on the fairgrounds' financial resources, the State Fair Park Board resolved in June 2005 to sell the facility to its managing not-for-profit corporation. Legislation to authorize that sale for not less than \$5.0 million was introduced but not enacted during the most recent legislative session.

Under the proposed legislation, State Fair Park would have received all past-due rent. The remaining proceeds from the sale would have been used to fund future debt service payments related to the Pettit Center. State Fair Park staff estimated that with interest earnings, that amount would increase to \$3.9 million.

However, future debt service costs are expected to be nearly \$6.5 million. Under the proposed legislation, \$2.6 million in general purpose revenue (GPR) would have funded those remaining debt service costs.

State Fair Park officials intend to continue their efforts to sell the Pettit Center. Doing so would eliminate debt service, municipal service, and other costs that State Fair Park incurs on its behalf, as well as future liability for major capital improvements to a facility that is now 14 years old.

Pettit Center officials believe that owning the facility will improve their fund-raising abilities and reduce expenses. However, we believe future sales proposals should consider the amount of public support that may be needed, the State's ability to repurchase the Pettit Center if it is unable to remain financially viable without State Fair Park support, and the price at which the facility could be reacquired.

Proposed Future Changes

As options are explored to improve State Fair Park's financial condition, we believe careful consideration will also need to be given to State Fair Park's cash deficit, the future financial viability of the Wisconsin Exposition Center, and any future construction projects that are proposed for the fairgrounds.

State Fair Park currently projects a profit of \$537,000 in FY 2006-07. This projection assumes that all Pettit Center rent will be received, which may be difficult to achieve. However, even if this profit level is achieved and maintained, it will take State Fair Park more than 20 years to eliminate its cash deficit, which is projected to be \$11.7 million as of June 30, 2006.

In addition, the Exposition Center—which was funded with \$44.9 million in industrial revenue bonds issued by the City of West Allis—has experienced net losses in each year of its operation and has paid some expenses with reserves set aside from the original bond proceeds. Exposition Center officials are working with a commercial lender to refinance the industrial revenue bonds. While this may alleviate cash flow concerns in the short term, exposition centers generally require financial support from state or local governments. Decisions regarding the need to provide some level of state or local support may be needed in the long term.

Finally, with significant capital projects in recent years that have not met initial financial projections, State Fair Park's annual debt service payments have contributed to its annual losses. Debt service payments funded with program revenues have increased 60.0 percent from FY 2000-01, to \$3.2 million in FY 2004-05. Future projects to further increase program revenue–funded debt service costs will need to be closely scrutinized.

Recommendation

We include a recommendation for State Fair Park to:

- report to the Joint Legislative Audit Committee by January 1, 2007, on its short- and long-term plans for stabilizing its financial condition (*p. 34*).

■ ■ ■

Introduction ■

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

Attendance fees and other revenues from the Wisconsin State Fair, which is held each August, are State Fair Park's primary source of funding. However, racing activities have also affected its financial operations significantly. The Milwaukee Mile racetrack and grandstand seating area, which encompass more than one-quarter of the fairgrounds' physical space, were managed by a private racing contractor until May 2003, at which time State Fair Park began to manage them directly. In December 2005, State Fair Park ceased direct management and chose to again enter into a license agreement with a private racing promoter to operate the Milwaukee Mile.

In addition, State Fair Park's financial operations are closely tied to two not-for-profit corporations that operate facilities located on the fairgrounds:

- The Pettit National Ice Center is owned by State Fair Park but leased and operated by a not-for-profit corporation whose board is independent of the State Fair Park Board.
- The Wisconsin Exposition Center is owned and governed by a not-for-profit corporation created by the State Fair Park Board. The Exposition Center's governing board includes the chair and one additional member of the State Fair Park Board.

The 2003-05 Biennial Budget Act established State Fair Park's FY 2004-05 operating budget at \$16.4 million. This amount was later increased by legislative action to \$25.0 million, in consideration of costs incurred for the Milwaukee Mile when State Fair Park assumed the operational responsibilities for racing. State Fair Park's appropriation for the 2005-07 biennium is \$21.3 million, including \$4.6 million to operate and maintain the Milwaukee Mile in FY 2005-06.

For the 2003-05 biennium, State Fair Park's authorized staffing was reduced from 45.2 to 30.2 full-time equivalent employees: 9 positions were eliminated in FY 2003-04, and 6 in FY 2004-05. However, only one employee was laid off because 10.4 eliminated positions were already vacant, and 3.6 were vacated voluntarily. For the 2005-07 biennium, staffing was further reduced by 1.8 positions because of the consolidation of human resources and payroll functions within the Department of Administration. State Fair Park also employs approximately 1,500 limited-term employees. Most work exclusively during the 11-day Wisconsin State Fair.

We have provided an unqualified audit opinion on State Fair Park's FY 2004-05 financial statements.

Under the provisions of 1999 Wisconsin Act 197, the Legislative Audit Bureau must perform an annual financial audit of State Fair Park. We have issued an unqualified opinion on the FY 2004-05 financial statements, which are included in this report. In addition, we have continued to monitor State Fair Park's financial position and its efforts to improve its financial performance.

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.

An executive director is responsible for State Fair Park's day-to-day operations. Before October 2001, the executive director was a state employee appointed by the State Fair Park Board. From October 2001 to August 2004, a private consultant working under contract with the State Fair Park Board managed the fairgrounds. In December 2004, the State Fair Park Board again appointed an executive director through the State's unclassified employment system. The new executive director is currently paid \$91,800 annually.

State Fair Park Finances

In previous audits, we reported that State Fair Park's financial condition had deteriorated because operating costs increased at a greater rate than revenues. The deficit increased significantly in FY 2004-05, as operating costs continued to exceed revenues. To address its deteriorating financial condition, State Fair Park has implemented various cost-saving and revenue-enhancing initiatives.

Revenues and Expenditures

Expenditures exceeded revenues by nearly \$3.6 million in FY 2004-05.

Total annual expenditures—which include operating, capital, and debt service costs—have exceeded total revenues since FY 1999-2000. As shown in Table 2, the largest loss in recent years occurred in FY 2004-05, when expenditures exceeded revenues by nearly \$3.6 million, primarily because Milwaukee Mile revenues were not sufficient to cover operating and capital expenditures of \$7.8 million and debt service costs of \$1.9 million. In addition, rental payments from the Pettit National Ice Center have consistently been less than the debt service costs State Fair Park pays on bonds that financed that facility's construction. In FY 2004-05, the Pettit Center paid rent of approximately \$552,500, which was \$110,500 less than the amount owed.

Table 2

State Fair Park's Revenues and Expenditures¹

Fiscal Year	Revenues	Expenditures ²	Revenues Less Expenditures
2000-01	\$15,920,033	\$(16,044,593)	\$ (124,560)
2001-02	15,271,172	(15,746,449)	(475,277)
2002-03	15,918,264	(18,046,226)	(2,127,962)
2003-04	19,890,268	(21,527,200)	(1,636,932)
2004-05	20,994,949	(24,545,774)	(3,550,825)

¹ Data are provided on a budgetary basis of accounting.² Expenditures exclude statutorily required lapses to the State's General Fund.

State Fair Park has lapsed nearly \$2.8 million to the State's General Fund since FY 2002-03.

Furthermore, as a result of actions to address the State's deficit, State Fair Park was required to lapse \$2.4 million in program revenue to the State's General Fund in FY 2002-03, and nearly \$200,000 in each of the two subsequent fiscal years. As shown in Table 3, these lapses increased State Fair Park's overall deficit in each of the last three years, and in FY 2004-05 the overall deficit exceeded \$3.7 million.

Table 3

State Fair Park's Overall Deficits

	Revenues Less Expenditures	Lapses to General Fund	Overall Annual Loss
FY 2000-01	\$ (124,560)	–	\$ (124,560)
FY 2001-02	(475,277)	–	(475,277)
FY 2002-03	(2,127,962)	\$(2,400,000)	(4,527,962)
FY 2003-04	(1,636,932)	(179,700)	(1,816,632)
FY 2004-05	(3,550,825)	(186,000)	(3,736,825)

Although final financial data are not yet available for FY 2005-06, State Fair Park reported revenues of \$15.8 million and expenditures

of \$19.1 million through May 2006. Revenues related to the 2006 Wisconsin State Fair are expected to reduce this \$3.3 million difference, but State Fair Park staff anticipate reporting an overall deficit of \$2.0 million for FY 2005-06.

State Fair Park reported a cumulative cash deficit of \$9.7 million as of June 30, 2005.

Another important indicator of State Fair Park's poor financial condition is its increasing cash deficit. State Fair Park's program revenue appropriation accumulated a cash deficit of \$6.0 million as of June 30, 2004, which increased to \$9.7 million as of June 30, 2005. 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.

Cost-Saving and Revenue-Enhancing Initiatives

Recent cost-saving initiatives are projected to save \$493,000 in FY 2005-06.

To improve its financial condition, State Fair Park has implemented various cost-saving initiatives and sought additional revenue from new sponsorship agreements. As part of its initiatives to reduce costs:

- State Fair Park negotiated with the City of West Allis to keep municipal service fees at the FY 2004-05 level until FY 2009-10 and to eliminate additional charges for city fire department services during the Wisconsin State Fair. State Fair Park staff estimate these negotiations will save \$75,000 in FY 2005-06.
- Three full-time police officer positions were eliminated, and overtime for the remaining police and security staff has been controlled, which should save \$75,000 in FY 2005-06.
- State Fair Park's permanent employee costs were reduced through the elimination of paid overtime for unclassified employees and the elimination of six state positions in FY 2004-05. While the loss of the positions has required State Fair Park to contract for some services, net savings are expected to be \$125,000 in FY 2005-06.
- State Fair Park implemented additional staffing strategies, such as scheduling fewer staff, utilizing shorter shifts, and using volunteer labor, which are expected to save \$120,000 in part-time labor costs during FY 2005-06.

- The consulting contract for a fair manager has been eliminated, and State Fair Park's executive director will assume those duties. State Fair Park staff expect savings of \$40,000 from these changes in FY 2005-06.
- Various efforts have been undertaken to reduce energy costs and other office expenses, which are expected to save \$58,000 in FY 2005-06.

State Fair Park has also made efforts to increase revenues by obtaining new sponsorships and naming rights for fairground attractions and capital assets, such as buildings, gates, and streets. Through May 2006, State Fair Park's sponsorship revenue of \$1.9 million exceeded the amount reported for all of FY 2004-05 by \$239,000.

Reducing general operating expenditures and attracting additional revenue from sponsorships are important steps in improving State Fair Park's financial condition. However, both the Milwaukee Mile and the Pettit Center have significantly and negatively affected the fairgrounds in recent years, and changing State Fair Park's relationships with these entities has been a priority for agency officials.



The Milwaukee Mile ■

The Milwaukee Mile's management structure has undergone significant changes in recent years. In May 2003, when State Fair Park terminated its contract with a private promoter and decided to manage and promote the racetrack internally, officials believed that doing so would increase revenues and eliminate financial losses from racing activities. However, internal management did not end the financial losses. Therefore in December 2005, State Fair Park entered into a license agreement that transferred responsibility for operating the Milwaukee Mile to a private promoter for the 2006 racing season.

Milwaukee Mile Financial Condition

Under State Fair Park's management, the Milwaukee Mile reported losses totaling \$7.3 million.

Concerns regarding the Milwaukee Mile's financial condition were initially expressed when racing revenues under a private promoter declined significantly between the 2001 and 2002 racing seasons. However, losses continued while the Milwaukee Mile was under State Fair Park's management. As shown in Table 4, losses totaled nearly \$7.3 million by the end of calendar year 2005. State Fair Park staff attribute these losses to increases in debt service costs and a limited fan base for some races, but we also found examples of poor business planning.

Table 4

Milwaukee Mile Losses
 (While under State Fair Park Management)

Calendar Year	Losses
2003 ¹	\$ 693,600
2004	3,655,200
2005	2,904,600
Total Losses	\$7,253,400

¹ Estimated.

Milwaukee Mile debt service payments increased to \$1.9 million in calendar year 2005.

Milwaukee Mile construction projects have resulted in debt service payments more than doubling in recent years, from nearly \$706,900 in calendar year 2003 to more than \$1.9 million in calendar year 2005. For example, the Milwaukee Mile's original grandstand was razed in September 2002 in response to concerns that it was unsafe and did not provide the amenities desired for racing events. A new grandstand was completed in May 2003 at a total cost of \$20.5 million. Furthermore, through the 2005-07 biennial budget process, an additional \$1.2 million was approved for safety improvements mandated by racing sanctioning bodies.

One major racing event held at the Milwaukee Mile has a large local fan base and typically draws near sell-out crowds, but the same support does not currently exist for the other major events, which involve open-wheel racing. Without a strong fan base, admissions revenue has not increased in the short term.

The State Fair Park Board did not approve a 2005 budget for the Milwaukee Mile.

In prior audit reports, we recommended that State Fair Park develop a comprehensive business plan that includes strategies to improve profitability, as well as reasonable financial projections for Milwaukee Mile racing activities. The Milwaukee Mile's general manager and staff developed a 2005 business plan that was not adopted by the State Fair Park Board because it contained overly optimistic financial projections. However, Milwaukee Mile staff were not directed to develop revised projections or to identify operational or management strategies to achieve those projections.

The draft 2005 business plan for the Milwaukee Mile projected a 40.7 percent increase in total revenues, from the \$6.7 million generated in the 2004 racing season to nearly \$9.5 million in 2005.

However, as shown in Table 5, actual revenues totaled only \$7.1 million. Although revenue from sponsorships and naming rights exceeded 2004 levels, reaching a total of \$1.6 million, admissions revenue declined from \$3.3 million in the 2004 racing season to \$3.0 million in 2005. As a result, the Milwaukee Mile reported a 2005 net loss of \$2.9 million.

Table 5
Milwaukee Mile Revenues and Expenses

	2004	2005
Revenues:		
Admissions	\$3,348,900	\$3,027,100
Concessions, Parking, and Other Revenues	2,210,500	2,475,500
Sponsorships and Naming Rights	1,176,100	1,619,700
Total Revenues	6,735,500	7,122,300
Expenses:		
Operating Expenses	(8,541,900)	(8,092,400)
Debt Service Expenses	(1,848,800)	(1,934,500)
Net Profit/(Loss)	\$ (3,655,200)	\$ (2,904,600)

State Fair Park began seeking a private promoter for the Milwaukee Mile late in 2004.

State Fair Park began to reassess the long-term organizational structure of its racing activities and management structure after experiencing continued financial losses. Officials believed that licensing the Milwaukee Mile to a private promoter was a better option than continuing to manage it internally or selling the racetrack, the new grandstand, and other racing facilities. Therefore in late 2004, State Fair Park began seeking a private promoter to again operate the Milwaukee Mile.

Milwaukee Mile License Agreement

State Fair Park did not use the State's competitive bidding process when seeking potential promoters.

In seeking a racetrack promoter, State Fair Park did not use the State's competitive contracting process. Staff indicate the process was not conducive to racing operations because of the specialized nature of the industry and the fact that the few entities having the experience and funds to undertake such a venture are reluctant to share proprietary information. Instead, State Fair Park solicited

potential promoters through racing industry contacts, and eight parties originally expressed interest in managing and promoting the Milwaukee Mile.

To limit future losses from racing activities and better define the relationship between State Fair Park and the private promoter, State Fair Park officials sought to include several specific provisions in the racing agreement, such as:

- a guarantee that State Fair Park would be able to use the racetrack and grandstand during the annual fair, as well as a commitment that the promoter would attend periodic meetings with State Fair Park officials to minimize scheduling conflicts at the fairgrounds;
- requirements for the promoter to assume full responsibility for funding future capital improvements, as well as annual maintenance and repair costs;
- an arrangement under which parking revenue would be retained by State Fair Park, while revenue from concession sales at Milwaukee Mile events would be retained by the promoter; and
- a requirement that annual license payments be sufficient to cover ongoing debt service costs related to construction of the new grandstand and racetrack improvements, and that the promoter purchase a letter of credit to guarantee that required license payments be made in full each year.

State Fair Park managed the Milwaukee Mile in 2005 after initial license negotiations were unsuccessful.

In December 2005, State Fair Park again licensed the Milwaukee Mile to a private promoter.

Three written offers were submitted in response to the original solicitation, and State Fair Park began negotiations with one party in March 2005. However, these negotiations ended in April 2005, when an agreement could not be reached on all terms. State Fair Park managed and promoted the Milwaukee Mile internally for the 2005 racing season but continued to search for a private promoter, with the intent of finding one in time for the 2006 racing season.

According to State Fair Park officials, new offers were entertained, and negotiations with a different promoter began in summer 2005. On August 15, 2005, State Fair Park announced that Milwaukee Mile Holdings, LLC, a newly formed company, would be the fairgrounds' new racetrack promoter. The State Building Commission approved the license agreement in September 2005. State Fair Park and Milwaukee Mile Holdings signed the agreement

in December 2005, and operational control was transferred effective January 1, 2006.

Under the terms of the license agreement, State Fair Park retains full ownership of the Milwaukee Mile, but Milwaukee Mile Holdings acquires 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 is for a term of 18 years, with an option to renew for another 10 years at the end of the initial term.

The current agreement includes the majority of the provisions that State Fair Park officials initially sought, including:

- a guarantee that State Fair Park will be able to use the Milwaukee Mile premises each year for the Wisconsin State Fair;
- a guarantee that both parties meet at least twice each month to discuss programming issues and minimize scheduling conflicts;
- a requirement that Milwaukee Mile Holdings assume responsibility for all future capital improvements and maintenance to the Milwaukee Mile premises; and
- a requirement that Milwaukee Mile Holdings obtain use of the premises for no more than 134 days a year, in exchange for annual license fees and a letter of credit that secures the license fees.

The only provisions sought in the first round of negotiations that were not included in the final agreement relate to the letter of credit and the treatment of parking revenues. As part of the license agreement, Milwaukee Mile Holdings is required to obtain an irrevocable letter of credit, which secures two years of license fee payments in the event that Milwaukee Mile Holdings defaults. Throughout the term of the agreement, Milwaukee Mile Holdings must provide evidence to State Fair Park annually that the letter of credit has been renewed. However, State Fair Park will incur the cost of obtaining the letter of credit, which will be approximately \$73,000 in FY 2005-06. Under the final license agreement, Milwaukee Mile Holdings also will retain most of the revenue generated from parking at Milwaukee Mile events, but State Fair Park will retain all revenue generated when the premises are under its control, such as during the Wisconsin State Fair.

License Fees

As noted, State Fair Park will allow Milwaukee Mile Holdings to use and promote the Milwaukee Mile for 134 days per year, which will generally be from May through September. Annual license fees are shown in Table 6. They are to be paid each June and will provide a total of \$30.5 million to State Fair Park over the initial term of the agreement.

Table 6
Annual License Fees

Year	Fee
2006	\$ 246,000
2007	1,822,000
2008-2015	1,842,000
2016-2023	1,717,000

The Milwaukee Mile promoter will receive a one-time fee reduction of \$1.5 million in 2006.

State Fair Park's debt service costs for past Milwaukee Mile capital improvements were the starting point for negotiating the license fee amounts. As shown in Table 7, debt service costs will be approximately \$1.9 million for the first ten years of the agreement and \$1.8 million during the last eight years. In consideration of losses expected to be incurred by Milwaukee Mile Holdings during the first year, State Fair Park agreed to a one-time fee reduction of \$1.5 million.

Table 7
Calculation of Annual License Fees

	2006	2007	2008-2015	2016-2023
Debt Service	\$1,925,000	\$1,925,000	\$1,925,000	\$1,800,000
Fee Reduction	(1,500,000)	0	0	0
State Fair Use	(175,000)	(175,000)	(175,000)	(175,000)
Ticket Package	(4,000)	(4,000)	(4,000)	(4,000)
Capital Improvements	0	76,000	96,000	96,000
Annual License Fee	\$ 246,000	\$1,822,000	\$1,842,000	\$1,717,000

Throughout the 18-year term of the license agreement, annual fees take into consideration State Fair Park's use of the Milwaukee Mile during the 11-day Wisconsin State Fair, which through negotiations was determined to have an approximate value of \$175,000. The fees further considered Milwaukee Mile Holdings' costs to provide a former promoter with admission tickets to racing events. The tickets are required under a separate agreement to gain full rights to use names "Milwaukee Mile" and "Wisconsin State Fair Speedway," which are registered trademarks of that promoter.

The license agreement also requires Milwaukee Mile Holdings to fund all future capital improvements made to the premises, with the exception of a barrier wall and road course overlay that had already been approved by the Legislature and the Governor at the time the agreement was signed. Because these capital improvement projects were initially intended to be funded by program revenue, State Fair Park and Milwaukee Mile Holdings agreed that the related debt service costs would be factored into the annual license fees over the initial term of the agreement. Therefore, the annual license fees shown in Table 7 included adjustments of \$76,000 in the second year of the agreement and \$96,000 in later years. Subsequently, the Joint Committee on Finance changed the funding source for these improvements from program revenue bonding to GPR bonding. The license fees were not revised, although State Fair Park will no longer incur the related debt service costs.

Land Exchange

The Milwaukee Mile license agreement includes a land-exchange option.

According to State Fair Park officials, a provision for a land exchange was requested by Milwaukee Mile Holdings and included in the license agreement to mitigate the promoter's financial risks of operating the Milwaukee Mile. The license agreement gives Milwaukee Mile Holdings a four-year option to acquire 9.35 acres of State Fair Park land located between the Milwaukee Mile and West Greenfield Avenue, as shown in the appendix. This option can be exercised only if Milwaukee Mile Holdings purchases a 2.54 acre parcel of land that is surrounded by the fairgrounds and currently owned by AmeriGas Propane, L.P., and provides that property to State Fair Park. According to a separate agreement between Milwaukee Mile Holdings and AmeriGas, the purchase price for this land would be \$1.5 million.

The State Fair Park land optioned to Milwaukee Mile Holdings has a current fair-market value of nearly \$2.8 million and may be developed by Milwaukee Mile Holdings into a hotel, a restaurant, and retail, office, or entertainment facilities. If the AmeriGas land is purchased, Milwaukee Mile Holdings is required to make improvements that ensure the property is in "useable" condition and that potential health and environmental concerns are resolved before the title is conveyed to State Fair Park. In addition, Milwaukee Mile Holdings will be required to make additional improvements, such as enhancements to various fairgrounds gates, to ensure State Fair Park receives property and improvements worth \$2.8 million. To date, no agreement has been finalized on either land sale.

Costs to State Fair Park

License fees from the promoter will not cover nearly \$1.8 million in Milwaukee Mile costs in 2006.

Although operation of the Milwaukee Mile has been assumed by an outside promoter, State Fair Park will continue to incur various costs that are not recovered under the terms of the license agreement. As shown in Table 8, we estimate these costs will total nearly \$1.8 million in 2006.

Table 8

**State Fair Park's Milwaukee Mile Costs
2006**

	Amount
One-time Fee Reduction	\$1,500,000
Debt Service Costs	179,000
Letter of Credit Fee	73,000
Municipal Fees to the City of West Allis	25,800
State Fair Park Personnel ¹	12,000
Utilities ¹	1,500
360 State Fair Tickets to Milwaukee Mile Holdings	1,400
Total Costs	\$1,792,700

¹ Estimated by State Fair Park staff.

The one-time \$1.5 million fee reduction and the unrecovered debt service costs and letter of credit fees have already been discussed. In addition, State Fair Park will continue to be responsible for \$25,800 in municipal service fees during each year of the license agreement. State Fair Park will also provide, at no charge to Milwaukee Mile Holdings, one electrician for four race weekends and one lineman during broadcasts on race weekends. State Fair Park staff estimate the costs associated with providing the electrician and lineman to be approximately \$12,000 annually. Other costs include 360 tickets to the Wisconsin State Fair and water and sewer costs for the Milwaukee Mile premises.

In addition to the costs shown in Table 8, State Fair Park is responsible for closing costs if the land exchange option is exercised. State Fair Park staff estimate these one-time costs would be \$3,250. They could occur at any time within the first four years of the license agreement.



Pettit National Ice Center ■

The Pettit National Ice Center is an official United States Olympic training facility and one of 12 indoor oval speed-skating rinks in the world. It is owned by State Fair Park but operated and maintained by Pettit National Ice Center, Inc., a not-for-profit corporation.

The facility was built in 1992 at a cost of \$13.3 million, financed with \$4.0 million in private contributions and \$9.3 million in program revenue-supported state bonds. Funds to retire the debt are to be provided through monthly rent payments under a lease agreement that gives the Pettit Center responsibility for its own operating costs and for the debt service costs that State Fair Park incurs on its behalf. However, because the Pettit Center's total expenses have consistently exceeded its revenues, State Fair Park has made some debt service payments on the facility without offsetting rent revenue. Funding available for other State Fair Park operations is therefore effectively reduced.

Pettit Center Financial Condition

The Pettit Center has reported losses in each of the past five years.

According to financial information submitted to the Department of Regulation and Licensing and obtained from the Pettit Center's audited financial statements, the Pettit Center has generated net losses in each of the past five years, as shown in Table 9. Total expenses have exceeded revenues by \$1.3 million since 2001. The largest annual loss in the Pettit Center's recent history, \$477,800, was reported in 2003. In the following two years, its annual net loss was reduced.

Table 9

Pettit National Ice Center Revenues and Expenses
For Years Ending August 31

	2001	2002	2003	2004	2005
Revenues:					
Program	\$2,098,400	\$2,276,700	\$2,060,200	\$2,066,700	\$2,089,800
Contributions	444,500	403,500	391,100	367,400	359,500
Total Revenues	2,542,900	2,680,200	2,451,300	2,434,100	2,449,300
Expenses	(2,960,900)	(2,904,600)	(2,929,100)	(2,583,600)	(2,500,900)
Net Profit/(Loss)	\$ (418,000)	\$ (224,400)	\$ (477,800)	\$ (149,500)	\$ (51,600)

The Pettit Center's 2005 business plan projected that revenues would increase 11.0 percent in that year, to \$2.7 million, and that it would break even. While revenues increased less than 1.0 percent, expenses were also less than budgeted, and the Pettit Center reported a net loss of \$51,600 in 2005, its lowest in the past five years.

The Pettit Center is projected to owe State Fair Park more than \$1.3 million in past-due rent by June 30, 2006. State Fair Park officials expect that the Pettit Center will not make \$311,000 in FY 2005-06 rent payments. In addition, no payments have been made to reduce \$1.0 million in past-due rent from before FY 2004-05.

The Pettit Center's auditors have raised doubts about its ability to continue as a going concern.

In a 2005 report, the Pettit Center's independent auditors reference negative working capital, the operating deficit, and past-due rent as factors that raise substantial doubt about the entity's ability to continue as a going concern. The audit report notes that the Pettit Center plans to alleviate these concerns by increasing programming revenues, generating additional sponsorship revenue, and increasing fund-raising. However, its ability to generate revenue sufficient to cover all operating costs and debt service related to 1992 construction costs may be limited. Pettit Center officials are unaware of any other indoor speed-skating facilities that have been able to do so.

Pettit Center Relationship with State Fair Park

The State Fair Park Board approved the sale of the Pettit Center in June 2005.

Because the Pettit Center has failed to make all rent payments that are intended to cover its debt service costs, State Fair Park has explored various options to limit future demands it may place on the fairgrounds' financial resources, including refinancing the bonds used to fund construction of the Pettit Center. However, according to State Fair Park and Department of Administration staff, the bonds have been refinanced as many times as is allowable under federal law. In addition, a request by State Fair Park to change its funding source for the debt service payments from program revenue to GPR was not included in the Governor's 2005-07 biennial budget proposal. State Fair Park therefore began exploring options to sell the Pettit Center, and in June 2005 the State Fair Park Board approved a resolution to sell both the facility and the land on which it is built to Pettit National Ice Center, Inc.

State Fair Park and Pettit Center officials believe the sale of the Pettit Center is in the best interest of both parties. For State Fair Park, it would eliminate costs incurred on the Pettit Center's behalf, including debt service costs related to unpaid rent payments and other property costs, such as municipal service payments to the City of West Allis. In addition, the sale would transfer responsibility for future major capital improvements, such as heating and air conditioning equipment, ice-making equipment, and plumbing and electrical fixtures, from State Fair Park to Pettit National Ice Center, Inc.

Pettit Center officials believe owning the facility would improve fund-raising abilities and reduce expenses.

The Pettit Center would benefit from the sale through improved fund-raising capabilities and reduced monthly rent payments. Pettit Center officials believe that potential contributors have been hesitant to donate to a building that is owned by the State and that donations and sponsorships could be acquired more easily if the facility were owned by the managing not-for-profit corporation. In addition, financing to acquire the building could be spread more evenly over the next 15 years, with annual payments made by the Pettit Center totaling \$231,000 instead of the nearly \$900,000 in annual rent owed to State Fair Park.

If the sale were to occur before August 31, 2006, the close of the facility's current fiscal year, Pettit Center staff project a small profit of \$4,600 in 2006, as shown in Table 10. They note that larger profits could be anticipated in future years, when the full effect of lower rent payments and higher contributions could be realized. However, the Pettit Center does not have a reserve fund for operating or capital costs. Pettit Center officials add that any profits realized in future years would be used to establish such a reserve.

Table 10

Pettit National Ice Center Budgeted and Actual Revenues and Expenses
For Years Ending August 31

	2005 Actual	2006 Budget	Percentage Increase/ (Decrease)
Revenues:			
Developmental Programs	\$ 760,800	\$ 841,700	10.6%
General Public and Contract Ice Time	901,200	1,114,400	23.7
Private Contributions	359,500	247,700	(31.1)
Sponsorships	121,800	280,000	129.8
Other	306,000	232,900	(23.9)
Total Revenues	2,449,300	2,716,700	10.9
Expenses	(2,500,900)	(2,712,100)	8.4
Net Profit/(Loss)	\$ (51,600)	\$ 4,600	

In April 2006, legislation was introduced to sell the Pettit Center facility to Pettit National Ice Center, Inc. Under the proposed legislation, which was not enacted, State Fair Park would have sold the Pettit Center for an amount not less than \$5.0 million. Pettit Center officials have noted that these funds would have come from three sources:

- \$2.1 million from a liquidated private endowment that currently contributes \$350,000 annually;
- \$1.9 million from a loan from a commercial lending institution; and
- \$1.0 million in private donations, which Pettit Center officials believed was obtainable.

Proposed legislation to sell the Pettit Center would have required \$2.6 million in GPR.

Of the \$5.0 million in sale proceeds, State Fair Park would first have received all past-due rent, which at that time was projected to be \$1.5 million as of June 30, 2006. The remaining proceeds of \$3.5 million would have been deposited in the State's Bond Security and Redemption Fund. With interest earnings of approximately \$350,600, State Fair Park staff estimated that the sale would have made \$3.9 million available to fund future debt service payments related to the Pettit Center. As shown in Table 11, because future

debt service costs are expected to total nearly \$6.5 million, the remaining \$2.6 million in debt service payments would have been funded by GPR.

Table 11
Estimated State Contribution Related to Proposed Pettit Center Sale

	Amount
Sale Proceeds	\$5,025,000
Past-due Rent to State Fair Park	(1,532,000) ¹
Interest Earned on Sale Proceeds	350,600
Proceeds Available to Fund Debt Service	3,843,600
Total Future Debt Service	6,475,900
Required State Contribution	\$2,632,300

¹ Amount projected at the time legislation was considered.

Other components of the April 2006 legislation were that:

- the facility continue to be used as an ice skating rink and Olympic training facility;
- Pettit National Ice Center, Inc., may not lease the Pettit Center to outside parties without approval of the State Fair Park Board; and
- if Pettit National Ice Center, Inc., were to elect to sell the facility at a later date, the State would have the first option to purchase it for the original purchase price.

While legislation authorizing the sale of the Pettit Center was not enacted, State Fair Park continues to pursue options that would limit the Pettit Center's demands on its financial resources.

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Future Considerations ■

In recent years, State Fair Park has undertaken several large capital improvement projects and initiated organizational changes. We have noted in prior reports that overly optimistic financial projections were used to justify some of these changes, and the fairgrounds' deficit increased when these projections were not met. As the State Fair Park Board, the Legislature, and the Governor consider the future of the fairgrounds, we believe careful consideration will need to be given to:

- State Fair Park's cash deficit;
- the Pettit Center and its relationship with State Fair Park;
- the Wisconsin Exposition Center; and
- any additional construction projects proposed for the fairgrounds.

The Cash Deficit

***State Fair Park projects
a profit of \$537,000
in FY 2006-07.***

In March 2006, the State Fair Park Board approved the agency's budget for the next fiscal year. As shown in Table 12, both revenues and expenditures are projected to decrease in FY 2006-07 as a result of the change in Milwaukee Mile operations, and a net profit of \$537,000 is anticipated. If the budgeted profit is realized in FY 2006-07 and maintained at that level in the future, it will take State Fair Park more than 20 years to eliminate its accumulated cash deficit, which is projected to be \$11.7 million as of June 30, 2006.

Table 12

State Fair Park Actual and Budgeted Revenues and Expenditures

	FY 2005-06 Estimate ¹	FY 2006-07 Budget
Revenues	\$18,581,300	\$18,059,200
Expenditures:		
Operating	(17,013,500)	(13,935,200)
Debt Service	(3,590,200)	(3,587,000)
Net Profit/(Loss)	\$ (2,022,400)	\$ 537,000

¹ Estimated as of March 2006.

The FY 2006-07 budget also assumes that State Fair Park will continue to incur approximately \$90,000 each year for various Pettit Center property costs and that the Pettit Center will make all of its required rent payments. However, based on the Pettit Center's financial history, State Fair Park may not receive all rent payments. In that case, State Fair Park's projected net profit would be reduced, and the time need to eliminate its cash deficit would be extended.

The Pettit Center

State Fair Park continues to pursue the option of selling the Pettit Center.

As noted, State Fair Park is continuing to pursue options regarding the Pettit Center. State Fair Park officials have indicated the preferred approach is to sell the facility to Pettit National Ice Center, Inc. However, if there are significant delays in securing such a sale, required state support may exceed \$2.6 million because operating costs will further reduce the Pettit Center's private endowment. Factors to consider in any future sale proposal will include the amount of public support needed, the State's ability to repurchase the Pettit Center if it is unable to remain financially viable without State Fair Park subsidies, and the price at which the Pettit Center could be reacquired.

The Wisconsin Exposition Center

The Wisconsin Exposition Center was funded with \$44.9 million in industrial revenue bonds issued by the City of West Allis. Under the current bond agreement, it is required to have a letter of credit to

secure the bonds and to make annual interest payments. Principal payments are not made; instead, the entire principal balance will be due when the bonds mature in 2028.

The future financial stability of the Wisconsin Exposition Center is uncertain. Initial revenue projections were overly optimistic and have not been met. The Exposition Center has been able to pay all of its operating expenses because it has used reserve funds set aside from the bond proceeds that originally funded its construction. Because of its annual losses, the Exposition Center's cash balance has declined from \$10.0 million at the end of calendar year 2002 to \$4.6 million at the end of calendar year 2004, the last year for which audited financial statements are available. Since our previous audit, Exposition Center staff have indicated that resources may not be available to meet future financial obligations unless refinancing takes place.

Refinancing may alleviate the Exposition Center's short-term cash flow concerns.

Exposition Center staff are currently working with a commercial lender to explore the option of refinancing. Staff believe this would reduce costs, alleviate cash flow concerns, and give the Exposition Center time to mature as a business and further develop its client base.

With a new financing agreement in place, staff project the Exposition Center can remain viable. However, exposition centers generally have needed financial support from state or local governments. Although cash flow concerns may be resolved for the short term, decisions regarding the level of state or local support, if any, may be needed in the long term.

Future Capital Projects

Finally, significant capital projects and increasing debt service have contributed to State Fair Park's current financial condition. From FY 2000-01 through FY 2004-05, a total of \$82.0 million was spent on capital improvements such as the Wisconsin Exposition Center, the Milwaukee Mile grandstand, racetrack improvements, other racing-related facilities, various agricultural buildings, and infrastructure improvements. With the exception of the Wisconsin Exposition Center, these improvements to the fairgrounds were funded with bonds supported by State Fair Park revenues and GPR. As a result, annual debt service payments for State Fair Park's program revenue-supported debt have increased 60.0 percent, from \$2.0 million in FY 2000-01 to \$3.2 million in FY 2004-05. From FY 2005-06 through FY 2024-25, debt service payments for program revenue-supported debt are expected to total approximately \$54.0 million.

Any future capital projects on the fairgrounds should be carefully scrutinized.

Most of the debt service costs related to Milwaukee Mile improvements are expected to be recovered through \$30.5 million in license fees received from the promoters of the Milwaukee Mile. However, State Fair Park program revenues must fund the remaining \$3.0 million in Milwaukee Mile-related debt service costs, as well as \$20.5 million in program revenue-supported borrowing used to fund other capital improvements to the fairgrounds. As State Fair Park attempts to reduce its cash deficit, any additional construction projects that would increase the program revenue-funded debt service costs will need to be closely scrutinized.

Recommendation

To ensure continued oversight of the fairgrounds' organizational changes and capital projects, we recommend State Fair Park report to the Joint Legislative Audit Committee by January 1, 2007, on its short- and long-term plans to stabilize its financial condition.

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Audit Opinion ■

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

We have audited the accompanying financial statements of Wisconsin State Fair Park as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of 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 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 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 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 upon our audit and the report of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State Fair Park Fund as of June 30, 2005, and State Fair Park Exposition Center, Inc., as of December 31, 2004, and the changes in their financial positions and their cash flows for the years 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 37 through 47 is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. 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 5, 2006, on our consideration of Wisconsin State Fair Park's internal control over financial reporting and 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.

LEGISLATIVE AUDIT BUREAU

June 5, 2006

by



Julie Gordon
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, 2005. 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 Wisconsin's oldest and largest events and typically hosts approximately 900,000 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 within the administrative structure of the State of Wisconsin. 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 2004-05, the assets of the State Fair Park Fund exceeded its liabilities by \$10.8 million (net assets). This total consists of \$22.0 million invested in capital assets, net of related debt and a deficit of unrestricted net assets of \$11.2 million.

The State Fair Park Fund's total net assets decreased by \$4.3 million during FY 2004-05.

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 the 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 \$22.0 million of net assets that are invested in capital assets (e.g., land, buildings, equipment, improvements, and construction in progress). Net capital assets total \$59.7 million, while the related outstanding debt is \$37.7 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.

State Fair Park has been constructing new facilities over the past few years. While the level of construction in FY 2004-05 was less than that in prior years, State Fair Park added approximately \$2.3 million of completed construction during the year. Much of this construction has been financed by the issuance of new debt, which will be repaid by program revenues as well as from GPR. The State's contribution for capital projects, which declined in FY 2004-05 because of the decrease in construction at State Fair Park, was \$0.3 million for FY 2004-05. Table A presents summary financial information with comparisons to the prior year.

Table A

Condensed Financial Information
State Fair Park Fund

	FY 2004-05	FY 2003-04 ¹	Dollar Increase/ (Decrease)
Current Assets	\$ 3,405,315	\$ 4,021,012	\$ (615,697)
Capital Assets (Net of Depreciation)	59,756,585	61,801,041	(2,044,456)
Other Assets	1,204,720	190,818	1,013,902
Total Assets	<u>64,366,620</u>	<u>66,012,871</u>	<u>(1,646,251)</u>
Current Liabilities	17,467,640	15,047,912	2,419,728
Long-Term Liabilities	36,082,704	35,868,748	213,956
Total Liabilities	<u>53,550,344</u>	<u>50,916,660</u>	<u>2,633,684</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	22,047,368	24,299,559	(2,252,191)
Unrestricted (Deficit)	(11,231,092)	(9,203,348)	(2,027,744)
Total Net Assets	<u>10,816,276</u>	<u>15,096,211</u>	<u>(4,279,935)</u>
Operating Revenues	21,676,487	18,061,931	3,614,556
Operating Expenses	24,215,899	21,950,097	2,265,802
Operating Loss	(2,539,412)	(3,888,166)	1,348,754
Nonoperating Revenues (Expenses)	(1,580,200)	(1,610,023)	29,823
Transfers In	303,628	2,961,160	(2,657,532)
Transfers Out	(463,951)	(548,041)	84,090
Changes in Net Assets	(4,279,935)	(3,085,070)	(1,194,865)
Net Assets—Beginning of the Year (as Restated)	15,096,211	18,181,281	(3,085,070)
Net Assets—End of the Year	<u>\$10,816,276</u>	<u>\$15,096,211</u>	<u>\$(4,279,935)</u>

¹ FY 2003-04 balances have been restated to reflect a prior-period adjustment.

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 2004-05 and FY 2003-04.

Table B

Revenues by Activity
State Fair Park Fund

	FY 2004-05	Percentage of Total	FY 2003-04	Percentage of Total	Dollar Increase
Annual State Fair	\$12,519,000	57.7%	\$10,616,000	58.8%	\$1,903,000
Promoter Events	914,000	4.2	538,000	3.0	376,000
Racing	6,260,000	28.9	5,349,000	29.6	911,000
Other Park-Sponsored Events	519,000	2.4	345,000	1.9	174,000
General Operations ¹	1,464,000	6.8	1,214,000	6.7	250,000
Total	<u>\$21,676,000</u>		<u>\$18,062,000</u>		<u>\$3,614,000</u>

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

The increase in annual state fair revenues resulted from an the increase in attendance (879,000 for the 2004 fair, which occurred during FY 2004-05, versus 809,000 for the 2003 fair, which occurred during FY 2003-04). Major increases were in the areas of gate admissions, parking, dairy bakery (cream puffs), food and beverage, and midway.

The increase in revenue from promoter events reflects the change in reporting for parking revenue received by State Fair Park relating to Exposition Center events. Race revenue increases are primarily in the areas of advertising and track rental because of the increase in events.

The FY 2004-05 increase in State Fair Park-sponsored revenue relates to World Beef Expo and Harvest Fair events. Space rental revenue from these events increased because of changes in the rental rate structure and additional vendors servicing the events.

FY 2004-05 increases in general operation revenues reflect additional Pettit National Ice Center rent payments and increases in youth center and RV park operating revenues, resulting from an increase in events in the youth center and increased business in the RV park.

Operating Expenses

Table C includes a comparison of operating expenses (rounded to the nearest \$1,000) between FY 2004-05 and FY 2003-04.

Table C

Operating Expenses State Fair Park Fund

	FY 2004-05	Percentage of Total	FY 2003-04 ¹	Percentage of Total	Dollar Increase
Personal Services	\$ 5,314,000	21.9%	\$ 4,568,000	20.8%	\$ 746,000
Advertising	1,471,000	6.1	1,426,000	6.5	45,000
Entertainment	1,567,000	6.5	1,155,000	5.3	412,000
Other Expenses ²	12,247,000	50.6	11,267,000	51.3	980,000
Depreciation	3,617,000	14.9	3,534,000	16.1	83,000
Total	\$24,216,000		\$21,950,000		\$2,266,000

¹ FY 2003-04 balances have been restated to reflect a prior-period adjustment.

² Includes operating interest expense, 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 (LTE) salaries, as well as associated fringe benefits. These costs increased because of changes in permanent staffing, such as the addition of an executive director and deputy director, and additional programming for the 2004 fair that increased LTE staffing in the areas of dairy bakery, operations, agriculture, admissions, revenue control, and security. Dairy bakery increases were offset by increased cream puff sales. Admission and security increases were offset by revenue from grandstand shows.

FY 2004-05 entertainment costs, which include fees paid to entertainers for performing at the annual state fair, increased because of upgraded talent. Additional admission fees were charged for the premium talent and resulted in increased revenues.

Other expenses increased compared to FY 2003-04 primarily because additional racing events were added in July and August of FY 2004-05.

Capital Assets

Table D includes a comparison of capital assets between FY 2004-05 and FY 2003-04.

Table D

Capital Assets State Fair Park Fund

	FY 2004-05	FY 2003-04 ¹	Dollar Increase/ (Decrease)
Capital Assets	\$89,814,764	\$88,242,845	\$ 1,571,919
Accumulated Depreciation	(30,058,179)	(26,441,804)	(3,616,375)
Net Capital Assets	<u>\$59,756,585</u>	<u>\$61,801,041</u>	<u>\$(2,044,456)</u>
Depreciation Expense	\$3,616,375	\$3,533,962	\$82,413

¹ FY 2003-04 balances have been restated to reflect a prior-period adjustment.

The FY 2004-05 increase in capital assets is primarily the result of construction relating to the racetrack improvements and other infrastructure projects.

Debt—Program Revenue Funded

Table E includes a comparison between FY 2004-05 and FY 2003-04 of debt funded with program revenue.

Table E

**Program Revenue-Funded Debt for State Fair Park
State Fair Park Fund**

	FY 2004-05	FY 2003-04	Dollar Increase/ (Decrease)
Commercial Paper	\$ 1,157,656	\$ 1,320,681	\$(163,025)
General Obligation Bonds	36,140,755	36,292,215	(151,460)
Total Debt	<u>\$37,298,411</u>	<u>\$37,612,896</u>	<u>\$(314,485)</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, 2005, 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
2006	\$ 1,786,332	\$ 1,805,110	\$ 3,591,442
2007	1,904,524	1,682,073	3,586,597
2008	1,996,974	1,592,181	3,589,155
2009	2,089,083	1,502,659	3,591,742
2010	2,180,654	1,408,960	3,589,614
2011-2025	27,340,844	8,723,651	36,064,495
Total	<u>\$37,298,411</u>	<u>\$16,714,634</u>	<u>\$54,013,045</u>

Debt—General Purpose Revenue Funded

Table G includes a comparison between FY 2004-05 and FY 2003-04 of debt related to State Fair Park that will be funded by the State's General Fund.

Table G

General Purpose Revenue–Funded Debt for State Fair Park

	FY 2004-05	FY 2003-04	Dollar Increase/ (Decrease)
Commercial Paper	\$ 2,229,573	\$ 2,541,176	\$ (311,603)
Bonds	23,031,039	23,368,437	(337,398)
Total	<u>\$25,260,612</u>	<u>\$25,909,613</u>	<u>\$ (649,001)</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 H provides the future debt service requirements related to State Fair Park as of June 30, 2005, 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
2006	\$ 1,065,183	\$ 1,313,240	\$ 2,378,423
2007	1,114,466	1,211,593	2,326,059
2008	1,165,959	1,154,361	2,320,320
2009	1,221,244	1,097,925	2,319,169
2010	1,249,033	1,040,284	2,289,317
2011-2025	19,444,727	6,291,435	25,736,162
Total	<u>\$25,260,612</u>	<u>\$12,108,838</u>	<u>\$37,369,450</u>

Other Known Facts

Program revenue lapses have also affected the State Fair Park Fund. A lapse of \$179,700 was required in FY 2003-04 by 2003 Wisconsin Act 33. The State Fair Park Fund lapsed \$186,000 to the State's General Fund in FY 2004-05.

On December 19, 2005, State Fair Park entered into a license agreement with a private corporation, Milwaukee Mile Holdings, LLC, allowing the corporation to operate and promote the Milwaukee Mile. Terms of this agreement are disclosed in Note 12 to the financial statements.

Component Unit

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 State Fair Park Exposition Center, Inc., 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 Wisconsin Exposition Center, the title to it will transfer to Wisconsin State Fair Park and the not-for-profit organization will be dissolved.

The component unit is reported for the year ended December 31, 2004. Financial highlights include:

- 1) Cash and cash equivalents decreased \$0.7 million from 2003 and totaled \$4.6 million in 2004.
- 2) Total operating revenue decreased \$0.3 million from 2003 and was \$3.7 million in 2004; operating expenses increased \$27,647.
- 3) Interest expense decreased \$47,335 from 2003 and was \$2.6 million for 2004.
- 4) The Exposition Center's income from operations was \$0.9 million in 2004, compared to \$1.2 million for 2003.
- 5) The Exposition Center's unrestricted net assets decreased by \$1.7 million from 2003 and totaled (\$0.6) million for 2004.

Further financial information on State Fair Park Exposition Center, Inc., can be found in Note 13 to the financial statements.

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 2004-05 and State Fair Park Exposition Center's financial performance for calendar year 2004. 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 Administration and Finance
8200 West Greenfield
West Allis, Wisconsin 53214

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Financial Statements ■

Wisconsin State Fair Park

Statement of Net Assets

	State Fair Park Fund (As of June 30, 2005)	Component Unit— State Fair Park Exposition Center, Inc. (As of December 31, 2004)	Total (Memorandum Only)
ASSETS			
Current Assets:			
Cash and cash equivalents (Notes 2C and 6)	\$ 60,500	\$ 4,594,062	\$ 4,654,562
Receivables (net of estimated uncollectible accounts) (Note 10)	1,659,503	206,859	1,866,362
Due from other funds (Note 2G)	5,677	0	5,677
Inventories	39,436	0	39,436
Prepaid items	<u>1,640,199</u>	<u>53,734</u>	<u>1,693,933</u>
Total Current Assets	<u>3,405,315</u>	<u>4,854,655</u>	<u>8,259,970</u>
Noncurrent Assets:			
Receivables (Note 10)	1,011,498	0	1,011,498
Deferred bond issuance costs	193,222	444,998	638,220
Capital assets (net of accumulated depreciation) (Notes 2E and 3)	<u>59,756,585</u>	<u>35,967,669</u>	<u>95,724,254</u>
Total Noncurrent Assets	<u>60,961,305</u>	<u>36,412,667</u>	<u>97,373,972</u>
TOTAL ASSETS	<u>64,366,620</u>	<u>41,267,322</u>	<u>105,633,942</u>
LIABILITIES			
Current Liabilities:			
Accounts payable (Note 10)	\$ 1,424,267	\$ 161,184	\$ 1,585,451
Due to other funds (Notes 2G and 10)	1,105,651	0	1,105,651
Interfund payables (Note 10)	9,170,149	0	9,170,149
Tax and other deposits	99,655	0	99,655
Deferred revenue (Note 2D)	3,378,979	0	3,378,979
Other accrued expenses	0	213,789	213,789
Unearned license fees	0	488,561	488,561
Interest payable	309,837	210,993	520,830
Capital leases (Note 4)	98,629	0	98,629
Compensated absences (Notes 2F and 9)	94,141	0	94,141
Notes payable (Note 5)	171,179	45,000	216,179
General obligation bonds payable (Note 5)	<u>1,615,153</u>	<u>0</u>	<u>1,615,153</u>
Total Current Liabilities	<u>17,467,640</u>	<u>1,119,527</u>	<u>18,587,167</u>
Noncurrent Liabilities:			
Capital leases (Note 4)	505,399	0	505,399
Compensated absences (Notes 2F and 9)	65,226	0	65,226
Notes payable (Note 5)	986,477	0	986,477
General obligation bonds payable (Note 5)	34,525,602	0	34,525,602
Industrial revenue bonds payable (Note 13)	0	40,795,000	40,795,000
Total Noncurrent Liabilities	<u>36,082,704</u>	<u>40,795,000</u>	<u>76,877,704</u>
TOTAL LIABILITIES	<u>53,550,344</u>	<u>41,914,527</u>	<u>95,464,871</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	22,047,368	0	22,047,368
Restricted for Debt and Capital Assets	0	0	0
Unrestricted	<u>(11,231,092)</u>	<u>(647,205)</u>	<u>(11,878,297)</u>
TOTAL NET ASSETS	<u>\$ 10,816,276</u>	<u>\$ (647,205)</u>	<u>\$ 10,169,071</u>

The accompanying notes are an integral part of this statement.

Wisconsin State Fair Park

Statement of Revenues, Expenses, and Changes in Net Assets

	State Fair Park Fund (For the Year Ended June 30, 2005)	Component Unit— State Fair Park Exposition Center, Inc. (For the Year Ended December 31, 2004)	Total (Memorandum Only)
OPERATING REVENUES			
Charges for Sales and Services	\$ 21,676,487	\$ 3,506,632	\$ 25,183,119
Other Income	0	212,645	212,645
Total Operating Revenues	21,676,487	3,719,277	25,395,764
OPERATING EXPENSES			
Salaries and Fringe Benefits	5,314,351	824,887	6,139,238
Supplies and Services	15,695,033	921,480	16,616,513
Depreciation	3,616,375	1,027,158	4,643,533
Interest Expense	14,471	0	14,471
Bad Debt Expense	(424,331)	0	(424,331)
Other	0	7,537	7,537
Total Operating Expenses	24,215,899	2,781,062	26,996,961
OPERATING INCOME (LOSS)	(2,539,412)	938,215	(1,601,197)
NONOPERATING REVENUES (EXPENSES)			
Investment and Interest Income	26,285	0	26,285
Interest Expense	(1,606,485)	(2,638,221)	(4,244,706)
Total Nonoperating Revenues (Expenses)	(1,580,200)	(2,638,221)	(4,218,421)
Loss Before Transfers	(4,119,612)	(1,700,006)	(5,819,618)
Transfers In (Notes 2H and 11)	303,628	0	303,628
Transfers Out (Notes 2H and 11)	(463,951)	0	(463,951)
CHANGE IN NET ASSETS	(4,279,935)	(1,700,006)	(5,979,941)
NET ASSETS			
Total Net Assets, Beginning of Year as Previously Stated	15,813,826	1,052,801	16,866,627
Prior-Period Adjustment (Note 7)	(717,615)	0	(717,615)
Total Net Assets—Beginning of the Year Adjusted	15,096,211	1,052,801	16,149,012
Total Net Assets—End of the Year	\$ 10,816,276	\$ (647,205)	\$ 10,169,071

The accompanying notes are an integral part of this statement.

Statement of Cash Flows—State Fair Park Fund for the Year Ended June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 21,393,186
Cash Payments to Suppliers for Goods and Services	(16,072,563)
Cash Payments to Employees for Services	(5,281,109)
Other Operating Expenses	(14,471)
Transfers Out	<u>(242,211)</u>
Net Cash Used by Operating Activities	<u>(217,168)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Interfund Loans Received	3,357,555
Transfers Out	<u>(221,699)</u>
Net Cash Provided by Noncapital Financing Activities	<u>3,135,856</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Issuance of Debt	5,779,193
Transfers In	303,628
Transfers Out	(41)
Repayment of Debt	(6,093,678)
Interest Paid	(1,598,599)
Debt Issuance Costs	(2,404)
Capital Lease Payments	(113,847)
Purchase of Fixed Assets	<u>(1,219,225)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,944,973)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment and Interest Receipts	26,285
Net Cash Provided by Investing Activities	<u>26,285</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents—Beginning of the Year	60,500
Cash and Cash Equivalents—End of the Year	<u>\$ 60,500</u>

The accompanying notes are an integral part of this statement.

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

Net Operating Loss	\$ (2,539,412)
Adjustments to Reconcile Net Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation expense	3,616,375
Bad debt expense	(424,331)
Transfers out	(242,211)
Changes in assets and liabilities:	
Decrease (Increase) in receivables	216,675
Decrease (Increase) in due from other funds	(4,888)
Decrease (Increase) in inventories	4,773
Decrease (Increase) in prepaid items	(188,030)
Increase (Decrease) in accounts payable	(209,806)
Increase (Decrease) in due to other funds	26,528
Increase (Decrease) in deposits	24,559
Increase (Decrease) in deferred revenues	(519,647)
Increase (Decrease) in compensated absences	<u>22,247</u>
Total Adjustments	<u>2,322,244</u>
Net Cash Used by Operating Activities	\$ (217,168)

Noncash Investing, Capital and Financing Activities

Capital Leases:	
Fair Market Value	638,471

The accompanying notes are an integral part of this statement.

Statement of Cash Flows: Component Unit—Exposition Center for the Year Ended December 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (1,700,006)
Adjustments to Reconcile Change in Net Assets to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation expense	1,027,158
Amortization expense	60,239
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(17,249)
Decrease (Increase) in prepaid items	(6,439)
Increase (Decrease) in accounts payable	82,055
Increase (Decrease) in construction costs payable	(50,000)
Increase (Decrease) in accrued bond interest	(872)
Increase (Decrease) in other accrued expenses	61,490
Increase (Decrease) in unearned license fees	(3,127)
Total Adjustments	1,153,255
Net Cash Used by Operating Activities	(546,751)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Repayment of Notes Payable	(80,000)
Net Cash Used by Capital and Related Financing Activities	(80,000)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Fixed Assets	(48,420)
Net Cash Used by Investing Activities	(48,420)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
Beginning of the Year—Cash and Cash Equivalents	5,269,233
End of the Year—Cash and Cash Equivalents	\$ 4,594,062

Supplemental Disclosure:

During the year ended December 31, 2004, the Exposition Center paid interest of \$2,582,537.

Notes to the Financial Statements ■

1. DESCRIPTION OF THE WISCONSIN STATE FAIR PARK

The Wisconsin 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 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 revenues 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, 2005. 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 and statutorily required lapses to the State of Wisconsin's General Fund.

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, 2005, are summarized as follows:

	<u>Beginning Balances, Restated¹</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>699,154</u>	<u>0</u>	<u>(699,154)²</u>	<u>0</u>
Total Capital Assets Not Being Depreciated	1,697,658	0	(699,154)	998,504
Capital Assets Being Depreciated:				
Buildings and Improvements	85,062,692	1,607,602	(0)	86,670,294
Machinery and Equipment	<u>1,482,495</u>	<u>663,471</u>	<u>(0)</u>	<u>2,145,966</u>
Total Capital Assets Being Depreciated	86,545,187	2,271,073	(0)	88,816,260
Less Accumulated Depreciation for:				
Buildings and Improvements	(25,079,975)	(3,443,889)	0	(28,523,864)
Machinery and Equipment	<u>(1,361,829)</u>	<u>(172,486)</u>	<u>0</u>	<u>(1,534,315)</u>
Total Accumulated Depreciation	<u>(26,441,804)</u>	<u>(3,616,375)</u>	<u>0</u>	<u>(30,058,179)</u>
Total Capital Assets Being Depreciated, Net	<u>60,103,383</u>	<u>(1,345,302)</u>	<u>0</u>	<u>58,758,081</u>
Total Capital Assets, Net	<u>\$61,801,041</u>	<u>\$(1,345,302)</u>	<u>\$(699,154)</u>	<u>\$59,756,585</u>

¹ Balances as of June 30, 2004, were restated due to prior-period adjustments. See Note 7.

² The "Construction in Progress" decrease comes about because projects that were incomplete as of June 30, 2004, were finished during the year and are now reported as "Buildings and Improvements."

See Note 13 for information about capital assets of the Wisconsin Exposition Center, Inc.

4. LEASE OBLIGATIONS

Equipment items, including a turnstile, trolley trailers, street signs, a telephone system, and 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 \$377,120, resulting in a net book value of \$545,447. Total lease payments for the fiscal year ended June 30, 2005, were \$113,847. Future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2005, are as follows:

For the Year Ending:

June 30, 2006	\$127,158
June 30, 2007	111,225
June 30, 2008	111,225
June 30, 2009	111,225
June 30, 2010	103,733
June 30, 2011	96,242
June 30, 2012	<u>48,121</u>
Total Minimum Lease Payments	708,929
Less: Amount Representing Interest	(104,901)
Present Value of Minimum Lease Payments	<u>\$604,028</u>

During the year ended June 30, 2005, the following changes occurred in the State Fair Park Fund's capital lease liability:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Capital Leases	<u>\$79,404</u>	<u>\$638,471</u>	<u>\$(113,847)</u>	<u>\$604,028</u>	<u>\$98,629</u>

State Fair Park also leased equipment under an operating lease that expired in FY 2004-05. Total rental expense for the year ended June 30, 2005, was \$1,808.

5. DEBT OBLIGATIONS

State of Wisconsin general obligation debt is 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 debt authorized and issued by the State is 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 debt 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 liability are as follows:

	<u>Balance June 30, 2004</u>	<u>New Debt Proceeds</u>	<u>Payments and Refunds</u>	<u>Principal Balance June 30, 2005</u>
Notes Payable—				
Commercial Paper	\$ 1,320,681	\$ 0	\$ (163,025)	\$ 1,157,656
Bonds	<u>36,292,215</u>	<u>5,779,193</u>	<u>(5,930,653)</u>	<u>36,140,755</u>
Total	<u>\$37,612,896</u>	<u>\$5,779,193</u>	<u>\$(6,093,678)</u>	<u>\$37,298,411</u>

The bond debt has fixed interest rates, while the commercial paper has a variable interest rate that 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, 2005, 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
2006	\$ 1,786,332	\$ 1,805,110	\$ 3,591,442
2007	1,904,524	1,682,073	3,586,597
2008	1,996,974	1,592,181	3,589,155
2009	2,089,083	1,502,659	3,591,742
2010	2,180,654	1,408,960	3,589,614
2011-2015	11,436,671	5,381,226	16,817,897
2016-2020	10,471,630	2,829,405	13,301,035
2021-2025	<u>5,432,543</u>	<u>513,020</u>	<u>5,945,563</u>
Total	<u>\$37,298,411</u>	<u>\$16,714,634</u>	<u>\$54,013,045</u>

Debt to Be Repaid from State of Wisconsin General Purpose Revenue

Debt service payments to be made from the State of Wisconsin's 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. The changes in the State's General Fund long-term liability to be paid on behalf of the State Fair Park Fund are as follows:

	Balance June 30, 2004	New Debt Proceeds	Principal Payments and Refunds	Balance June 30, 2005
Notes Payable—				
Commercial Paper	\$ 2,541,176	\$ 0	\$ (311,603)	\$ 2,229,573
Bonds	<u>23,368,437</u>	<u>5,228,598</u>	<u>(5,565,996)</u>	<u>23,031,039</u>
Total	<u>\$25,909,613</u>	<u>\$5,228,598</u>	<u>\$(5,877,599)</u>	<u>\$25,260,612</u>

The bond debt has fixed interest rates, while the commercial paper has a variable interest rate that 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, 2005, estimated future debt service requirements to be paid from State of Wisconsin general purpose revenue are as follows:

Fiscal Year <u>Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	Total Debt <u>Service</u>
2006	\$ 1,065,183	\$ 1,313,240	\$ 2,378,423
2007	1,114,466	1,211,593	2,326,059
2008	1,165,959	1,154,361	2,320,320
2009	1,221,244	1,097,925	2,319,169
2010	1,249,033	1,040,284	2,289,317
2011-2015	8,079,342	4,081,493	12,160,835
2016-2020	8,131,103	1,892,761	10,023,864
2021-2025	<u>3,234,282</u>	<u>317,181</u>	<u>3,551,463</u>
Total	<u><u>\$25,260,612</u></u>	<u><u>\$12,108,838</u></u>	<u><u>\$37,369,450</u></u>

See Note 13 for information about debt obligations of the Wisconsin Exposition Center, Inc.

6. DEPOSITS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, was issued in March 2003. The provisions of this statement are effective for financial statements beginning in FY 2004-05. GASB Statement 40 updates the custodial credit risk disclosures requirements of GASB Statement 3.

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, 2005, \$34,900 of the State Fair Park Fund's cash balance was deposited in a commercial checking account. The remaining \$25,600 was on hand at State Fair Park for use during State Fair Park events.

See Note 13 for information about cash and cash equivalent balances of the Wisconsin Exposition Center, Inc.

7. PRIOR-PERIOD ADJUSTMENT

State of Wisconsin capital project accounts related to the State Fair Park Fund were adjusted to properly recognize the completion of various projects. The errors overstated the amount of assets categorized as "Construction in Progress," which is not depreciated, and understated capital assets and the associated accumulated depreciation. Adjustments were made to correct misstatements in the following State Fair Park Fund accounts:

<u>Account</u>	<u>Balance June 30, 2004</u>	<u>Adjustment</u>	<u>Balance June 30, 2004 Restated</u>
Capital Assets	\$62,518,656	\$(717,615)	\$61,801,041
Net Assets	15,813,826	(717,615)	15,096,211

8. EMPLOYEE RETIREMENT PLAN

Permanent, full-time employees of the State Fair Park Fund 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. The liquidation of the State's prior service liability resulted in credits being granted to state agencies for amounts already paid in 2003. In addition, state agencies will be required to make future 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 \$234,116 for FY 2004-05. 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.

9. COMPENSATED ABSENCES

The State Fair Park Fund's compensated absences activity for the fiscal year ended June 30, 2005, 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>\$137,120</u>	<u>\$102,516</u>	<u>\$(80,269)</u>	<u>\$159,367</u>	<u>\$94,141</u>

10. 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

	<u>Fiscal Year 2004-05</u>
Accounts Receivable:	
Racing Activities	\$1,373,840
Rent Revenue	1,121,992
Miscellaneous	<u>175,169</u>
Total Accounts Receivable	<u>\$2,671,001</u>

The Pettit National Ice Center, an enclosed year-round ice center, is located on State Fair Park grounds and is operated by Pettit National Ice Center, Inc., a private not-for-profit corporation. The State Fair Park Fund reports the facility and outstanding debt liability on its Statement of Net Assets and is responsible for making debt service payments related to the cost of building the Pettit Center.

Under the terms of a lease it has with State Fair Park, the Pettit Center is responsible for making monthly rent payments that were intended to cover debt service costs incurred by the State Fair Park Fund on the bonds issued to fund construction of the Pettit Center. The Pettit Center is behind on making the payments. As of June 30, 2005, the Pettit Center had not made approximately 18 monthly payments and owed nearly \$1.1 million, of which \$1.0 million was outstanding at June 30, 2004. Because it is unlikely this portion of the receivable balance will be collected in the next fiscal year, it is reported as a noncurrent receivable.

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

	<u>Fiscal Year 2004-05</u>
Accounts Payable:	
Vendors	\$ 1,364,961
Employees	<u>59,306</u>
Total Accounts Payable	<u>\$1,424,267</u>

Due to Other Funds:	
Due to Department of Administration for municipal services payment	127,316
Due to other state programs	<u>978,335</u>
Total Due to Other Funds	<u>\$1,105,651</u>

Interfund Payables:	
Amounts due to other funds for short-term loans to cover the State Fair Park Fund's cash overdraft	<u>\$9,170,149</u>

11. INTERFUND TRANSFERS

Interfund transfers that occurred during FY 2004-05 are as follows:

A. State Fair Park Fund Transfers In

For Capital Building Projects	<u>\$303,628</u>
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B. State Fair Park Fund Transfers Out

For Required Lapses to the General Fund	\$ 221,699
For Municipal Services	242,211
Other	41
Total Transfers Out	<u>\$ 463,951</u>

12. SUBSEQUENT EVENT FOR THE STATE FAIR PARK FUND

A license agreement between State Fair Park and Milwaukee Mile Holdings, LLC, was entered into on December 19, 2005. Under the terms of the agreement, Milwaukee Mile Holdings will operate and promote the Milwaukee Mile, including the grandstand, racetrack, infield, media center, road course, Milwaukee Mile office building, and parking lot. Milwaukee Mile Holdings obtains use of the racetrack for a maximum of 134 days of each calendar year. State Fair Park retains use for the remaining 231 days. The term of the agreement is 18 years. License fees paid by Milwaukee Mile Holdings to State Fair Park are as follows:

- \$246,000 on June 19, 2006;
- \$1,822,230 on June 19, 2007;
- \$1,842,290 per year from June 2008 to June 2015; and
- \$1,717,290 per year from June 2016 to June 2023.

A letter of credit guarantees payment of two years of license fees to State Fair Park. It is anticipated that each year the letter of credit will be renewed. Annual license fees received by State Fair Park will be reduced by the annual cost of the letter of credit.

13. COMPONENT UNIT—STATE FAIR PARK EXPOSITION CENTER, INC.**A. Summary of Significant Accounting Policies***Organization*

The purpose of 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 Wisconsin

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 State Fair Park Exposition Center, Inc., will be dissolved. The Exposition Center reports on a fiscal year ended December 31.

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 \$3.1 million, 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, 2004, is \$28,788 and is included in interest expense. Letter of credit costs of \$32,423 incurred in 2004 are being amortized over the 12-month life of the letter of credit. Amortization of letter of credit costs for the year ended December 31, 2004, is \$63,874 and is included in interest expense.

Total Bond Issuance and Letter of Credit Costs	\$ 569,608
Accumulated Amortization	<u>(124,610)</u>
Unamortized Bond Issuance and Letter of Credit Costs	<u>\$444,998</u>

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 \$30,960 in 2004.

B. Concentration of Credit Risk for Cash and Cash Equivalents

The Exposition Center maintains cash balances at one bank. 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 \$1.4 million as of December 31, 2004.

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 \$3.1 million as of December 31, 2004.

C. 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, on which the entire principal balance is due. However, 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 expires on April 15, 2007. 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, 2004.

The balance outstanding on the industrial revenue bonds payable was \$40.8 million as of December 31, 2004. 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 future interest payments on bonds payable as of December 31, 2004, follows:

<u>Interest Payment</u>	
2005	\$ 2,531,453
2006	2,531,453
2007	2,531,453
2008	2,531,453
2009	2,531,453
2010-2014	12,657,265
2015-2019	12,657,265
2020-2024	12,657,265
2025-2029	<u>9,071,040</u>
Total	<u>\$59,700,100</u>

A summary of interest expense for 2004 is as follows:

<u>Interest Expense</u>	
Interest Incurred	\$ 2,534,921
Letter of Credit and Remarketing Fees	110,617
Amortization of Bond issuance Costs	28,788
Interest Earned	<u>(36,105)</u>
Total	<u>\$2,638,221</u>

D. Notes Payable

The Exposition Center has a \$125,000 non-interest bearing note payable due in September 2005, with a balance of \$45,000 in 2004.

E. 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 up to \$8,000 of their compensation for 2004. The Exposition Center matches 100.0 percent of participants' voluntary contributions, up to 3.0 percent of the participant's compensation. The Exposition Center contributed \$14,944 to the plan during 2004.

F. 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.

State Fair Park Exposition Center, Inc., entered into a ground lease agreement with the State Fair Park Board effective August 1, 2001. The operating lease allows it to construct and operate an exposition center on State Fair Park grounds. The term of the lease ends on the 28th anniversary of the date on which the construction of the Wisconsin Exposition Center was completed, with options for five one-year extensions. State Fair Park Exposition Center, Inc., shall pay rent equal to the excess of its annual gross revenues from all sources over its annual expenses of operating the Wisconsin 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, 2004.

State Fair Park Exposition Center, Inc., 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 Wisconsin 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 license agreement continues in effect until the ground lease expires or is terminated. License fees pursuant to this agreement totaled \$200,000 in 2004.

Accounts receivable includes \$97,108 from the State Fair Park Board as of December 31, 2004, primarily for reimbursement of parking and payroll for use of employees. Accounts payable and accrued expenses include \$58,091 to the State Fair Park Board as of December 31, 2004, primarily for contracted labor and services.



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 Wisconsin State Fair Park as of and for the year ended June 30, 2005, and have issued our report thereon dated June 5, 2006. We did not audit the financial statements of State Fair Park Exposition Center, Inc. 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 State Fair Park Exposition Center, Inc., is based solely upon 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. The financial statements of 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*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the State Fair Park Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our

consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the State Fair Park Fund'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*.

This independent auditor's report is intended for the information and use of the Wisconsin State Fair Park Fund's 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 internal control over financial reporting or on compliance, this report is not intended to be used by anyone other than these specified parties.

June 5, 2006

by

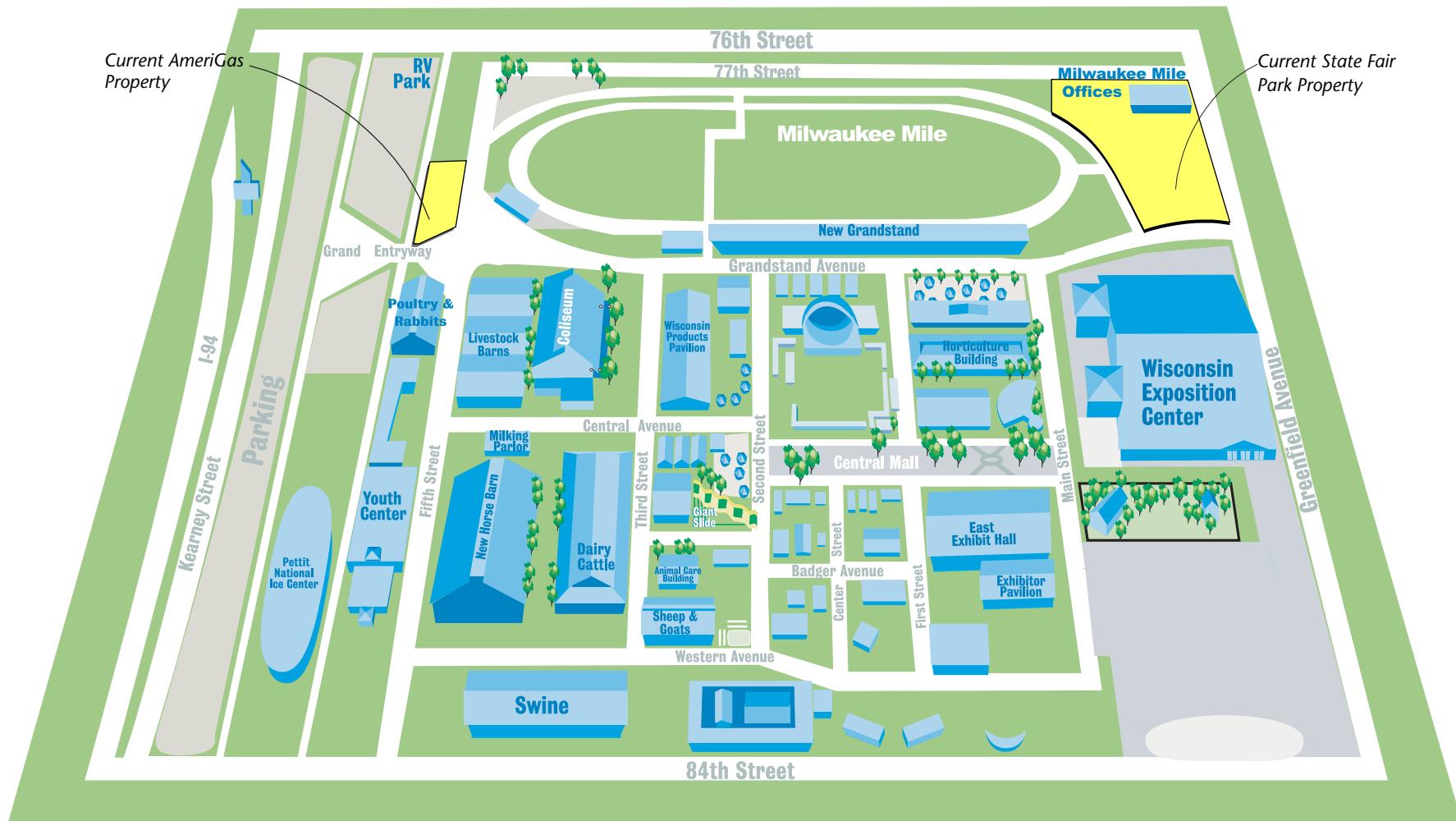
LEGISLATIVE AUDIT BUREAU



Julie Gordon
Audit Director

Appendix

Wisconsin State Fair Park



Source: State Fair Park

Area for proposed property exchange.



Wisconsin State Fair Park

640 S 84th St. • West Allis, WI 53214 • (414) 266-7000 • www.wsfp.state.wi.us

June 15, 2006

Janice Mueller, State Auditor
Wisconsin Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53704

Dear Ms. Mueller:

Thank you for providing State Fair Park an opportunity to respond to your audit of our fiscal year (FY) 2004-05 financial statements. State Fair Park received an unqualified opinion on its financial statements, which demonstrates our continued efforts to provide accurate financial data and be fully accountable to the public. Like previous reports, in addition to the financial statement opinion, the Legislative Audit Bureau comments on two operations that put substantial stress on State Fair Park's financial condition: the Milwaukee Mile and the Pettit Center. While the actions taken by State Fair Park to reduce the financial risks associated with these operations are reported, the magnitude of State Fair Park's improvements over such a short period of time is not readily apparent. I would like to provide some additional comment on the Milwaukee Mile and Pettit Center.

After the new grandstand was built, State Fair Park became responsible for the Milwaukee Mile's annual debt service payment of approximately \$1.9 million. In hopes of reducing this liability through active management, State Fair Park acquired the promotional rights from a private track promoter. Rather than reducing capital costs, additional losses were incurred related to operating the track. After operating for one season, it became clear that a public entity is not equipped to effectively manage a racetrack. Following the advice of industry experts, State Fair Park used word of mouth and a guarantee of confidentiality to solicit interest in licensing Milwaukee Mile operations. Nine qualified entities ultimately expressed interest, which is substantially more than would have responded to a more typical 'request for proposals' process.

Excluding the first year when a discount is provided because the promoter will not have time to avoid a loss, State Fair Park has limited its financial risk associated with the Milwaukee Mile to no more than \$250,000 annually, which is \$2.75 million less than if State Fair Park kept operating the track. These enormous savings are only possible because of the creative addition of including an exchange of land for development purposes as part of the license agreement. This addition not only benefits the promoter and State Fair Park but also the City of West Allis. Furthermore, incurring annual costs of up to \$250,000 is justified by the parking and concert revenues earned from use of the racetrack and grandstand during the State Fair.

Ms. Mueller
Page 2
June 15, 2006

The Legislative Audit Bureau reports State Fair Park's attempts to reduce the financial risks associated with owning the Pettit Center building. While the initiatives to-date have failed, State Fair Park has taken steps to ensure all rent for FY 2004-05 and FY 2005-06 has or will be received, although the final payments for each year were or will be received in August and September, or within three months of the fiscal year-end. State Fair Park has eliminated cash flow problems related to debt service payments since July 2004. Furthermore, a sale that does not include any state financial support will be pursued and finalized during FY 2006-07. Because of these actions, State Fair Park does not expect to fund any future debt service payments with its program revenue.

I would also like to comment on the Wisconsin Exposition Center's refinancing plans. The Legislative Audit Bureau correctly highlights the long-term cash flow concerns with this operation even if refinancing is obtained. Nevertheless, once completed, refinancing will create an extended period of financial stability in an operation that has faced significant financial challenges since it opened. During this period, Exposition Center management will have the time necessary to develop new business, including naming rights and sponsorship revenue. The action currently being taken is the first and most important step in creating a viable exposition business.

The Legislative Audit Bureau's concerns for the future are valid. State Fair Park has learned just how much and for how long a few capital decisions can constrain operations. Although it very well may take 20 years or more to totally eliminate the deficit, State Fair Park is proud that it will generate a profit next fiscal year after seven years of losses. State Fair Park program managers are committed to putting on one of the best state fairs in the country each year while avoiding a need to rely on state resources.

I would like to finish by complimenting you on the professionalism of your staff and the efforts taken by them to understand our operations. We appreciate the advice provided by the Legislative Audit Bureau, and State Fair Park will comply with the audit recommendation to provide plans to stabilize State Fair Park's financial condition to the Joint Legislative Audit Committee by January 1, 2007.

Sincerely,



Randy Prasse
Executive Director