

An Audit:

State Fair Park

June 2010

Report Highlights ■

Revenue exceeded expenditures by \$828,000 in FY 2008-09.

State Fair Park has not properly tracked and monitored the use of in-kind support to fund its operations.

State Fair Park is again managing operations of the Milwaukee Mile racetrack internally.

State Fair Park is now responsible for operating the Wisconsin Exposition Center, which the State purchased in 2009.

Key Facts and Findings

As of June 30, 2009, State Fair Park's accumulated cash deficit was \$7.8 million.

We have issued an unqualified opinion on State Fair Park's financial

State Fair Park, the 190-acre fairgrounds located in West Allis and Milwaukee, is home to the Wisconsin State Fair. The State Fair Park Board is responsible for its management. In fiscal year (FY) 2008-09, State Fair Park's operating budget was \$18.2 million.

We are required by statutes to perform an annual financial audit of State Fair Park and have issued an unqualified opinion on its financial statements for FY 2008-09. They are included in our report. We have also continued to monitor State Fair Park's financial condition, including efforts to improve its financial performance. As part of our audit, we reviewed:

- revenue and expenditure data for FY 2008-09, as well as the status of the accumulated cash deficit in the program revenue appropriation that funds State Fair Park's operating expenses and debt service costs;
- State Fair Park's use of in-kind support, in which businesses provide goods or services to State Fair Park in exchange for admission tickets and other items, as well as State Fair Park's procedures for tracking and monitoring the distribution of tickets by managers;
- the current status of the Milwaukee Mile racetrack; and
- the State of Wisconsin's recent purchase of the Wisconsin Exposition Center, including State Fair Park's financial projections for operating the facility.

Fiscal Condition

In FY 2008-09, revenue exceeded expenditures by \$828,000. An increase in attendance at the Wisconsin State Fair, which increased admissions, concessions, and parking revenues, helped State Fair Park achieve positive operating results for the third year in a row.

statements for FY 2008-09.

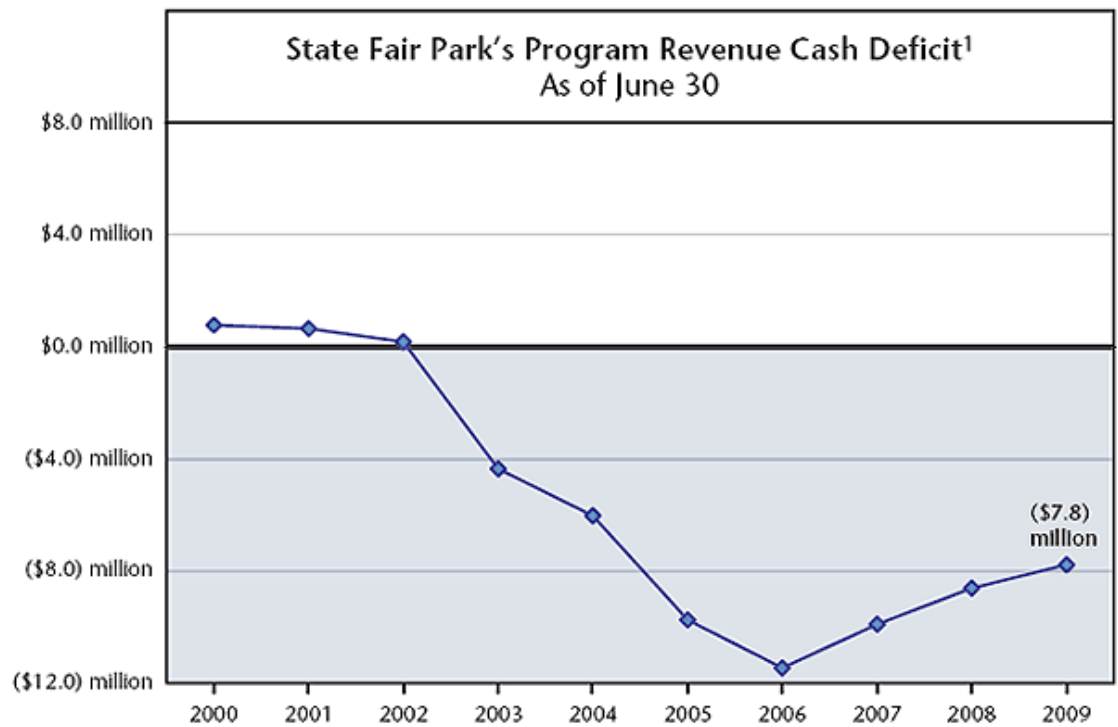
No national races will be held at the Milwaukee Mile in 2010.

In December 2009, the State purchased the Wisconsin Exposition Center building for \$13.9 million.

Milwaukee Mile Holdings and State Fair Park continue to be involved in a dispute over the terms of a letter of credit.

Racetrack operations are estimated to have a loss of \$2.0 million in 2010.

State Fair Park projects a surplus from Exposition Center operations in future years.



¹ Includes statutorily required lapses as of June 30 from 2003 through 2005.

State Fair Park was able to reduce the accumulated cash deficit in its program revenue appropriation to \$7.8 million on June 30, 2009. However, because this deficit reduces funding available for other state programs and limits the State's ability to generate income from investment earnings, State Fair Park will need to continue to take steps to address it.

In-Kind Support

An important source of funding for State Fair Park operations is in-kind support, which involves businesses providing goods or services to State Fair Park in exchange for admission tickets, parking passes, advertising exposure, and other items.

In-kind support can be beneficial to State Fair Park. For example, by partnering with radio stations and other businesses through an agreement to promote the Wisconsin State Fair, State Fair Park is able to better reach its customers without a cash outlay.

However, engaging in this type of activity comes with a risk of inappropriate use that requires careful monitoring and tracking.

We are concerned because State Fair Park has few policies and procedures in place to ensure transparency and accountability over the process.

We reviewed 122 in-kind agreements from the 2008 and 2009 fairs and noted several concerns. For example, formal written agreements did not exist in nine instances, and the number of main stage concert tickets distributed did not always match the documentation authorizing their distribution.

State Fair Park also has included an in-kind component in some procurement bids. We caution State Fair Park to ensure all businesses have an equal opportunity to participate in the bidding process.

Although required to do so by generally accepted accounting principles, State Fair Park did not report in-kind support in its financial statements until we raised concerns during this audit. State Fair Park eventually estimated that it received approximately \$1.0 million in in-kind support during FY 2008-09. Advertising and promotions accounted for more than three-quarters of the estimated in-kind support.

Milwaukee Mile Racetrack

State Fair Park entered into a license agreement with Wisconsin Motorsports LLC in February 2009. Wisconsin Motorsports held two national races at the Milwaukee Mile but experienced financial difficulties, and State Fair Park terminated the license agreement in July 2009.

State Fair Park was unable to secure a new external promoter for the 2010 racing season and announced in December 2009 that national races would not be held at the Milwaukee Mile in 2010. Racetrack operations are again being managed internally.

State Fair Park anticipates that revenue from racing events will exceed expenditures by \$80,900 for the 2010 racing season. However, in 2010, track improvements are planned and State Fair Park is responsible for \$1.9 million in debt service costs related to the grandstand renovation and prior racetrack improvements. After considering these costs, we estimate State Fair Park will incur a net loss on racetrack operations of nearly \$2.0 million for 2010.

State Fair Park continues to be involved in a legal dispute over a letter of credit that was meant to protect it in the event the former racetrack promoter, Milwaukee Mile Holdings LLC, defaulted on or terminated its license agreement.

To stop a payment under the terms of the letter of credit, Milwaukee Mile Holdings filed a lawsuit against State Fair Park in July 2009. A \$2.6 million payment to State Fair Park was made in August 2009, but the lawsuit remains pending in Dane County Circuit Court.

Wisconsin Exposition Center

The Wisconsin Exposition Center exhibition hall located on the fairgrounds was constructed with funding from \$44.9 million in industrial revenue bonds.

The State Fair Park Exposition Center, Inc., which owned and managed the facility until December 2009, had accumulated a deficit of \$4.3 million through calendar year 2008. A contributing factor to this decline was the required interest on the construction bonds.

The State purchased the facility for \$13.9 million in December 2009. The purchase price was significantly less than the outstanding debt on the facility because a financial services company that had owned the bonds declared bankruptcy in 2008. Operational responsibility for the facility was transferred to State Fair Park in December 2009, and State Fair Park assumed ownership in May 2010.

In March 2010, the Joint Committee on Finance approved the hiring of 9.0 full-time equivalent program revenue-supported positions to operate the Exposition Center. Until these positions are filled by State Fair Park, the facility's day-to-day operations will be managed by the Exposition Center, Inc., under a management agreement with State Fair Park.

State Fair Park believes that it can reduce Exposition Center expenses through economies of scale and other efficiencies. State Fair Park anticipates that Exposition Center revenue will exceed expenditures in both FY 2009-10 and FY 2010-11.

We will continue to monitor State Fair Park's management of the Exposition Center.

Recommendations

Our report includes recommendations for State Fair Park to report to the Joint Legislative Audit Committee by March 1, 2011, on:

- its steps to improve controls and better monitor the use of in-kind support (p. 17);

its steps to improve controls and better monitor the distribution of Wisconsin State Fair tickets by managers ([p. 19](#));

- its long-term plans for managing the Milwaukee Mile racetrack ([p. 26](#)); and
- the status of Wisconsin Exposition Center operations ([p. 32](#)).

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