

An Audit

# **State Fair Park**

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State Auditor - Janice Mueller

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From the Executive Director of State Fair Park	
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**STATE OF WISCONSIN**  
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Janice Mueller  
State Auditor

June 15, 2005

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) 2003-04 financial statements. In addition, we followed up on audit findings and recommendations included in our 2004 report (report 04-5).

Expenditures have exceeded revenues in each of the past five years. Since FY 1999-2000, State Fair Park has reported a total deficit of \$7.3 million, including a \$1.8 million deficit in FY 2003-04.

Our 2004 report noted that poor business planning and optimistic financial projections for three entities located on the fairgrounds—the Milwaukee Mile, the Pettit National Ice Center, and the Wisconsin Exposition Center—had contributed to the decline in State Fair Park's financial condition. As we recommended, all three entities have continued to refine and modify their business plans. However, the 2004 business plans were also overly optimistic, and actual revenues have consistently fallen short of what was projected. In addition, the business plans lack both specific details as to how initiatives will be implemented and performance measurements by which to evaluate their success.

State Fair Park projects that in FY 2004-05, expenditures will exceed revenues by as much as \$3.9 million. To limit future demands on State Fair Park, agency officials have expressed their intention to lease the Milwaukee Mile to a private promoter effective January 1, 2006. Options to sell the Pettit National Ice Center are also being explored. Given these significant changes, we include a recommendation that State Fair Park report to the Joint Legislative Audit Committee on its plans for improving the fairgrounds' financial condition, including long-term plans for its organizational structure and its relationships with the Pettit National Ice Center and the Wisconsin Exposition Center.

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,

Handwritten signature of Janice Mueller.

Janice Mueller  
State Auditor

JM/JG/ss



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## Report Highlights ■

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***State Fair Park's overall financial condition deteriorated through FY 2003-04.***

***Expenditures have exceeded revenues by \$7.3 million since FY 1999-2000.***

***Business plans for 2004 were proven to be overly optimistic when actual revenues fell short of projections.***

***We recommend State Fair Park report to the Joint Legislative Audit Committee by October 31, 2005, on its plans for improving financial operations.***

State Fair Park, the 190-acre fairgrounds located in West Allis and Milwaukee, is home to the annual Wisconsin State Fair. The 11-day fair, which is one of the state's oldest and largest annual events, features midway rides and games, livestock shows, livestock auctions, craft exhibits, musical entertainment, and food and merchandise vendors. More than 879,000 people attended the August 2004 Wisconsin State Fair.

Statutes require us 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) 2003-04 financial statements, which are included in our report. In addition, we have followed up on concerns we expressed in 2004 regarding State Fair Park's financial condition, as well as business planning related to three fairgrounds activities or entities:

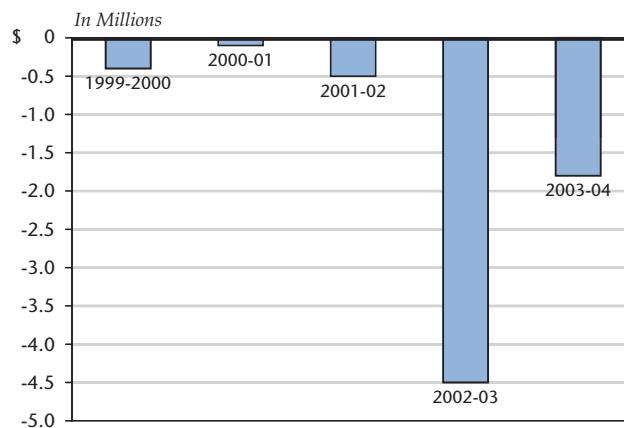
- the Milwaukee Mile racetrack and its grandstand, which State Fair Park began to manage internally in May 2003;
- the Pettit National Ice Center, a United States Olympic training facility that is owned by State Fair Park but operated by a private not-for-profit corporation; and
- the Wisconsin Exposition Center, which is owned by a not-for-profit corporation, used exclusively for the Wisconsin State Fair each August, and available for other events during the rest of the year.

## Fiscal Decline through 2004

Since FY 1999-2000, State Fair Park has reported a total deficit of \$7.3 million. Expenditures have exceeded total revenues in each of the past five years. As shown in Figure 1, the largest deficits were reported in FY 2002-03 and FY 2003-04.

Figure 1

**State Fair Park Deficits**



Some expenditures in those years—including required lapses to the State’s General Fund totaling \$2.6 million—were beyond the control of agency staff or the State Fair Park Board. However, even without such external factors, annual expenditures would have exceeded revenues by \$1.8 million in FY 2002-03 and by \$1.3 million in FY 2003-04. State Fair Park officials project the overall FY 2004-05 deficit could be as much as \$3.9 million.

In recent years, State Fair Park has undertaken a building program to make the fairgrounds more of a year-round entertainment attraction. This program has included new and renovated facilities, such as:

- a new grandstand and expanded bleacher seating for the Milwaukee Mile racetrack, which were completed in time for the 2003 racing season at a cost of \$19.1 million; and



- the new Wisconsin Exposition Center, which replaced several existing exhibit buildings and was completed in time for the 2002 State Fair at a cost of \$37.8 million.

However, overly optimistic revenue projections that were used to support these and other construction projects have not been met. Instead, the projects have contributed to State Fair Park's declining financial condition.

To fund fairgrounds improvements, State Fair Park has relied on funding from bonds. Through FY 2012-13, debt repayment from State Fair Park revenues is expected to be more than \$3.4 million annually. If State Fair Park revenues are insufficient to cover these costs, the State could ultimately be called on to fund them. In addition, \$2.3 million in annual debt service costs from general purpose revenue (GPR)-supported debt has been issued for State Fair Park improvements.

## 2004 Operating Results

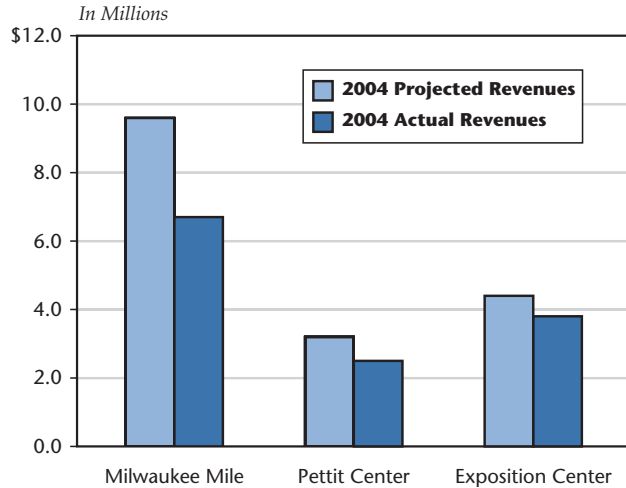
In prior reports, we recommended that State Fair Park develop and then continue to refine and modify business plans, considering internal operations—including the Milwaukee Mile's racing activities—and external operations such as the Pettit National Ice Center and the Wisconsin Exposition Center. However, as shown in Figure 2, the business plans and operating budgets developed by State Fair Park for its racing activities and by the Pettit Center and the Exposition Center have proven to be overly optimistic, resulting in revenues that fall short of projections. For example:

- State Fair Park estimated that Milwaukee Mile revenues would increase 77.7 percent, from \$5.4 million during the 2003 racing season to \$9.6 million in the 2004 racing season. However, actual revenues increased by only \$1.3 million, or 24.1 percent.
- The Pettit Center projected that revenues from program activities would increase 35.8 percent, from nearly \$2.1 million in 2003 to \$2.8 million in 2004. However, actual revenues from program activities increased by less than 1.0 percent in 2004.

- The Exposition Center projected that total revenue would increase 10.0 percent, from nearly \$4.0 million in 2003 to \$4.4 million in 2004. However, actual revenues declined to \$3.8 million.

Figure 2

**State Fair Park Revenues**



**2005 Business Planning**

The 2005 business plans include initiatives that are similar to those in prior plans. Like the 2004 projections, they again include revenue increases:

- In December 2004, the State Fair Park Board projected that racing revenues would increase 40.7 percent, from \$6.7 million in 2004 to \$9.5 million in the 2005 season.
- The Pettit Center’s 2005 business plan projects an 11.1 percent increase in total revenue, from nearly \$2.5 million in 2004 to \$2.7 million in 2005.
- The Exposition Center projects its revenues will increase 12.2 percent, from nearly \$3.8 million in 2004 to \$4.2 million in 2005.

However, in April 2005, State Fair Park revised its projections to reflect an anticipated net loss of \$1.8 million from Milwaukee Mile racing activities for the 2005 racing season. In addition, the Exposition Center has not yet increased the number of consumer and trade shows anticipated for 2005, which may make its projected increase in revenue difficult to meet.

## Proposed Future Changes

The State Fair Park Board, the Pettit Center, and the Exposition Center Board are exploring options to improve their financial outlooks. For example, after incurring total losses of more than \$4.3 million since assuming operational control of the Milwaukee Mile in 2003, State Fair Park officials hope to again transfer operating responsibility to a private promoter in January 2006. However, the Milwaukee Mile will continue to be managed internally for the 2005 racing season.

The State Fair Park Board is also exploring options to sell the Pettit Center, which owed State Fair Park \$1.1 million in past-due rent as of May 2005. To ensure the Pettit Center continues as an Olympic training facility, State Fair Park and Pettit Center staff are negotiating the sale of the building and a portion of the surrounding land to the not-for-profit corporation that operates it.

Any future demands the Exposition Center may place on State Fair Park are unknown, but the Exposition Center is projecting a net loss of \$1.3 million for calendar year 2005. Exposition Center staff have indicated that if sufficient resources are not available to meet financial obligations in 2007, reserve funds may be used to cover debt service costs. Doing so could jeopardize a letter of credit issued by a commercial lender to support Exposition Center construction bonds.

## Recommendation

We include a recommendation for State Fair Park to:

- report to the Joint Legislative Audit Committee by October 31, 2005, on its financial condition and plans for improving the overall financial operations of the fairgrounds (*p. 43*).

At a minimum, we believe the plans should address the long-term organizational structure of racing activities at the fairgrounds, as well as State Fair Park's operating and management relationships with the Pettit Center and the Exposition Center.



## Introduction ■

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State Fair Park has been home to the Wisconsin State Fair since 1892 and has operated as an independent state agency—the State Fair Park Board—since 1990. For administrative purposes, the Board is currently attached to the Department of Tourism. State Fair Park’s financial operations are closely tied to two not-for-profit corporations that operate facilities located on the fairgrounds:

- The Wisconsin Exposition Center is owned and governed by a not-for-profit corporation created by the State Fair Park Board and whose governing body includes the chair of the State Fair Park Board.
- The Pettit National Ice Center is owned by State Fair Park but managed by a not-for-profit corporation whose board is independent of the State Fair Park Board.

Racing activities also significantly affect State Fair Park’s financial operations. The Milwaukee Mile racetrack and grandstand seating area, which encompass more than one-quarter of the fairgrounds, were managed by a private racing contractor until May 2003, at which time State Fair Park began to manage them directly.

***State Fair Park’s operations are funded primarily by program revenue.***

State Fair Park is funded primarily by program revenue from the Wisconsin State Fair held each August, although some income comes from non-fair enterprises and activities. In 2003 Wisconsin Act 33, the 2003-05 Biennial Budget Act, State Fair Park’s FY 2004-05 operating budget was established at \$16.4 million. However, as of

May 2005, that amount was increased to \$22.7 million to take into consideration costs State Fair Park has incurred for managing the Milwaukee Mile.

While State Fair Park was authorized 45.2 full-time equivalent employees in FY 2002-03, its authorized staff was reduced by 15.0 positions, from 45.2 to 30.2, for the 2003-05 biennium. State Fair Park also employs approximately 1,500 limited-term employees, the majority of whom work exclusively during the 11-day State Fair.

***We provided an unqualified audit opinion on State Fair Park's FY 2003-04 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 2003-04 financial statements, which are included in this report. In addition, we have followed up on audit findings and recommendations included in our 2004 report (report 04-5) by reviewing:

- State Fair Park's current financial position and its efforts to improve its financial performance;
- 2005 business plans developed by the Milwaukee Mile, the Pettit National Ice Center, and the Wisconsin Exposition Center; and
- options the Legislature and others may wish to consider related to State Fair Park's current operations and future mission.

### **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 resident from anywhere in the state; and
- four legislators: two from the Assembly and two from the Senate.

***The State Fair Park Board has experienced significant turnover, with six new members since May 2004.***

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. Since May 2004, the 13-member Board has experienced significant turnover. Only three members, including two legislators, have served for more than four years. The current chairperson was appointed to the Board in February 2003, and six other members were appointed from May 2004 through May 2005.

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. However, with the resignation of this independent contractor, the State Fair Park Board decided to again hire an executive director through the State's unclassified employment system. The new executive director was appointed in December 2004, at an annual salary of \$90,000.

As noted, State Fair Park's authorized staffing level was reduced by 15.0 positions during the 2003-05 biennium. In April 2004, State Fair Park eliminated 9.0 of those 15.0 positions, including:

- 2.0 program assistants;
- 1.0 financial specialist;
- 1.0 information systems support technician; and
- 5.0 maintenance-related positions, including two mechanics, two laborers, and a storekeeper.

The remaining six positions, which included 3.6 administrative positions and 2.4 laborer positions, were eliminated between February 2005 and June 2005. The position eliminations resulted in only one employee being laid off because 10.4 positions were already vacant and 3.6 positions had been vacated voluntarily.

## State Fair Park Finances

In previous reports, we indicated that State Fair Park’s financial condition had deteriorated because operating costs had increased at a greater rate than revenues. In FY 2003-04, expenditures continued to exceed revenues. While the size of the deficit was reduced from the prior year, State Fair Park’s financial condition continues to be a concern.

### Revenues and Expenditures

***State Fair Park’s expenditures exceeded revenues by \$1.8 million in FY 2003-04.***

As shown in Table 1, State Fair Park’s total expenditures, which include operating, capital, and debt service costs, have exceeded total revenues in each of the past five years. State Fair Park has reported a total deficit of \$7.3 million since FY 1999-2000.

Table 1

**State Fair Park Revenues, Expenditures, and Lapses<sup>1</sup>**

Fiscal Year	Revenues	Expenditures and Lapses <sup>2</sup>	Surplus/(Deficit)
1999-2000	\$15,242,451	\$15,610,735	\$ (368,284)
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	20,446,226	(4,527,962)
2003-04	19,890,268	21,706,900	(1,816,632)

<sup>1</sup> Data are provided on a budgetary basis.

<sup>2</sup> Includes lapses to the State’s General Fund of \$2.4 million in FY 2002-03 and \$179,700 in FY 2003-04.

While the State Fair Park Board approves the operating budget and building projects that result in capital costs and subsequent debt service costs, other factors affecting expenditures are beyond the control of either the Board or State Fair Park staff. For example, 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 during the 2001-03 biennium, and \$179,700 in FY 2003-04. These lapses are reflected in State Fair Park’s expenditures. In addition, monthly rental payments from the Pettit



National Ice Center have consistently been less than the debt service costs State Fair Park paid on bonds that supported construction of the facility. Nevertheless, if the lapses had not occurred and Pettit Center payments had covered debt service costs, annual expenditures still would have exceeded revenues by \$1.8 million in FY 2002-03 and by more than \$1.3 million in FY 2003-04.

**State Fair Park projects that FY 2004-05 expenditures could exceed revenues by as much as \$3.9 million.**

Final FY 2004-05 financial data are not yet available. However, staff indicate that State Fair Park will again record a deficit in FY 2004-05. Through May 2005, State Fair Park reported revenues of \$16.9 million and expenditures of \$22.3 million, including a required \$186,000 lapse to the General Fund. According to State Fair Park staff, additional revenues for the August 2005 State Fair and for major racing events are expected to reduce this \$5.4 million deficit to \$3.9 million or less in the remaining month of the fiscal year.

**Cash Deficit**

**State Fair Park reported a cash deficit of \$6.0 million as of June 30, 2004.**

State Fair Park’s capital expenses are funded in part through past revenues that were set aside in a statutorily required capital reserve fund. Non-capital expenses, including operating and debt service costs, are funded by ongoing program revenue appropriations. As of June 30, 2004, the capital reserve fund had a balance of \$703,800. However, the program revenue appropriations had a cash deficit of \$6.0 million because expenditures and transfers from these appropriations greatly exceeded revenues during the past several fiscal years. As shown in Table 2, current assets, such as accounts receivable, supported only \$4.1 million of the \$6.0 million deficit.

Table 2

**Unsupported Cash Deficit in Program Revenue Appropriations  
As of June 30, 2004**

Cash Balance	\$(6,027,212)
Current Assets <sup>1</sup>	4,061,929
<b>Unsupported Cash Deficit</b>	<b>\$(1,965,283)</b>

<sup>1</sup> Primarily includes the amounts billed to customers as of June 30, 2004, but not yet paid.

A cash deficit in any program revenue appropriation means funds from other appropriations in the State’s General Fund are needed to

pay that appropriation's expenditures, costing the General Fund an opportunity to invest and earn interest on those funds. State Fair Park's cash deficit is an important indicator of its poor financial condition.

### **Debt Service Costs**

In the past, State Fair Park's facilities and infrastructure did not receive consistent, adequate attention for extended periods of time, and years passed without significant building or renovation projects. In 1996, the need for improvements to the fairgrounds was highlighted when deferred repair and maintenance projects were identified by the Department of Administration and reported by this office (report 96-2), and when safety concerns with the existing youth dormitory were identified by the State Fair Park Board. To address the youth dormitory needs, \$13.0 million in funds from bonding that would be repaid with GPR was provided to construct what became the Tommy G. Thompson Youth Center.

***In August 2000, a \$160.0 million building program to revitalize the fairgrounds was initiated.***

In August 2000, after it was determined that several other State Fair Park buildings could not be used in their existing condition or easily adapted for current needs, a \$160.0 million building program, known as the master plan, was also initiated. This comprehensive program was intended to enhance State Fair Park's opportunities to generate revenue and to increase total revenue from non-fair events.

***From FY 1999-2000 through FY 2003-04, State Fair Park's building program cost \$83.5 million.***

The master plan has affected almost all activities at the fairgrounds, with construction to date including a new grandstand and expanded bleacher seating for the Milwaukee Mile; a new exposition center; new and remodeled agriculture and livestock buildings; a park for recreational vehicles; and aesthetic items such as a new gateway at the fairgrounds' north entrance, lighting, fencing, and signage. As shown in Table 3, from FY 1999-2000 through FY 2003-04, fairgrounds construction projects cost \$83.5 million. A map of State Fair Park, including its major facilities, is the appendix.

Table 3

**Building Program Expenditures**  
FY 1999-2000 through FY 2003-04  
(In Millions)

Construction of Exposition Center	\$37.8
Milwaukee Mile Grandstand, Bleacher Seating, and Racetrack Improvements	21.6
Renovation and Construction of Agricultural and Other Buildings	11.6
Infrastructure and Other Improvements	8.3
Construction of Entrance Gate and Fencing	2.5
Construction of Recreational Vehicle Park	1.7
<b>Total</b>	<b>\$83.5</b>

***State Fair Park may not be able to make debt service payments if revenues do not increase in the future.***

To fund improvements to the fairgrounds, State Fair Park has relied on bonds supported by its own revenues and GPR, and on the State's Stewardship Program, which is funded primarily with GPR. From the time the youth dormitory was constructed in FY 1995-96 through FY 2003-04, improvements using these funding sources have cost \$62.9 million, as shown in Table 4. The Wisconsin Exposition Center, which was funded with industrial revenue bonds issued by the City of West Allis, is excluded from this amount because Department of Administration officials believe the State has no legal or other obligation to repay these bonds. Nevertheless, State Fair Park's ability to meet its program revenue-supported debt obligations may be limited, at least in the short run, if its program revenues do not increase or if expenditures do not decline. If program revenues are insufficient to cover these debt service costs, the State would ultimately be called on to fund debt service payments with GPR.

Table 4

**Funding Sources for State Fair Park Construction<sup>1</sup>**  
(In Millions)

Fiscal Year	Program Revenue– Supported Bonds	GPR- Supported Bonds	Stewardship Program	Total Construction Costs
1995-96	\$ 1.9	\$ 2.6	\$ 0.0	\$ 4.5
1996-97	0.5	7.4	0.0	7.9
1997-98	1.3	1.0	0.0	2.3
1998-99	1.9	0.5	0.0	2.4
1999-2000	1.2	1.6	0.0	2.8
2000-01	6.0	3.3	0.0	9.3
2001-02	4.0	1.7	2.0	7.7
2002-03	14.3	7.6	0.0	21.9
2003-04	1.8	2.3	0.0	4.1
<b>Total</b>	<b>\$32.9</b>	<b>\$28.0</b>	<b>\$2.0</b>	<b>\$62.9</b>

<sup>1</sup> Excludes industrial revenue bonds used to fund construction of the Wisconsin Exposition Center at a cost of \$37.8 million.

State Fair Park used program revenue–supported bonds primarily to fund:

- construction of the new Milwaukee Mile grandstand;
- refurbishment of its north gate entrance; and
- installation of laundry facilities, shower facilities, and year-round hook-ups for sewer, water, and electricity for its recreational vehicle park.

According to information available as of June 30, 2004, debt service payments from FY 2004-05 through FY 2023-24 for program revenue–supported debt are expected to total approximately \$55.4 million. Annual payments are expected to be more than \$3.4 million through FY 2012-13.

***Annual GPR debt service payments for State Fair Park improvements will be at least \$2.3 million through FY 2012-13.***

GPR funds, including GPR-supported bonds and the Stewardship Program, have been provided to State Fair Park for a variety of projects, including the youth dormitory and improvements to State Fair Park's agricultural buildings and infrastructure. Stewardship Program funds were used for site development costs related to construction of the Wisconsin Exposition Center. As of June 30, 2004, total debt service payments to be funded with GPR were expected to be more than \$42.1 million from FY 2004-05 through FY 2023-24. Annual payments were expected to be at least \$2.3 million through FY 2012-13.

State Fair Park's future profitability and its ability to pay future debt service costs are closely linked with the profitability of the Milwaukee Mile, the Pettit Center, and the Wisconsin Exposition Center. The State Fair Park Board has worked with these entities to develop business plans and to define operating and management relationships. Continued efforts to refine ongoing relationships with non-fair activities and facilities located on the fairgrounds will be important in improving State Fair Park's financial position.

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## The Milwaukee Mile ■

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***State Fair Park managed the Milwaukee Mile internally during the 2003 and 2004 racing seasons.***

The Milwaukee Mile racetrack, its management structure, and its financial relationship with State Fair Park have undergone significant changes in recent years. In May 2003, two days before the start of the 2003 racing season, the State Fair Park Board announced that it was terminating its racing contract with a private promoter so that the Milwaukee Mile could be managed and promoted internally. At that time, State Fair Park officials believed this change would increase revenues and eliminate financial losses from racing activities. However, the Milwaukee Mile incurred losses of \$693,600 during the 2003 racing season and \$3.7 million during the 2004 racing season, and it is currently projected to lose \$1.8 million in the 2005 racing season.

### **Milwaukee Mile Construction**

***In 2002, bonds totaling \$20.5 million were authorized for the Milwaukee Mile grandstand project.***

As noted, several construction projects have been completed at the Milwaukee Mile in recent years. For example, in response to concerns that the original grandstand, which was built in 1938, was unsafe and did not provide concession, meeting, and restroom space desirable for racing and other events, the State Fair Park Board in 2002 proposed \$19.5 million in program revenue-supported bonds for rebuilding the grandstand. These bonds were later approved by the State's Building Commission, which also authorized \$1.0 million in GPR-supported bonds for site development costs for the project.

Ultimately, corporate suites and permanent concession and vendor stands that had been included in State Fair Park's initial plans were removed from the project to reduce costs, and the new grandstand facility was completed in two phases. First, new bleacher seating for 16,000 spectators was installed outside the grandstand in time for the 2002 racing season. Second, the old grandstand was razed in September 2002, and a new grandstand with seating for 23,000 spectators was substantially completed in May 2003, providing the Milwaukee Mile with total seating capacity for 39,000 spectators.

***Additional Milwaukee Mile improvements of \$1.4 million were approved in January 2004.***

In October 2003, the State Fair Park Board approved up to \$1.8 million in additional improvements to the Milwaukee Mile racetrack. In January 2004, the State Building Commission approved \$1.4 million of this amount in program revenue-supported bonds to construct media and critical care centers; to provide the safety improvements mandated by sanctioning bodies; and to complete other projects, such as decorative fencing and electrical upgrades, intended to further enhance the aesthetics and safety of the racetrack.

In September 2004, the State Fair Park Board approved its capital projects budget for the 2005-07 biennium, including \$1.4 million in improvements to the Milwaukee Mile racetrack. State Fair Park staff indicated that these improvements will include installation of a new barrier wall system for safety, as well as projects to repave the track surface. In April 2005, the State Building Commission approved program revenue-supported bonds of that amount. However, in May 2005, the Joint Committee on Finance modified the State Building Commission's recommendation by reducing the authorized amount to \$1.2 million and changing the bond funding from program revenue to GPR.

## **Milwaukee Mile Management**

As noted, State Fair Park contracted with a private racing promoter from 1992 to May 2003, at which time the contract was terminated. State Fair Park agreed to pay the promoter, Haas Racing, \$250,000 in cash in consideration for terminating the contract.

***In January 2004, the State Fair Park Board approved a two-year contract with the Milwaukee Mile's general manager.***

State Fair Park retained the promoter's general manager and eight other employees previously employed by Haas Racing. As part of the buyout agreement, State Fair Park assumed the promoter's responsibility for a contract for services with the general manager. That contract expired in January 2004, at which time the State Fair Park Board approved a new two-year contract with the general manager. A competitive contracting process was not used because State Fair Park staff believed relatively few people were qualified for



this position. The sole-source contract was approved by the Governor in May 2004.

***The Milwaukee Mile's  
general manager  
resigned effective  
May 1, 2005.***

Under the terms of the 2004 contract, State Fair Park paid the general manager \$12,750 per month, for a total annual salary of \$153,000, and reimbursed him for the cost of health insurance, which was \$900 per month. In addition, the contract gave the general manager control over the day-to-day operations of the Milwaukee Mile, as well as broad authority to enter into sponsorship agreements and other contracts on behalf of State Fair Park. However, it required the general manager to follow the Board's contracting policies when incurring financial obligations, making purchasing commitments, or acquiring assets, and to seek approval from the executive director or the State Fair Park Board as required by State Fair Park policies. During our review of State Fair Park expenditures and the Board's minutes, we found that expenditures were approved by State Fair Park staff, and the minutes included the approval of agreements and contracts related to the Milwaukee Mile. In April, the general manager announced that he would resign effective May 1, 2005.

Several employment options were considered for the eight other Milwaukee Mile employees, including hiring them as state employees or seeking authorization from the Department of Administration to enter into individual consulting contracts. However, because of the time required to implement these options, these individuals were instead hired by the Wisconsin Exposition Center, which is not subject to the State's hiring requirements. The Exposition Center is reimbursed by State Fair Park for salary and fringe benefit costs, plus a processing fee of 2 percent. As we noted in past reports, funding Milwaukee Mile employees through the Exposition Center bypasses mechanisms for executive and legislative control of State Fair Park's position authority. While State Fair Park staff indicated this funding method was a temporary arrangement that would be used only for the 2003 racing season, the arrangement continues. The estimated cost for the Milwaukee Mile positions paid through the Exposition Center was \$482,500 from July 2004 through May 2005.

## **Milwaukee Mile Financial Condition**

Concerns regarding the Milwaukee Mile's financial condition were initially expressed when State Fair Park's racing revenues declined significantly between the 2001 and 2002 racing seasons. These concerns have continued into 2003 and 2004, in part because business plans and financial projections related to the Milwaukee Mile have been overly optimistic.

***The Milwaukee Mile generated a \$3.7 million net loss in the 2004 racing season.***

Since operating the Milwaukee Mile internally, State Fair Park has incurred losses of more than \$4.3 million. State Fair Park anticipated that a profit of approximately \$70,700 would be generated from the 2004 racing season, but instead the Milwaukee Mile incurred a loss of nearly \$3.7 million, as shown in Table 5.

Table 5

**Milwaukee Mile Budget to Actual Comparison**  
Calendar Year 2004

	2004 Budget	2004 Actual
Revenues:		
Admissions	\$5,875,000	\$3,348,900
Concessions, Parking, and Other Revenues	2,016,600	2,210,500
Sponsorships and Naming Rights	1,750,000	1,176,100
<b>Total Revenues</b>	<b>9,641,600</b>	<b>6,735,500</b>
Expenses:		
Operating Expenses	(7,724,600)	(8,541,900)
Debt Service Expenses	(1,846,300)	(1,848,800)
<b>Net Profit/(Loss)</b>	<b>\$ 70,700</b>	<b>\$(3,655,200)</b>

***Racing revenues fell short of the 2004 projection by \$2.9 million.***

For the 2004 season, racing revenues were projected to increase 77.7 percent, from \$5.4 million to \$9.6 million. Instead, revenues from both admissions and sponsorships and naming rights were significantly lower than anticipated, and total revenue increased by only \$1.3 million to reach \$6.7 million. It may be difficult to increase admissions revenues significantly in the short-term. Although one major racing event held at the Milwaukee Mile has a large local fan base and typically draws near sell-out crowds, the other major events, which involve open-wheel racing, currently do not generate the same demand for tickets and will require additional promotions over time to build their fan base.

At the same time that revenues fell short of projections, Milwaukee Mile operating expenses were approximately \$800,000 greater than budgeted.

## Milwaukee Mile 2005 Business Plan

In prior reports, we recommended that State Fair Park develop and then continue to refine and modify a comprehensive business plan for Milwaukee Mile racing activities. A 2005 business plan, which included initiatives similar to those in the prior-year plan, was presented to the State Fair Park Board in December 2004. The plan noted that the Milwaukee Mile intended to increase revenues from racing activities by:

- continuing to implement marketing initiatives, such as a large radio, television, and newspaper advertising campaign for the 2005 racing season;
- expanding entertainment initiatives, such as concerts and festivals scheduled in conjunction with racing events; and
- developing additional partnerships with private corporations.

The plan also included strategies to decrease operating expenses by, for example, reviewing vendor contracts and renegotiating where possible. In addition, it included an operating budget for the Milwaukee Mile's 2005 racing season.

***In December 2004, State Fair Park projected a loss of \$146,300 for the Milwaukee Mile's 2005 racing season.***

As shown in Table 6, the 2005 business plan projected a loss of \$146,300 from racing activities but assumed that, with additional track rentals and continued efforts to implement initiatives included in the plan, total revenues would increase 40.7 percent, from the \$6.7 million generated in the 2004 racing season to nearly \$9.5 million in 2005. Projected 2005 revenues included \$4.8 million in admissions, \$2.9 million from sources such as parking and concessions, and \$1.7 million in sponsorships. No revenues were anticipated from the sale of naming rights. State Fair Park also projected costs to decrease by 7.4 percent, from \$10.4 million in 2004 to \$9.6 million in 2005.

Table 6

**Milwaukee Mile Budgeted and Actual Revenues and Expenses**  
Calendar Years 2004 and 2005

	2004 Actual	2005 Budget	Percentage Increase/ (Decrease)
Revenues:			
Admissions	\$ 3,348,900	\$4,830,200	44.2%
Concessions, Parking, and Other Revenues	2,210,500	2,943,900	33.2
Sponsorships and Naming Rights	1,176,100	1,700,000	44.5
<b>Total Revenues</b>	<b>6,735,500</b>	<b>9,474,100</b>	40.7
Expenses	(10,390,700)	(9,620,400)	(7.4)
<b>Net Profit/(Loss)</b>	<b>\$(3,655,200)</b>	<b>\$(146,300)</b>	96.0%

***In April 2005, State Fair Park projected a loss of as much as \$1.8 million from 2005 racing activities.***

Although the initial 2005 budget projected only a modest loss, more recent projections are less optimistic. In fact, State Fair Park staff noted in April 2005 that losses from racing activities could be as high as \$1.8 million. A loss of \$1.8 million would represent a significant improvement over the \$3.7 million loss incurred during the 2004 racing season. However, revenue from non-racing activities will again be needed to support racing, and funding available for other fairgrounds operations will effectively be reduced.

Since assuming operational control of the Milwaukee Mile and incurring significant losses, the State Fair Park Board has continued to consider and reassess the long-term organizational structure of its racing activities and three management options:

- First, the Milwaukee Mile racetrack and grandstand area could be sold. However, concerns would likely be raised about the sale of a state asset that has received significant public funding for recent improvements. In addition, an outright sale of the racetrack and grandstand may not be a viable option because the market value of the property could be less than the outstanding debt incurred for recent improvements.

***In late 2004, State Fair Park began seeking a private promoter to again lease the Milwaukee Mile.***

- Second, State Fair Park could continue managing the Milwaukee Mile. However, State Fair Park officials now believe that continuing to operate the Milwaukee Mile internally poses a number of challenges because business practices prevalent in the racing industry do not match well with the policies and procedures state agencies are required to follow; it is unusual for a state agency to be involved in promoting sporting events; and racing sanctioning bodies and others involved in the racing industry are uncomfortable with the State's bidding processes and open records laws.
- The third option, and according to State Fair Park officials the most attractive option, is to lease the Milwaukee Mile to a private promoter. As a result, in fall 2004, State Fair Park began seeking a private promoter to once again lease the Milwaukee Mile and assume operating responsibilities for racing activities at the fairgrounds.

Initially, eight parties expressed interest in entering into a lease agreement. After further discussions, three written offers were submitted. State Fair Park reviewed the proposals and, in March 2005, entered into negotiations with one of the interested parties. In order to limit future losses from racing activities and to better define the ongoing relationship between State Fair Park and the independent racing promoter, State Fair Park officials believed that the lease agreement should include several specific provisions, such as:

- a requirement that annual rent 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 performance bond to guarantee that required rent payments are made in full each year;
- 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;
- requirements for the promoter to assume full responsibility for funding future capital improvements, as well as annual maintenance and repair costs; and

- 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 weekly meetings with State Fair Park officials in order to minimize scheduling conflicts at the fairgrounds.

***Negotiations with a private promoter for the Milwaukee Mile ended when agreement could not be reached on the lease terms.***

While it was hoped that a lease agreement could be finalized before the start of the 2005 racing season, negotiations ended on April 29, 2005, when it became clear that agreement could not be reached on all lease terms. State Fair Park is continuing to pursue options for leasing the Milwaukee Mile, with the intent of transferring responsibility for racing operations to a private promoter on January 1, 2006.

In the meantime, State Fair Park will continue to manage the Milwaukee Mile for the 2005 racing season. However, because the independent contractor who served as the Milwaukee Mile's general manager resigned as of May 1, 2005, State Fair Park staff will need to assume a larger role in the day-to-day operations of racing activities.

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## Pettit National Ice Center ■

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***The Pettit Center is one of 11 such indoor facilities in the world.***

The Pettit National Ice Center is an official United States Olympic training facility and one of 11 indoor speed-skating oval rinks in the world. It is owned by State Fair Park but operated and maintained by the Pettit National Ice Center, Inc., a not-for-profit corporation. It 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 from the not-for-profit corporation 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, the Pettit Center's expenses have exceeded revenues, and it has not made all monthly rent payments. Because State Fair Park must continue to make debt service payments on the Pettit Center facility without offsetting rental revenue, the amount available for other fairgrounds operations is effectively reduced.

### **Pettit Center Financial Condition**

***The Pettit Center has reported losses in the past four years.***

According to financial information submitted to the State of Wisconsin Department of Regulation and Licensing and obtained from the Pettit Center's audited financial statements, the Pettit Center has generated net losses in the past four years. As shown in Table 7, total expenses have exceeded revenues by \$1.2 million since 2000. The largest annual loss in the Pettit Center's recent history, \$477,800, was reported in 2003.

Table 7

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

	2000	2001	2002	2003	2004
Revenues:					
Program	\$2,704,100	\$2,098,400	\$2,276,700	\$2,060,200	\$2,073,200
Contributions	510,500	444,500	403,500	391,100	395,900
<b>Total Revenues</b>	<b>3,214,600</b>	<b>2,542,900</b>	<b>2,680,200</b>	<b>2,451,300</b>	<b>2,469,100</b>
Expenses					
	(3,180,700)	(2,960,900)	(2,904,600)	(2,929,100)	(2,582,800)
<b>Net Profit/(Loss)</b>	<b>\$ 33,900</b>	<b>\$ (418,000)</b>	<b>\$ (224,400)</b>	<b>\$ (477,800)</b>	<b>\$ (113,700)</b>

In its 2004 business plan, the Pettit Center projected that revenues from program activities would increase 35.8 percent, from nearly \$2.1 million to \$2.8 million, and that, overall, it would break even. However, while some fiscal improvement was reported, the Pettit Center experienced a net loss of \$113,700 for 2004. Operating revenues from developmental programs, general public and contract ice time, sponsorships, and other sources were significantly lower than anticipated in 2004, but expenses also declined by \$346,300, or 11.8 percent. Nearly one-half of this reduction is the result of the State Fair Park Board and Pettit Center agreeing to a revised rent schedule.

***To reflect savings from refinancing, the Pettit Center's monthly rent was reduced in FY 2003-04.***

Under the initial lease agreement, the Pettit Center was expected to pay rent of approximately \$74,400 per month to State Fair Park. However, the bonds that had funded the Pettit Center's construction were subsequently refinanced to take advantage of lower interest rates, and starting in January 2004, State Fair Park and the Pettit Center adjusted the rent agreement to reflect State Fair Park's reduced debt service costs. For the remainder of FY 2003-04, the Pettit Center's rent was reduced to \$47,000 per month, which represented a \$164,400 reduction in payments for that six-month period. The monthly rent increased to \$55,200 in FY 2004-05. It will increase to \$73,100 in FY 2005-06 and will reach a high of \$78,700 per month in FY 2007-08 before declining again thereafter. The bonds will be paid off in FY 2024-25.

As of June 2004, the Pettit Center owed nearly \$1.6 million in past-due rent to State Fair Park. However, at its July 2004 meeting, the State Fair Park Board reduced the Pettit Center's delinquent rent by



\$562,800, the amount by which past rent payments exceeded State Fair Park's actual debt service costs. This action reduced the total amount of past-due rent to approximately \$1.0 million.

Although a significant amount of rent is past-due, the State Fair Park Board also approved a July 2004 resolution stating that the Pettit Center would be considered in compliance with the terms of its lease as long as current monthly rent payments were made. According to State Fair Park officials, from July 2004 through May 2005, the Pettit Center has paid rent totaling \$552,500, when total rent due for this period was \$607,700.

### **Pettit Center Business Plan**

In prior reports, we recommended that State Fair Park, in conjunction with the Pettit National Ice Center, Inc., develop and then continue to refine and modify a comprehensive business plan for the Pettit Center. The 2005 business plan builds upon previous initiatives and includes plans for the Pettit Center to:

- generate revenues by selling additional sponsorships and by continuing to develop annual fund-raising events;
- increase revenues from public skating by offering group packages to clubs and organizations and expanding the number of field trips and instructional programs;
- enhance programming by offering a variety of hockey, speed skating, and figure skating schools, clinics, and seminars;
- partner with State Fair Park to make rooms in the Youth Center available to participants in skating camps;
- increase revenues generated from its indoor walking and running track by working closely with a large Milwaukee-area running club and encouraging the club's members and others to use the Pettit Center's facility; and
- enhance programs and events offered during the annual State Fair to encourage fairgoers to visit the Pettit Center.

**The Pettit Center projects it will break even in 2005.**

With these initiatives, the Pettit Center again projects that it will break even in 2005. As shown in Table 8, its revenues are anticipated to increase 11.1 percent, from nearly \$2.5 million in 2004 to \$2.7 million in 2005. This budget assumes that revenues from program activities and private contributions will be comparable to 2004 levels. Sponsorship revenue is expected to increase from \$109,900 in 2004 to \$328,600 in 2005. This projected increase is due, in part, to a new sponsorship agreement between the Pettit Center and Froedtert Hospital.

Table 8  
**Pettit National Ice Center Budgeted and Actual Revenues and Expenses**  
 For Years Ending August 31

	2004 Actual	2005 Budget	Percentage Increase/ (Decrease)
Revenues:			
Developmental Programs	\$ 770,500	\$ 834,500	8.3%
General Public and Contract Ice Time	884,900	927,900	4.9
Private Contributions	395,900	440,500	11.3
Sponsorships	109,900	328,600	199.0
Other	307,900	211,600	(31.3)
<b>Total Revenues</b>	<b>2,469,100</b>	<b>2,743,100</b>	<b>11.1</b>
Expenses	(2,582,800)	(2,743,100)	6.2
<b>Net Profit/(Loss)</b>	<b>\$ (113,700)</b>	<b>\$ 0</b>	

**Annual debt service costs related to the Pettit Center will increase 32.4 percent in FY 2005-06.**

State Fair Park officials continue to work with the Pettit Center to define the operating and management relationship between the two entities and to resolve the ongoing overdue rent payments. Without significant changes in these areas, State Fair Park may need to commit an increasing share of its future financial resources to the Pettit Center for two reasons. First, as of June 30, 2004, the outstanding principal on the program revenue-supported debt issued to fund the Pettit Center’s construction is \$6.3 million. State Fair Park’s annual debt service payments related to the Pettit Center are expected to increase by more than \$200,000, or 32.4 percent, in FY 2005-06 and will continue to increase through FY 2007-08. These costs are reflected in the revised rent schedule agreed to by State

Fair Park and the Pettit Center. However, the Pettit Center may not be able to absorb these increases and make all rent payments in future years.

***State Fair Park is responsible for the capital and major equipment costs related to the Pettit Center.***

Second, the Pettit Center is nearly 14 years old and will eventually require repairs and equipment updates. Under the terms of the current lease, State Fair Park is responsible for major Pettit Center repair or replacement costs, such as heating and air conditioning equipment, ice-making equipment, and plumbing and electrical fixtures. Pettit Center staff perform ongoing maintenance services and do not anticipate significant equipment costs in the near future. However, neither the Pettit Center nor State Fair Park has a multi-year plan with projected costs of maintenance and equipment needs.

***State Fair Park is exploring options to sell the Pettit Center.***

The State Fair Park Board is exploring options to limit future demands that the Pettit Center may place on State Fair Park's financial resources. For example, in its 2005-07 biennial budget request, State Fair Park requested that the funding for debt service costs related to the Pettit Center be changed from program revenue to GPR. This request was not included in the Governor's budget proposal. The State Fair Park Board is now exploring options to sell the Pettit Center. To ensure that it continues as an Olympic training facility, State Fair Park and Pettit Center officials are currently negotiating the sale of the building and a portion of the surrounding land to the Pettit National Ice Center, Inc. According to State Fair Park officials, they hope to have an agreement finalized by August 31, 2005.





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## Wisconsin Exposition Center ■

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State Fair Park's 2000 master plan included construction of a 271,000 square-foot exposition center at a cost of nearly \$37.8 million. This facility can accommodate large events that had previously been held in various State Fair Park exhibit buildings, and it was intended to attract new events, including large consumer and trade shows. The Wisconsin Exposition Center, which opened in August 2002 and is owned by a not-for-profit corporation, was funded with industrial revenue bonds and is required to maintain a letter of credit to secure those bonds. The initial letter of credit was effective through August 15, 2003, but it has been extended several times and will expire on April 15, 2006. The Exposition Center's construction has created an attractive new venue at the fairgrounds, but its expenses have continued to exceed revenues.

### **Exposition Center Operating Agreements**

***Two agreements define the relationship between State Fair Park and the Wisconsin Exposition Center.***

To facilitate operation of the Exposition Center, the State Fair Park Board and the Exposition Center Board entered into two agreements in August 2001: a ground lease agreement and a licensing agreement.

Under the terms of a 28-year ground lease agreement, State Fair Park leases 7.52 acres of the fairgrounds to the Exposition Center Board for the Exposition Center. The lease agreement also outlines the expenses that each party will pay. The Exposition Center is responsible for utility charges, insurance premiums to protect

against losses or damages and general commercial liability, and maintenance costs to keep the building in good condition and repair. The Exposition Center is also responsible for making annual rent payments to State Fair Park based on its annual gross revenues and expenses. However, if the Exposition Center's expenses and contributions to its reserve funds are greater than its revenues, State Fair Park receives no rent.

***Lease agreement revisions to indicate that the Exposition Center is responsible for municipal service payments will be difficult to enact.***

The ground lease agreement further stipulates that State Fair Park is responsible for all municipal service payments to the cities of West Allis and Milwaukee for police and fire protection. State Fair Park staff have indicated that this payment requirement was not the intention of either the State Fair Park Board or the Exposition Center Board. Although the Exposition Center has paid past municipal service assessments, and the Exposition Center Board passed a May 2003 resolution to pay future assessments, we previously recommended that State Fair Park renegotiate the ground lease agreement to clarify responsibility for these payments. However, State Fair Park officials indicate that revising the agreement will be difficult because it is part of the industrial revenue bond documents. Without revisions to the ground lease agreement, it is unclear if State Fair Park would be legally responsible for municipal service payments if the Exposition Center is unable to make such payments in the future.

In addition to the ground lease agreement, State Fair Park also entered into a licensing agreement with the Exposition Center. This agreement provides State Fair Park the sole right to use the Exposition Center during the annual Wisconsin State Fair but requires State Fair Park to pay a fee for that use, which was \$200,000 in 2004. In addition, the licensing agreement addresses the division of parking revenues between State Fair Park and the Exposition Center.

Under the terms of the licensing agreement, State Fair Park retains parking revenue from the Wisconsin State Fair and other events held within State Fair Park-owned facilities. The Exposition Center is entitled to all parking revenue generated from its non-fair events. As noted in prior reports, the formula established in the licensing agreement to calculate the Exposition Center's parking revenue initially included faulty assumptions. As a result, from September 2002 through April 2003, State Fair Park paid more to the Exposition Center than the net parking revenue it received from non-fair events. State Fair Park staff implemented new procedures to prevent future losses from parking.

## Exposition Center Financial Condition

In prior audits, we expressed concerns with the financial condition of the Exposition Center. We noted that fewer events were held or scheduled to be held at the Exposition Center than had been projected by a private consultant, who was hired in 2000 to complete a financial analysis of the Exposition Center's feasibility. In addition, we expressed concerns with the Exposition Center's ability to fund its debt service costs.

***The Exposition Center hosted 43 events in 2003 and 54 events in 2004.***

Initial projections were that the Exposition Center would hold 68 events annually. However, as shown in Table 9, it hosted 43 events in 2003 and 54 events in 2004, and as of May 2005, 37 events either were held or are planned for 2005.

Table 9

### Exposition Center Events

Year	Consumer and Trade Shows	Meetings	Other <sup>2</sup>	Total Number of Events Held
2002 <sup>1</sup>	13	4	0	17
2003	36	6	1	43
2004	30	13	11	54
2005 <sup>3</sup>	30	3	4	37

<sup>1</sup> The Exposition Center opened in August 2002.

<sup>2</sup> Includes events such as hospitality functions for Milwaukee Mile racing groups, a political rally, and a prayer gathering.

<sup>3</sup> Includes events that had occurred as of May 13, 2005, and those that are still planned in 2005.

In addition, the types of events being held at the Exposition Center differ from those anticipated in the private consultant's feasibility study. Initial projections were that 66 of the 68 events expected to be held each year, or 97.1 percent, would be consumer and trade shows. However, in 2003, 36 of the 43 events held, or 83.7 percent, were consumer or trade shows. Furthermore, although the total number of events increased in 2004, the number of consumer or trade shows declined to 30. Exposition Center staff indicated, however, that some of the consumer and trade shows held in 2004 rented space for a longer period of time and that the number of event days increased from 167 in 2003 to 196 in 2004.

The remaining 24 events in 2004 included meetings and activities held by businesses and other groups. These events generally use less space than a consumer or trade show, or use the space for a shorter period of time. As a result, they typically do not generate the same levels of revenue.

***Preliminary figures indicate the Exposition Center had a \$1.7 million net loss in 2004.***

In 2003, its first full year of operations, the Exposition Center's profit before considering debt service was \$1.2 million. However, when debt service costs of \$2.7 million are included, the Exposition Center experienced a net loss of \$1.5 million. Audited financial statements for 2004 were not available at the time of our review. However, as shown in Table 10, when debt service costs of nearly \$2.6 million are included, the Exposition Center experienced a net loss of \$1.7 million in 2004.

Table 10

**Wisconsin Exposition Center Budget to Actual Comparison  
Calendar Year 2004**

	2004 Budget	2004 Actual <sup>1</sup>
Revenues:		
Facility Rental	\$2,735,000	\$2,680,600
Parking	700,000	513,300
Concessions and Catering	500,000	480,400
Naming Rights	500,000	0
Advertising and Sponsorships	0	40,000
Other	5,400	41,100
<b>Total Revenues</b>	<b>\$4,440,400</b>	<b>\$3,755,400</b>
Expenses:		
Salaries and Fringe Benefits	(\$1,104,200)	(\$ 964,100)
Debt Service	(2,578,500)	(2,581,700)
Depreciation	(1,082,000)	(1,119,800)
Other	(964,300)	(789,800)
<b>Total Expenses</b>	<b>(\$5,729,000)</b>	<b>(\$5,455,400)</b>
<b>Net Profit/(Loss)</b>	<b>(\$1,288,600)</b>	<b>(\$1,700,000)</b>

<sup>1</sup> Actual revenues and expenses are based on unaudited financial statements provided by the Exposition Center.



***State Fair Park has not received any rent from the Exposition Center.***

For 2004, the Exposition Center projected that revenues would increase 10.0 percent, from nearly \$4.0 million in 2003 to \$4.4 million in 2004, and that overall, net income before considering debt service would be \$1.3 million. However, based on preliminary, unaudited data, 2004 revenues fell short of projections by \$685,000. Revenues from facility rental, parking, and concessions and catering were relatively consistent with the amounts anticipated from those sources; however, Exposition Center officials were unsuccessful in securing revenue from the sale of naming rights. Because of the net losses generated by the Exposition Center, State Fair Park has not received any rent payments.

## **Exposition Center Business Plan**

In prior reports, we recommended that State Fair Park, in conjunction with the Exposition Center Board, develop and then continue to refine and modify a comprehensive business plan for the Exposition Center. The 2005 business plan, which was approved by the Exposition Center Board in December 2004, builds upon initiatives included in the prior-year plan and includes plans to:

- generate additional revenues from facility rental by continuing to increase the number of consumer shows, trade shows, meetings, and other events held at the Exposition Center and by establishing multi-year contracts with event promoters;
- increase revenues from sponsorships by contracting with outside firms to sell advertisements that are displayed throughout the Exposition Center;
- continue to implement a targeted advertising program that will focus on trade publications, as well as a direct mail campaign; and
- continue to identify shows that had previously been held at State Fair Park but were lost during construction of the Exposition Center, in order to determine interest in returning to the fairgrounds. In prior audits, we noted that 104 event days were lost because events that had been held at the fairgrounds moved elsewhere.

***The Exposition Center projects its revenues will increase 12.2 percent in 2005.***

With these initiatives, the Exposition Center projects its 2005 revenues will increase 12.2 percent, from nearly \$3.8 million in 2004 to \$4.2 million in 2005. As shown in Table 11, this budget assumes that revenues from advertising and sponsorships will increase \$60,000, or 150.0 percent, and that revenues from facility rentals will increase \$265,800, or 9.9 percent. Based on preliminary financial results through April 2005, Exposition Center staff are confident that the projected increase in revenues will be achieved. However, because the number of consumer or trade shows currently scheduled for 2005 is consistent with the number held in 2004, and because of the lead-time such shows require, it may be difficult to significantly change revenue from facility rentals in the remaining months of 2005.

Table 11  
Wisconsin Exposition Center Budgeted and Actual Revenues and Expenses  
Calendar Years 2004 and 2005

	2004 Actual <sup>1</sup>	2005 Budget	Percentage Increase/ (Decrease)
Revenues:			
Facility Rental	\$2,680,600	\$2,946,400	9.9%
Parking	513,300	600,000	16.9
Concessions and Catering	480,400	560,000	16.6
Naming Rights	0	0	0.0
Advertising and Sponsorships	40,000	100,000	150.0
Other	41,100	8,000	(80.5)
<b>Total Revenues</b>	<b>\$3,755,400</b>	<b>\$4,214,400</b>	<b>12.2</b>
Expenses:			
Salaries and Fringe Benefits	(\$ 964,100)	(\$1,049,800)	8.9
Debt Service	(2,581,700)	(2,560,200)	(0.8)
Depreciation	(1,119,800)	(1,098,000)	(1.9)
Other	(789,800)	(773,700)	(2.0)
<b>Total Expenses</b>	<b>(\$5,455,400)</b>	<b>(\$5,481,700)</b>	<b>0.5</b>
<b>Net Profit/(Loss)</b>	<b>(\$1,700,000)</b>	<b>(\$1,267,300)</b>	<b>25.5</b>

<sup>1</sup> Actual revenues and expenses are based on unaudited financial statements provided by the Exposition Center.

***Even with projected revenue increases, the Exposition Center anticipates a \$1.3 million loss in 2005.***

Based on its increased revenue projections, the Exposition Center anticipates that its net profit before considering debt service will be \$1.3 million in 2005. However, after considering interest expense of \$2.6 million, the Exposition Center expects to incur a loss of \$1.3 million.

## **Cash Reserves and Debt Service Costs**

Because reserve funds were set aside from the original bond proceeds, the Exposition Center has been able to pay its operating expenses in 2002, 2003, and 2004 and is expected to do so in 2005. However, as a result of its net losses, the Exposition Center's cash balances have declined from \$5.3 million at the end of calendar year 2003 to \$4.5 million at the end of calendar year 2004. These balances include \$3.1 million in reserve funds set aside for operating and debt service costs, if needed. In addition, the Exposition Center is projecting a loss in 2005.

During our prior audit, Exposition Center staff noted that resources necessary to meet financial obligations may not be available in 2005, and the Exposition Center may for the first time need to use reserve funds to cover debt service costs. However, that projection assumed that debt service costs would include not only interest payments but also payments to reduce the bond principal, as indicated by the initial debt service schedule prepared by the bond underwriters.

***Exposition Center officials and legal counsel believe the entire principal balance of \$40.8 million will be due in 2028.***

However, approximately two and one-half years after opening, Exposition Center staff further reviewed the bond agreements and discussed these documents with the underwriters, lending institutions, and legal counsel. They now believe that the debt service schedule is incorrect and that annual principal payments are not required. Rather, according to Exposition Center staff and legal counsel, the entire principal balance of \$40.8 million will be due when the bonds mature in 2028.

Even if principal payments are not made, if the Exposition Center realizes a loss in 2005 and operations do not improve the following year, staff have noted that it may not have the necessary resources to meet its financial obligations in 2007 and may need to use reserve funds to cover a portion of its debt service costs at that time. Under the terms of the Exposition Center's current letter of credit, if reserve funds are used for debt service costs, the reserve funds must be replenished within 30 days of receiving notice from the bond trustee. This will be difficult to do with limited cash flow, and concerns would likely arise with the commercial lending institution that issued the letter of credit.

***State officials have stated that the State has no legal or other obligation to repay the Exposition Center's debt.***

It is unclear what action the commercial lending institution would take if the funds were not replenished, but one option could be to terminate the letter of credit. If this were to happen, or if the current letter of credit is not extended beyond April 15, 2006, the industrial revenue bonds would be callable, meaning that the lending institution would need to pay off all bondholders and would acquire ownership of the facility. According to Department of Administration officials, if the Exposition Center does encounter such financial difficulties, the State has no legal or other obligation to repay this debt.

Members of the Exposition Center Board and others have suggested that a hotel on the fairgrounds could help the Exposition Center attract additional consumer and trade shows. In December 2004, the City of West Allis, State Fair Park, and the Exposition Center issued a joint request for interested parties to submit proposals for building a hotel. Proposals submitted by two developers are currently being reviewed and considered by the Exposition Center Board.

However, it should be noted that a feasibility study prepared by a consulting firm in September 2004 concluded that significant public funding would be needed to support construction of a hotel on the fairgrounds. While City of West Allis officials have indicated that West Allis may be willing to establish a tax incremental financing district on one side of the fairgrounds, it is unclear whether additional public funding from either West Allis or State Fair Park would be requested to further assist in the construction and operation of a hotel.

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## Future Considerations ■

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***State Fair Park projects that its FY 2004-05 deficit may be as much as \$3.9 million.***

As the State Fair Park Board, the Legislature, and the Governor consider the future of State Fair Park, challenges related to financial operations continue to need attention. State Fair Park's financial condition will continue to deteriorate as long as operating expenditures increase at a greater rate than revenues. As noted, FY 2003-04 expenditures exceeded revenues by more than \$1.8 million. By November 2004, State Fair Park officials had expected that FY 2004-05 expenditures would exceed revenues by \$1.9 million, but in March 2005 that projection was revised. The FY 2004-05 deficit is now expected to be as much as \$3.9 million. If such a loss is realized, State Fair Park will have a cash deficit of \$9.9 million as of June 30, 2005.

Because of recent losses and its growing cash deficit, State Fair Park has placed increasing reliance on revenues generated from the 11-day Wisconsin State Fair. According to information provided to the State Fair Park Board, the 2004 fair generated a profit of \$1.8 million. Because the fair is the primary money-making event at the fairgrounds, the revenues it generates are used to subsidize other activities and events, such as those at the Milwaukee Mile, that have not been profitable.

***In April 2005, the State Fair Park Board approved pricing changes for the August 2005 State Fair.***

To maintain or increase the level of subsidy provided to those activities and to cover increased costs, the State Fair Park Board recently approved some pricing changes for the August 2005 State Fair. The parking fee will increase from \$8 to \$9, and the cost of weekend midway wristbands will increase from \$20 to \$25. Fair admission prices have not changed since 2003, when ticket prices for adults were increased from \$7 to \$8.

It is unclear whether significant increases in fair revenues and profits can be expected in the future, given that the event lasts only 11 days and that attendance can vary from year to year based on factors such as the weather and the local and national economies. Therefore, it is important that State Fair Park take steps to decrease its reliance on revenues and profits from the annual fair by addressing losses that have been incurred as a result of racing activities and its relationships with outside entities.

We have noted in prior reports that overly optimistic projections used to support the new grandstand and expanded bleacher seating for the Milwaukee Mile, construction of the new Wisconsin Exposition Center, and other capital improvements have contributed to the decline in State Fair Park's financial condition because anticipated revenues used to justify these projects have not materialized. Since 2004, the annual business plans and operating budgets developed by State Fair Park for its racing activities and by the Pettit National Ice Center and the Exposition Center have also proven to be overly optimistic, as actual revenues have consistently fallen short of projections.

***Current business plans for fairgrounds activities and entities lack specificity.***

In addition, these plans frequently do not provide sufficient detail about how initiatives to improve profitability will be achieved, and they do not include specific measurements, such as number of anticipated events, by which to evaluate their success. For example, the Milwaukee Mile's 2005 business plan states a goal of increasing track usage from 64 to 90 days but provides no details about how this goal is to be accomplished. The Exposition Center's 2005 business plan lists a goal to "increase facility usage to meet and exceed its space rental budget" but does not specify the number of events or provide details regarding how this goal will be met.

The time and effort needed to improve these business plans may not be an effective use of available resources, because significant operating and organizational changes—such as leasing the Milwaukee Mile and the potential sale of the Pettit Center—are anticipated within fairground entities and activities in the near future. However, with these anticipated changes, as well as the additional \$1.2 million in GPR-supported bonds recently proposed for racetrack improvements, it will be important for the Legislature to ensure it retains adequate oversight of the State's investment in State Fair Park.

Finally, under current law, the State Building Commission has the authority to sell state-owned buildings and would have a role in approving the Pettit Center sale. Possible factors to consider in any future sale proposal would include how the facility would be used in the future, whether the sale price takes into consideration past-due rent that totals \$1.1 million as of May 2005, and the amount of fairgrounds land, if any, that would be included in the purchase.

**☑ Recommendation**

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*We recommend that State Fair Park report to the Joint Legislative Audit Committee on its financial condition and plans for improving the overall financial operations of the fairgrounds by October 31, 2005. At a minimum, these plans should include:*

- *the long-term organizational structure of racing activities, including strategies for limiting future losses and adequately overseeing operations;*
- *the operating and management relationship between State Fair Park and the Pettit Center, as well as strategies for resolving past-due rent payments and limiting future demands the Pettit Center may place on State Fair Park's financial resources; and*
- *the operating and management relationship between State Fair Park and the Wisconsin Exposition Center.*

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## Audit Opinion ■

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

We have audited the accompanying statement of net assets of the Wisconsin State Fair Park as of June 30, 2004, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the Wisconsin State Fair Park's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Wisconsin State Fair Park Exposition Center, Inc., which represents 100 percent of the financial activity of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Wisconsin 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Wisconsin 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 and the report of the other auditors provide a reasonable basis for our opinion.


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

In our opinion, based on our audit and the report of 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, 2004, and the Wisconsin Exposition Center, Inc., as of December 31, 2003, 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 the Wisconsin State Fair Park. The supplementary information included as Management's Discussion and Analysis on pages 47 through 56 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 May 24, 2005, on our consideration of the 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.

May 24, 2005

LEGISLATIVE AUDIT BUREAU  
  
by  
Julie Gordon  
Audit Director

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# Management's Discussion and Analysis ■

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## *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, 2004. 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**

The Wisconsin State Fair Park is located in the cities of West Allis and Milwaukee. The Wisconsin State Fair, which is held on State Fair Park grounds, is one of the State's oldest and largest events and typically hosts approximately one million 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.

The Wisconsin State Fair Park Exposition Center, Inc., which owns and manages the 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 2003-04, the assets of the State Fair Park Fund exceeded its liabilities by \$15.8 million (net assets). This total consists of \$25.0 million invested in capital assets, net of related debt and a deficit of unrestricted net assets of \$9.2 million.

The State Fair Park Fund's total net assets decreased by \$2.4 million during FY 2003-04.

## **Overview of the Financial Statements**

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

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

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

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

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

## Financial Analysis of the State Fair Park Fund

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

The State Fair Park Fund has \$25.0 million of net assets that are invested in capital assets (e.g., land, buildings, equipment, improvements, and construction in progress). The total capital assets are \$62.5 million, while the related outstanding debt is \$37.6 million. State Fair Park uses these assets to provide services to users of the Park; 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 2003-04 was less than that in prior years, State Fair Park added approximately \$1.8 million of new construction during the year. Much of this new construction has been financed by the issuance of new debt, which will be repaid by program revenues as well as from state tax-supported debt. The State's contribution for capital projects, which declined in FY 2003-04 because of the decrease in construction at State Fair Park, was \$3.0 million for FY 2003-04. Table A presents summary financial information with comparisons to the prior year.

Table A  
**Condensed Financial Information**  
 State Fair Park Fund

	Fiscal Year 2003-04	Fiscal Year 2002-03	Dollar Increase/(Decrease)
Current Assets	\$ 4,021,012	\$ 4,450,907	\$ (429,895)
Capital Assets (Net of Depreciation)	62,518,656	63,659,690	(1,141,034)
Other Assets	190,818	190,473	345
<b>Total Assets</b>	<b><u>66,730,486</u></b>	<b><u>68,301,070</u></b>	<b><u>(1,570,584)</u></b>
Current Liabilities	15,047,912	11,461,086	3,586,826
Long-Term Liabilities	35,868,748	37,461,142	(1,592,394)
<b>Total Liabilities</b>	<b><u>50,916,660</u></b>	<b><u>48,922,228</u></b>	<b><u>1,994,432</u></b>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	25,017,174	24,667,744	349,430
Restricted	0	1,321,127	(1,321,127)
Unrestricted (Deficit)	(9,203,348)	(6,610,029)	(2,593,319)
<b>Total Net Assets</b>	<b><u>15,813,826</u></b>	<b><u>19,378,842</u></b>	<b><u>(3,565,016)</u></b>
Operating Revenues	18,061,931	14,951,455	3,110,476
Operating Expenses	(21,232,482)	(17,298,974)	(3,933,508)
<b>Operating Income (Loss)</b>	<b><u>(3,170,551)</u></b>	<b><u>(2,347,519)</u></b>	<b><u>(823,032)</u></b>
Nonoperating Revenues (Expenses)	(1,610,023)	(1,214,754)	(395,269)
Transfers In	2,961,160	7,121,126	(4,159,966)
Transfers Out	(548,041)	(1,531,067)	983,026
<b>Changes in Net Assets</b>	<b><u>(2,367,455)</u></b>	<b><u>2,027,786</u></b>	<b><u>(4,395,241)</u></b>
Net Assets—Beginning of the Year (as Restated)	18,181,281	17,351,056	830,225
<b>Net Assets—End of the Year</b>	<b><u>\$15,813,826</u></b>	<b><u>\$19,378,842</u></b>	<b><u>\$(3,565,016)</u></b>

## 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 \$1,000) for FY 2003-04 and FY 2002-03.

Table B

#### Revenues by Activity State Fair Park Fund

	FY 2003-04	Percentage of Total	FY 2002-03	Percentage of Total	Dollar Increase/ (Decrease)
Annual State Fair	\$10,616,000	58.8%	\$ 9,453,000	63.2%	\$ 1,163,000
Promoter Events	538,000	3.0	1,496,000	10.0	(958,000)
Racing	5,349,000	29.6	2,356,000	15.8	2,993,000
Other Park-Sponsored Events	345,000	1.9	286,000	1.9	59,000
General Operations <sup>1</sup>	1,214,000	6.7	1,360,000	9.1	(146,000)
<b>Total</b>	<b><u>\$18,062,000</u></b>		<b><u>\$14,951,000</u></b>		<b><u>\$3,111,000</u></b>

<sup>1</sup> Major components are the RV Park, Youth Center, and Pettit Center rent payments.

The increase in annual state fair revenues was due, in part, to an increase in the price of admission tickets. The price charged for an adult admission ticket was raised from \$7 for the August 2002 fair to \$8 for the August 2003 fair.

The decrease in revenue from promoter events reflects the reduction in saleable rental space due to prior years' building demolition. In addition, revenue from promoter events in FY 2002-03 included amounts for significant one-time events held that year.

In May 2003, State Fair Park began to internally manage and promote racing activities at the Milwaukee Mile. Therefore, FY 2003-04 is the first year in which racing revenues reported by State Fair Park reflect a full year of operation.

The FY 2003-04 increase in State Fair Park sponsored revenue reflects the settlement from the Harley Davidson 100<sup>th</sup> Anniversary event.

The FY 2003-04 reduction in general operation revenue reflects continued shortfalls in rent payments received from the Pettit Center.

**Operating Expenses**

Table C includes a comparison of operating expenses (rounded to \$1,000) between FY 2003-04 and FY 2002-03.

Table C

**Operating Expenses**  
State Fair Park Fund

	Fiscal Year 2003-04	Percentage of Total	Fiscal Year 2002-03	Percentage of Total	Dollar Increase/ (Decrease)
Personal Services	\$ 4,568,000	21.5%	\$ 4,303,000	24.9%	\$ 265,000
Advertising	1,426,000	6.7	779,000	4.5	647,000
Entertainment	1,155,000	5.4	1,214,000	7.0	(59,000)
Other Expenses <sup>1</sup>	11,267,000	53.1	8,246,000	47.7	3,021,000
Depreciation	2,816,000	13.3	2,757,000	15.9	59,000
<b>Total</b>	<b><u>\$21,232,000</u></b>		<b><u>\$17,299,000</u></b>		<b><u>\$3,933,000</u></b>

<sup>1</sup> 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 the associated fringe benefits. These costs increased because additional LTE labor was needed for racing and co-sponsored events.

Advertising expenses increased because of the May 2003 acquisition of the Milwaukee Mile (Racing) operation and its associated costs. FY 2003-04 entertainment costs, which include fees paid to entertainers for performing at the annual state fair, were relatively stable, with a slight reduction from the prior year.



Other expenses increased over FY 2002-03 due primarily to the acquisition of the Milwaukee Mile operation. As noted, in May 2003, State Fair Park began to internally manage and promote the racing activities that occur on the fairgrounds. Therefore, FY 2003-04 is the first year in which expenses incurred in operating the Milwaukee Mile for a full year are reflected on State Fair Park's financial statements.

In addition, the other expenses category in FY 2003-04 includes \$562,800 related to a reduction in the amount of past-due rent owed by the Pettit National Ice Center. Monthly rent payments due from the Pettit Center were intended to cover the debt service costs that State Fair Park incurs related to the bonds issued to fund construction of the Pettit Center. The reduction in delinquent rent due from the Pettit Center represents the amount by which monthly rent amounts billed in the past exceeded State Fair Park's actual debt service costs.

**Capital Assets**

Table D includes a comparison of capital assets between FY 2003-04 and FY 2002-03.

Table D

**Capital Assets**  
State Fair Park Fund

	Fiscal Year 2003-04	Fiscal Year 2002-03	Dollar Increase/(Decrease)
Capital Assets	\$88,242,845	\$86,603,717	\$1,639,128
Accumulated Depreciation	(25,724,189)	(22,944,027)	(2,780,162)
<b>Net Capital Assets</b>	<b><u>\$62,518,656</u></b>	<b><u>\$63,659,690</u></b>	<b><u>\$1,141,034</u></b>
Depreciation Expense	\$2,816,347	\$2,756,752	\$59,595

The FY 2003-04 increase in capital assets is primarily the result of additions to construction in progress and completed construction related to the grandstand, racetrack improvements, and multipurpose barn projects.

## Debt

Table E includes a comparison between FY 2003-04 and FY 2002-03 of debt funded with program revenue.

Table E

### Debt Funded with Program Revenue State Fair Park Fund

	Fiscal Year 2003-04	Fiscal Year 2002-03	Dollar Increase/(Decrease)
Commercial Paper	\$ 1,320,681	\$ 1,475,881	\$ (155,200)
General Obligation Bonds	36,292,215	37,530,600	(1,238,385)
<b>Total Debt</b>	<b><u>\$37,612,896</u></b>	<b><u>\$39,006,481</u></b>	<b><u>\$(1,393,585)</u></b>

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, 2004, to be paid from the State Fair Park Fund's program revenue.

Table F

**Debt Service Requirements**  
State Fair Park Fund  
Fiscal Years 2004-05 through 2023-24

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service
2005	\$ 1,809,574	\$ 1,798,003	\$ 3,607,577
2006	1,778,568	1,712,631	3,491,199
2007	1,854,674	1,629,266	3,483,940
2008	1,944,844	1,541,333	3,486,177
2009	2,032,370	1,453,853	3,486,223
2010-2024	28,192,866	9,698,124	37,890,990
<b>Total</b>	<b><u>\$37,612,896</u></b>	<b><u>\$17,833,210</u></b>	<b><u>\$55,446,106</u></b>

### Other Known Facts

Program revenue lapses have also affected the State Fair Park Fund. 2001 Wisconsin Act 109 and 2001 Wisconsin Act 16 required lapses to the State's General Fund of \$1,085,600 in FY 2001-02 and \$1,277,200 in FY 2002-03, for a total lapse of \$2,362,800 over the biennium. FY 2003-04 included a lapse of \$179,700, as required by 2003 Wisconsin Act 33. The State Fair Park Fund also lapsed \$186,000 to the State's General Fund in FY 2004-05.

### Component Unit

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

The component unit is reported for the year ended December 31, 2003. Financial highlights include:

- 1) Cash and cash equivalents decreased \$4.8 million from 2002 to \$5.3 million. Using proceeds from the refinancing of industrial revenue bonds, the Exposition Center made a bond payment totaling \$4.1 million in 2003.
- 2) Total operating revenue increased \$2.9 million from 2002 to \$4.0 million, while operating expenses increased \$1.3 million in 2003.
- 3) Interest expense increased \$1.5 million from 2002 to \$2.7 million for 2003.
- 4) The Exposition Center's income from operations was \$1.2 million in 2003.
- 5) The Exposition Center's net assets decreased by \$1.5 million from 2002 to \$1.1 million for 2003.

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# **Financial Statements ■**

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## Statement of Net Assets

	State Fair Park Fund (As of June 30, 2004)	Component Unit— State Fair Park Exposition Center, Inc. (As of December 31, 2003)	Total (Memorandum Only)
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents (Notes 2C and 6)	\$ 60,500	\$ 5,269,233	\$ 5,329,733
Receivables (net of estimated uncollectible accounts) (Note 10)	2,463,345	189,610	2,652,955
Due from other funds (Note 2G)	789	0	789
Inventories	44,209	0	44,209
Prepaid items	1,452,169	47,295	1,499,464
Total Current Assets	<u>4,021,012</u>	<u>5,506,138</u>	<u>9,527,150</u>
Noncurrent Assets:			
Deferred bond issuance costs	190,818	505,237	696,055
Capital assets (net of accumulated depreciation) (Notes 2E and 3)	<u>62,518,656</u>	<u>36,946,407</u>	<u>99,465,063</u>
Total Noncurrent Assets	<u>62,709,474</u>	<u>37,451,644</u>	<u>100,161,118</u>
<b>TOTAL ASSETS</b>	<b><u>66,730,486</u></b>	<b><u>42,957,782</u></b>	<b><u>109,688,268</u></b>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable (Note 10)	\$ 1,952,304	\$ 74,569	\$ 2,026,873
Due to other funds (Notes 2G and 10)	1,046,669	0	1,046,669
Interfund payables (Note 10)	5,812,594	0	5,812,594
Tax and other deposits	75,096	0	75,096
Deferred revenue (Note 2D)	3,898,626	0	3,898,626
Other accrued expenses	0	152,299	152,299
Construction costs payable	0	50,000	50,000
Unearned license fees	0	491,688	491,688
Interest payable	301,951	211,865	513,816
Capital leases (Note 4)	70,829	0	70,829
Compensated absences (Notes 2F and 9)	80,269	0	80,269
Notes payable (Note 5)	163,013	84,560	247,573
General obligation bonds payable (Note 5)	1,646,561	0	1,646,561
Industrial revenue bonds payable (Note 14)	0	290,000	290,000
Total Current Liabilities	<u>15,047,912</u>	<u>1,354,981</u>	<u>16,402,893</u>
Noncurrent Liabilities:			
Capital leases (Note 4)	8,575	0	8,575
Compensated absences (Notes 2F and 9)	56,851	0	56,851
Notes payable (Note 5)	1,157,668	45,000	1,202,668
General obligation bonds payable (Note 5)	34,645,654	0	34,645,654
Industrial revenue bonds payable (Note 14)	0	40,505,000	40,505,000
Total Noncurrent Liabilities	<u>35,868,748</u>	<u>40,550,000</u>	<u>76,418,748</u>
<b>TOTAL LIABILITIES</b>	<b><u>50,916,660</u></b>	<b><u>41,904,981</u></b>	<b><u>92,821,641</u></b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	25,017,174	0	25,017,174
Restricted for Debt and Capital Assets	0	0	0
Unrestricted	<u>(9,203,348)</u>	<u>1,052,801</u>	<u>(8,150,547)</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 15,813,826</u></b>	<b><u>\$ 1,052,801</u></b>	<b><u>\$ 16,866,627</u></b>

The accompanying notes are an integral part of this statement.

## Statement of Revenues, Expenses, and Changes in Net Assets

	State Fair Park Fund (As of June 30, 2004)	Component Unit— State Fair Park Exposition Center, Inc. (As of December 31, 2003)	Total (Memorandum Only)
<b>OPERATING REVENUES</b>			
Charges for Sales and Services	\$ 18,049,712	\$ 3,827,883	\$ 21,877,595
Other Income	<u>12,219</u>	<u>142,844</u>	<u>155,063</u>
<b>Total Operating Revenues</b>	<b><u>18,061,931</u></b>	<b><u>3,970,727</u></b>	<b><u>22,032,658</u></b>
<b>OPERATING EXPENSES</b>			
Salaries and Fringe Benefits	4,567,638	846,972	5,414,610
Supplies and Services	13,248,668	887,935	14,136,603
Depreciation	2,816,347	1,012,422	3,828,769
Interest Expense	5,985	0	5,985
Bad Debt Expense and Other Reductions of Accounts Receivable	593,844	0	593,844
Other	<u>0</u>	<u>6,086</u>	<u>6,086</u>
<b>Total Operating Expenses</b>	<b><u>21,232,482</u></b>	<b><u>2,753,415</u></b>	<b><u>23,985,897</u></b>
<b>OPERATING INCOME (LOSS)</b>	<b><u>(3,170,551)</u></b>	<b><u>1,217,312</u></b>	<b><u>(1,953,239)</u></b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment and Interest Income	13,687	0	13,687
Gain on Sale/Disposal of Assets	11,000	0	11,000
Interest Expense	<u>(1,634,710)</u>	<u>(2,685,556)</u>	<u>(4,320,266)</u>
Total Nonoperating Revenues (Expenses)	<u>(1,610,023)</u>	<u>(2,685,556)</u>	<u>(4,295,579)</u>
Loss Before Transfers	<u>(4,780,574)</u>	<u>(1,468,244)</u>	<u>(6,248,818)</u>
Transfers In (Notes 2H and 11)	2,961,160	0	2,961,160
Transfers Out (Notes 2H and 11)	<u>(548,041)</u>	<u>0</u>	<u>(548,041)</u>
<b>CHANGE IN NET ASSETS</b>	<b><u>(2,367,455)</u></b>	<b><u>(1,468,244)</u></b>	<b><u>(3,835,699)</u></b>
<b>NET ASSETS</b>			
Total Net Assets, Beginning of Year as Previously Stated	19,378,842	2,521,045	21,899,887
Prior-Period Adjustment (Note 7)	<u>(1,197,561)</u>	<u>0</u>	<u>(1,197,561)</u>
Total Net Assets—Beginning of the Year Adjusted	<u>18,181,281</u>	<u>2,521,045</u>	<u>20,702,326</u>
Total Net Assets—End of the Year	<b><u><u>\$ 15,813,826</u></u></b>	<b><u><u>\$ 1,052,801</u></u></b>	<b><u><u>\$ 16,866,627</u></u></b>

The accompanying notes are an integral part of this statement.

## Statement of Cash Flows—State Fair Park Fund for the Year Ended June 30, 2004

### CASH FLOWS FROM OPERATING ACTIVITIES

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Cash Received from Customers	\$ 20,504,042
Cash Payments to Suppliers for Goods and Services	(14,588,930)
Cash Payments to Employees for Services	(4,533,161)
Other Operating Revenues	12,219
Other Operating Expenses	(599,829)
Transfers Out	(306,910)
<b>Net Cash Provided by Operating Activities</b>	<b><u>487,431</u></b>

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

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Interfund Loans Received	5,812,594
Transfers Out	(2,607,668)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b><u>3,204,926</u></b>

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

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Proceeds from Issuance of Debt	4,133,346
Transfers In	2,961,160
Transfers Out	(10,063)
Repayment of Debt	(5,526,931)
Interest Paid	(1,646,081)
Debt Issuance Costs	(345)
Capital Lease Payments	(96,535)
Proceeds from the Sale of Fixed Assets	11,000
Purchase of Fixed Assets	(3,655,161)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b><u>(3,829,610)</u></b>

### CASH FLOWS FROM INVESTING ACTIVITIES

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Investment and Interest Receipts	<u>13,687</u>
<b>Net Cash Provided by Investing Activities</b>	<b><u>13,687</u></b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b><u>(123,566)</u></b>
Cash and Cash Equivalents, Restated—Beginning of the Year	<u>184,066</u>
Cash and Cash Equivalents—End of the Year	<b><u>\$ 60,500</u></b>

The accompanying notes are an integral part of this statement.



**RECONCILIATION OF NET OPERATING INCOME (LOSS) TO  
NET CASH PROVIDED BY OPERATING ACTIVITIES**

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Net Operating Loss	<u>\$ (3,170,551)</u>
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation expense	2,816,347
Bad debt expense and other reductions of accounts receivable	593,844
Transfers out	(306,910)
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(148,559)
Decrease (Increase) in due from other funds	(789)
Decrease (Increase) in inventories	6,842
Decrease (Increase) in prepaid items	(1,342,570)
Increase (Decrease) in accounts payable	(258,871)
Increase (Decrease) in due to other funds	254,337
Increase (Decrease) in deposits	8,462
Increase (Decrease) in deferred revenues	2,001,372
Increase (Decrease) in compensated absences	34,477
Total Adjustments	<u>3,657,982</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 487,431</u></u>

*The accompanying notes are an integral part of this statement.*

## Statement of Cash Flows: Component Unit—Exposition Center for the Year Ended December 31, 2003

### CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (1,468,244)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:	
Depreciation	1,012,422
Amortization	55,662
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(64,280)
Decrease (Increase) in prepaid items	9,417
Increase (Decrease) in accounts payable	(186,866)
Increase (Decrease) in other accrued expenses	67,599
Increase (Decrease) in unearned license fees	25,336
Total Adjustments	919,290
<b>Net Cash Used by Operating Activities</b>	<b>(548,954)</b>

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Long-Term Debt Borrowing	129,560
Principal Payment of Industrial Revenue Bonds	(4,100,000)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(3,970,440)</b>

### CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Fixed Assets	(233,959)
<b>Net Cash Used by Investing Activities</b>	<b>(233,959)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(4,753,353)</b>
Beginning of the Year—Cash and Cash Equivalents	10,022,576
End of the Year—Cash and Cash Equivalents	\$ 5,269,223

Supplemental Disclosure:

During the year ended December 31, 2003, the Exposition Center paid interest of \$2,637,222.

Schedule of Noncash Investing Activities:

During 2003, the Exposition Center reclassified \$150,938 from accounts receivable to improvements. The State Fair Park Board had previously agreed to reimburse the Exposition Center for the cost of installation of utility poles. During 2003, the State Fair Park Board concluded they would not reimburse the Exposition Center.

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# Notes to the Financial Statements

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

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

### A. Fund Accounting and Basis of Presentation

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

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

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

The State Fair Park Fund applies all GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1998, 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, 2004. 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 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, 2004, are summarized as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital Assets Not Being Depreciated:				
Land	\$ 998,504	\$ 0	\$ 0	\$ 998,504
Construction in Progress	<u>21,160,383</u>	<u>1,306,328</u>	<u>(100,243)<sup>1</sup></u>	<u>22,366,468</u>
Total Capital Assets Not Being Depreciated	22,158,887	1,306,328	(100,243)	23,364,972
Capital Assets Being Depreciated:				
Buildings and Improvements	62,934,136	461,242	(0)	63,395,378
Machinery and Equipment	<u>1,510,694</u>	<u>7,986</u>	<u>(36,185)</u>	<u>1,482,495</u>
Total Capital Assets Being Depreciated	64,444,830	469,228	(36,185)	64,877,873
Less Accumulated Depreciation for:				
Buildings and Improvements	( 21,665,523)	(2,696,837)	0	(24,362,360)
Machinery and Equipment	<u>( 1,278,504)</u>	<u>( 119,510)</u>	<u>36,185</u>	<u>( 1,361,829)</u>
Total Accumulated Depreciation	<u>( 22,944,027)</u>	<u>( 2,816,347)</u>	<u>36,185</u>	<u>( 25,724,189)</u>
Total Capital Assets Being Depreciated, Net	<u>41,500,803</u>	<u>(2,347,119)</u>	<u>0</u>	<u>39,153,684</u>
Total Capital Assets, Net	<u>\$63,659,690</u>	<u>\$(1,040,791)</u>	<u>(\$100,243)</u>	<u>\$62,518,656</u>

<sup>1</sup> The Construction in Progress decrease comes about because projects that were incomplete as of June 30, 2003, were finished during the year and are now reported as buildings and improvements.

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

### 4. LEASE OBLIGATIONS

Equipment items, including a turnstile and trolley trailers, 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 three and five years. The accumulated depreciation on this leased equipment totaled \$235,526, resulting in a net book value of \$48,570. Total lease payments for the fiscal year ended June 30, 2004, were \$95,678. Future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2004, are as follows:

For the Year Ending:	
June 30, 2005	\$ 73,475
June 30, 2006	<u>8,796</u>
Total Minimum Lease Payments	82,271
Less: Amount Representing Interest	<u>(2,867)</u>
Present Value of Minimum Lease Payments	<u>\$ 79,404</u>

During the year ended June 30, 2004, 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>\$175,938</u>	<u>\$0</u>	<u>\$ ( 96,534)</u>	<u>\$79,404</u>	<u>\$70,829</u>

State Fair Park also leases equipment under an operating lease expiring in FY 2004-05. Total rental expense for the year ended June 30, 2004, was \$2,712. Future minimum lease payments are \$1,808 for the year ended June 30, 2005.

**5. DEBT OBLIGATIONS**

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

*Debt to Be Repaid from State Fair Park Fund Program Revenue*

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

	<u>Balance June 30, 2003</u>	<u>New Debt Proceeds</u>	<u>Principal Payments and Refunds</u>	<u>Balance June 30, 2004</u>
Notes Payable—				
Commercial Paper	\$ 1,475,881	\$ 0	\$ ( 155,200)	\$ 1,320,681
Bonds	<u>37,530,600</u>	<u>4,133,346</u>	<u>( 5,371,731)</u>	<u>36,292,215</u>
Total	<u>\$39,006,481</u>	<u>\$4,133,346</u>	<u>\$( 5,526,931)</u>	<u>\$37,612,896</u>

The bond debt has fixed interest rates, while the commercial paper has a variable interest rate which changes daily. New debt proceeds from bonds

include amounts received from bonds issued to refund existing debt. Reductions in the long-term liability for bonds reflect principal payments on outstanding debt and refunds of existing debt.

As of June 30, 2004, estimated future debt service requirements to be paid from State Fair Park Fund program revenue are as follows:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2005	\$ 1,809,574	\$ 1,798,003	\$ 3,607,577
2006	1,778,568	1,712,631	3,491,199
2007	1,854,674	1,629,266	3,483,940
2008	1,944,844	1,541,333	3,486,177
2009	2,032,370	1,453,853	3,486,223
2010-2014	11,282,339	5,721,195	17,003,534
2015-2019	9,952,065	3,195,694	13,147,759
2020-2024	<u>6,958,462</u>	<u>781,235</u>	<u>7,739,697</u>
Total	<u>\$37,612,896</u>	<u>\$17,833,210</u>	<u>\$55,446,106</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:

	<u>Balance</u> <u>June 30, 2003</u>	<u>New Debt</u> <u>Proceeds</u>	<u>Principal</u> <u>Payments and</u> <u>Refunds</u>	<u>Balance</u> <u>June 30, 2004</u>
Commercial Paper	\$ 2,838,312	\$ 0	\$ (297,136)	\$ 2,541,176
Bonds	<u>19,711,678</u>	<u>5,567,012</u>	<u>( 1,910,253)</u>	<u>23,368,437</u>
Total	<u>\$22,549,990</u>	<u>\$5,567,012</u>	<u>\$( 2,207,389)</u>	<u>\$25,909,613</u>

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

As of June 30, 2004, estimated future debt service requirements to be paid from State of Wisconsin general purpose revenue are as follows:



Fiscal Year Ended June 30	Total Principal	Total Interest	Total Debt Service
2005	\$ 951,483	\$ 1,307,949	\$ 2,259,432
2006	1,053,223	1,262,064	2,315,287
2007	1,104,556	1,208,761	2,313,317
2008	1,154,961	1,151,946	2,306,907
2009	1,209,553	1,095,967	2,305,520
2010-2014	7,469,828	4,475,367	11,945,195
2015-2019	8,515,217	2,313,777	10,828,994
2020-2024	<u>4,450,792</u>	<u>521,663</u>	<u>4,972,455</u>
Total	<u>\$25,909,613</u>	<u>\$13,337,494</u>	<u>\$39,247,107</u>

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

**6. DEPOSITS**

GASB Statement 3 requires that deposits with financial institutions be categorized to indicate the level of risk assumed by the State. The risk categories for deposits are: 1) insured or collateralized with securities held by the State Fair Park Fund or by its agent in the State Fair Park Fund’s name; 2) uninsured but collateralized by the financial institution; and 3) uninsured and uncollateralized.

A portion of the State Fair Park Fund’s cash balance as of June 30, 2004, was deposited in a commercial checking account. In addition, cash is kept on hand for use during State Fair Park events.

The carrying amount that is the bank balance of the commercial checking account at June 30, 2004, was \$48,300. The Federal Deposit Insurance Corporation and the Wisconsin State Deposit Guarantee Fund (s. 34.08, Wis. Stats.) cover state deposits. The entire balance of \$48,300 at June 30, 2004, was insured and classified in risk category 1. The remaining cash balance of \$12,200 was on hand at State Fair Park and, therefore, not included in a risk category.

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

**7. PRIOR-PERIOD ADJUSTMENT**

State of Wisconsin capital project accounts related to the State Fair Park Fund were adjusted to correct errors made in prior years. The errors misstated the amount of cash transferred to State Fair Park for construction of new facilities

and other capital projects. Adjustments were made to correct misstatements in the following State Fair Park Fund accounts:

<u>Account</u>	<u>Balance June 30, 2003</u>	<u>Adjustment</u>	<u>Balance June 30, 2003 Restated</u>
Cash and Cash Equivalents	\$ 1,381,627	\$( 1,197,561)	\$ 184,066
Net Assets	19,378,842	(1,197,561)	18,181,281

## 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 \$178,923 for FY 2003-04. 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, 2004, 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>\$102,644</u>	<u>\$100,790</u>	<u>\$(66,314)</u>	<u>\$137,120</u>	<u>\$80,269</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 2003-04</u>
Accounts Receivable:	
Racing Activities	\$1,204,057
Rent Revenue	1,012,730
Miscellaneous	<u>246,558</u>
Total Accounts Receivable	<u>\$2,463,345</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, 2004, the Pettit Center had not made approximately 24 monthly payments and owed nearly \$1.6 million.

Because the bonds issued to fund construction of the Pettit Center had been refinanced over time, the monthly rent payments included in the initial lease agreement no longer agreed with actual debt service costs. In January 2004, the State Fair Park Board and the Pettit Center agreed to a revised lease schedule under which monthly rent payments reflect current debt service costs.

In addition, at its July 2004 meeting, the State Fair Park Board approved a proposal to reduce the amount of the Pettit Center’s delinquent rent by \$562,800, representing the amount by which monthly rent billed in the past exceeded State Fair Park’s actual debt service costs. The receivable balance, as of June 30, 2004, was reduced to reflect the Board’s action, leaving an outstanding balance of \$1.0 million for amounts owed by the Pettit Center. Based on past experience, the portion of the receivable balance that will be collected during the next fiscal year is unknown.

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

	<u>Fiscal Year 2003-04</u>
Accounts Payable:	
Vendors	\$1,903,993
Employees	<u>48,311</u>
Total Accounts Payable	<u>\$1,952,304</u>
Due to Other Funds:	
Due to Department of Administration for municipal services payment	139,737
Due to other state programs	<u>906,932</u>
Total Due to Other Funds	<u>\$1,046,669</u>
Interfund Payables:	
Amounts due to other funds for short- term loans to cover the State Fair Park Fund’s cash overdraft	<u>\$5,812,594</u>
Total Interfund Payables	<u>\$5,812,594</u>

**11. INTERFUND TRANSFERS**

Interfund transfers that occurred during FY 2003-04 are as follows:

**A. State Fair Park Fund Transfers In**

For Capital Building Projects	<u>\$2,961,160</u>
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**B. State Fair Park Fund Transfers Out**

Transfers Out:	
For required lapses to the General Fund	\$231,068
For municipal services	306,910
Other	<u>10,063</u>
Total Transfers Out	<u>\$548,041</u>

**12. SUBSEQUENT EVENT FOR THE STATE FAIR PARK FUND**

The State Fair Park Fund entered into two new capital leases after the close of FY 2003-04. The leased assets, which include signage intended to direct visitors to and around the fairgrounds, are valued at \$622,359.

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

**A. Summary of Significant Accounting Policies**

*Organization*

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

The State Fair Park Exposition Center, Inc., is an exempt organization 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 include \$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 December 31, 2003, is \$28,788 and is included in interest expense. Letter of credit costs of \$64,496 incurred in 2003 are being amortized over the 6-month life of the letter of credit. Amortization of letter of credit costs for December 31, 2003 is \$26,874 and is included in interest expense.

Total Bond Issuance and Letter of Credit Costs	\$601,682
Accumulated Amortization	<u>( 96,445)</u>
Unamortized Bond Issuance and Letter of Credit Costs	<u>\$505,237</u>

*Unearned License Fees*

Unearned license fees consist of advance deposits received for Exposition Center events held in 2004.

*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 \$29,835 in 2003.

**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 \$2.1 million as of December 31, 2003.

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 \$3.0 million as of December 31, 2003.

**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 for the first two years. The bonds have a final maturity of August 1, 2028, with no set schedule for principal repayment. However, the bonds require a mandatory redemption to the extent of unused bond proceeds. Repayment of the bonds is guaranteed by a ground lease and license agreement and a letter of credit which expires on April 15, 2006. 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, 2003.

The balance outstanding on the industrial revenue bonds payable was \$40.8 million as of December 31, 2003. 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 principal payments of bonds payable as of December 31, 2003, follows:

	<u>Principal Payment</u>
2004	\$ 290,000
2005	390,000
2006	495,000
2007	609,000
2008	713,000
Thereafter	<u>38,298,000</u>
Total	<u>\$40,795,000</u>

See Note 14 for additional information related to principal payments of bonds payable.

A summary of interest expense for 2003 is as follows:

	<u>Interest Expense</u>
Interest Incurred	\$2,558,502
Letter of Credit and Remarketing Fees	128,862
Amortization of Bond issuance Costs	28,788
Interest Earned	<u>( 30,596)</u>
Total	<u>\$2,685,556</u>

#### **D. Retirement Plan**

Effective January 1, 2003, the Exposition Center has a Simple IRA retirement plan covering substantially all employees. Participants may elect to make voluntary pre-tax contributions of up to \$8,000 of their compensation for 2003. The Exposition Center matches 100.0 percent of the participant's voluntary contributions, up to 3.0 percent of the participant's compensation. The Exposition Center contributed \$15,262 to the Plan during 2003.

#### **E. Related Party Transactions**

The Exposition Center's Board of Directors is required to have two members who are also members of the State Fair Park Board.

The Exposition Center entered into a ground lease agreement with the State Fair Park Board effective August 1, 2001. The operating lease allows the Exposition Center to construct and operate an exposition center on State Fair Park grounds. The term of the lease ends on the 28<sup>th</sup> anniversary of the date on which the construction of the Exposition Center is completed, with options for five one-year extensions. The Exposition Center shall pay rent equal to the excess of its annual gross revenues from all sources over its annual expenses of operating the Exposition Center, including debt service of any type, debt reserves, operating costs, and reserves. Rents are payable annually in arrears



each January 15 following the completion of the Exposition Center. No rents were payable relating to this ground lease agreement as of December 31, 2003.

The Exposition Center has also entered into a license agreement with the State Fair Park Board granting the State Fair Park Board the sole right to use the entire Exposition Center during the two-week period in August of each year when the State Fair Park Board holds its annual state fair. The license fee to be paid shall be \$200,000 per 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 Exposition Center's ground lease expires or terminates. License fees pursuant to this agreement totaled \$200,000 in 2003.

Accounts receivable includes \$130,385 from the State Fair Park Board as of December 31, 2003, primarily for reimbursement of parking and payroll for use of employees. Accounts payable and accrued expenses include \$90,009 to the State Fair Park Board as of December 31, 2003, primarily for contracted labor and services.

#### **14. SUBSEQUENT EVENT FOR THE WISCONSIN STATE FAIR PARK EXPOSITION CENTER, INC.**

The Exposition Center's financial statements for the year ended December 31, 2003, include a current liability for bonds payable related to a principal payment that was expected to be made in 2004. However, based on further review of the bond agreements and discussions with the underwriters, lending institutions, and legal counsel, the Exposition Center did not make a principal payment during 2004. The Exposition Center and its legal counsel believe that no principal payments will be required until the bonds mature in 2028, at which time the entire balance of \$40.8 million will be due.

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## Report on Control and Compliance ■

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

We have audited the financial statements of the Wisconsin State Fair Park as of and for the year ended June 30, 2004, and have issued our report thereon dated May 24, 2005. We did not audit the financial statements of the Wisconsin 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 the Wisconsin 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 the Wisconsin State Fair Park Exposition Center, Inc., were audited by others 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*.

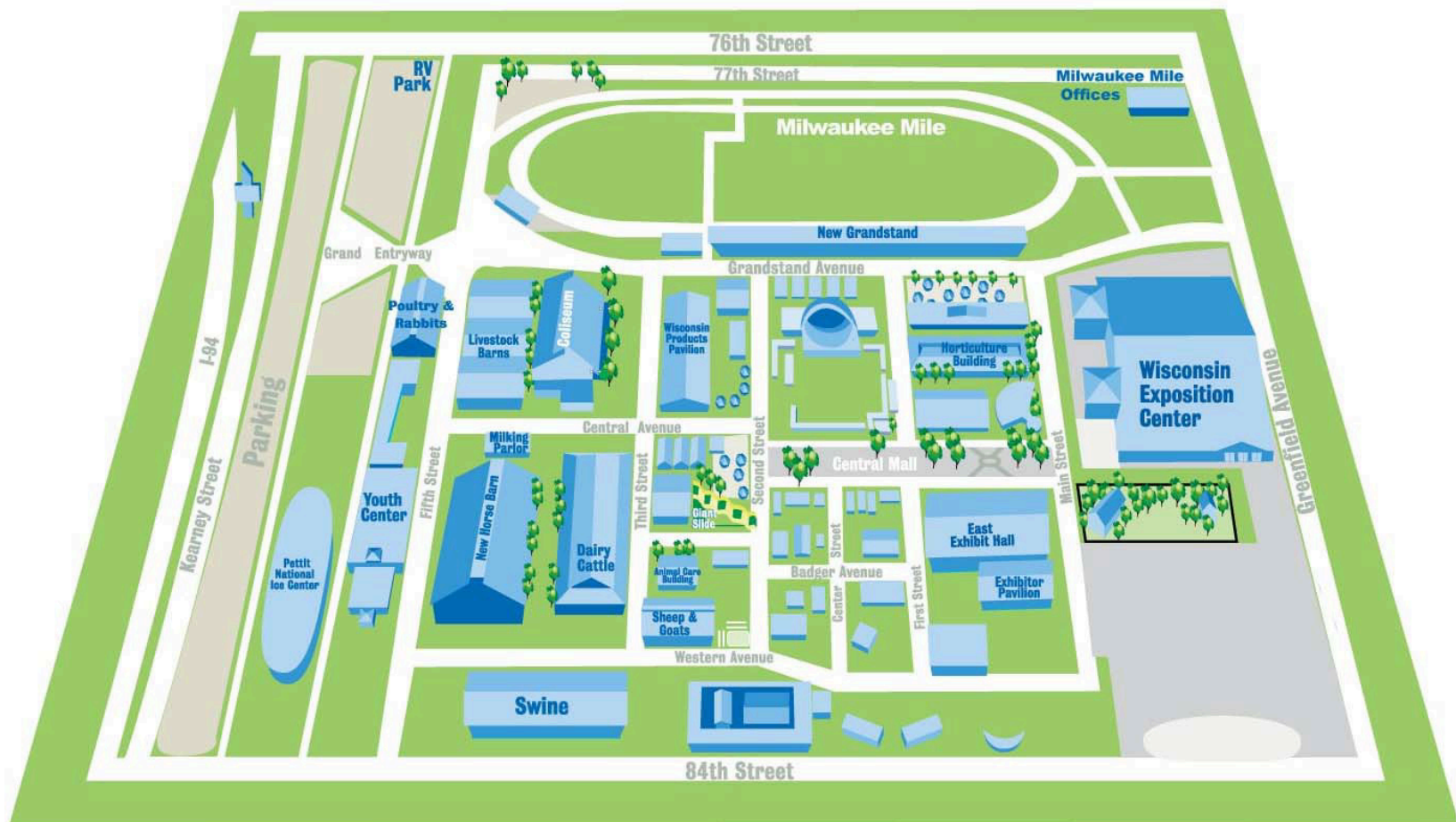
This independent auditor’s report is intended for the information and use of the Wisconsin State Fair Park Fund’s management and the Wisconsin Legislature. This independent auditor’s report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is 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.

May 24, 2005

LEGISLATIVE AUDIT BUREAU  
  
by Julie Gordon  
Audit Director

Appendix 1

**Wisconsin State Fair Park**



Source: State Fair Park





## Wisconsin State Fair Park

June 6, 2005

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

Dear Ms. Mueller:

This letter is in response to the Legislative Audit Bureau's audit report of Wisconsin State Fair Park and its fiscal year 2003-04 financial statements. On behalf of the State Fair Park Board and staff, I would like to compliment you and your legislative auditors. They performed their duties in a professional manner, were considerate of the competing time needs of staff, and worked diligently to understand the issues facing State Fair Park.

Many of the concerns identified in prior audits have been addressed, such as reducing the number of staff positions and improving financial reporting and accountability. We expect other issues to be resolved in the near future, which will significantly improve financial performance. As noted in the report, State Fair Park plans to sell the Pettit National Ice Center building and lease Milwaukee Mile operations. These initiatives will ensure that Olympic ice training and professional racing not only continue but thrive on the fairgrounds, while also eliminating existing financial risks to State Fair Park.

We agree with your recommendation. A report will be submitted by October 31, 2005 to the Joint Legislative Audit Committee on State Fair Park's financial condition and plans for improving the overall operations of the fairgrounds. The report will include explanations of the organizational and operating relationships between State Fair Park and the Wisconsin Exposition Center, Milwaukee Mile, and Pettit National Ice Center.

State Fair Park staff takes well-deserved pride in planning and operating Wisconsin's annual State Fair and other events such as the Beef Expo and Harvest Fair. These events are extremely popular and provide great entertainment at a fantastic value to state residents and visitors to Wisconsin. In order to protect our traditional events and activities, we appreciate the continued assistance and advice provided by the Legislative Audit Bureau in our efforts to stabilize operations and improve our financial condition.

Sincerely,

Randy Prasse  
Executive Director