



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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June 22, 2004

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:

We are required by s. 13.94(1)(dm), Wis. Stats., to conduct an annual financial audit of State Fair Park. In 2003 (report 03-11), we were unable to render an audit opinion because State Fair Park could not provide complete and accurate financial statements for fiscal year (FY) 2001-02.

State Fair Park later contracted with a private accounting firm to compile its financial statements for both FY 2001-02 and FY 2002-03. We have issued unqualified audit opinions for each year, and FY 2001-02 statements are included in this letter report. In report 04-5, which has been released separately today, we provide the FY 2002-03 financial statements and follow up on our 2003 recommendations regarding improvements to State Fair Park's financial operations.

We appreciate the courtesy and cooperation extended to us by the staff of State Fair Park.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller  
State Auditor

JM/JG/bm

Enclosure

## **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, 2002, 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 Exposition Center, Inc., which represents 100 percent of the financial activity of the discretely presented component unit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of the Wisconsin State Fair Park Exposition Center, Inc. have not been audited, and we were not engaged to audit the Wisconsin State Fair Park Exposition Center, Inc.'s financial statements as part of our audit of the Wisconsin State Fair Park's financial statements. The Wisconsin State Fair Park Exposition Center, Inc.'s financial activities are presented with the Wisconsin State Fair Park's financial statements as a discretely presented component unit and represent 100 percent of the financial activity of the discretely presented component unit.

As discussed in Note 1, the financial statements referred to above 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.

Because the Wisconsin State Fair Park Exposition Center, Inc.'s financial statements have not been audited, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of this discretely presented component unit as of and for the year ended December 31, 2001.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the State Fair Park Fund as of June 30, 2002, and the changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, for fiscal year 2001-02, the State Fair Park Fund implemented Governmental Accounting Standards Board Statement Number 34, *Basic*

*Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 11, 2004, on our consideration of the Wisconsin State Fair Park Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

LEGISLATIVE AUDIT BUREAU

June 11, 2004

by



Julie Gordon  
Audit Director

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Wisconsin State Fair Park

**Statement of Net Assets**

	State Fair Park Fund (As of June 30, 2002)	Component Unit— State Fair Park Exposition Center, Inc. (As of December 31, 2001) UNAUDITED	Total (Memorandum Only)
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents (Notes 2C and 7)	\$ 139,608	\$ 35,862,822	\$ 36,002,430
Receivables (net of estimated uncollectible accounts)	1,509,438	43,621	1,553,059
Due from other funds	12,797	0	12,797
Inventories	51,622	0	51,622
Prepaid items	125,447	0	125,447
Total Current Assets	<u>1,838,912</u>	<u>35,906,443</u>	<u>37,745,355</u>
Noncurrent Assets:			
Deferred charges	50,197	525,190	575,387
Capital assets (net of accumulated depreciation) (Notes 2E and 3)	42,745,588	11,897,393	54,642,981
Total Noncurrent Assets	<u>42,795,785</u>	<u>12,422,583</u>	<u>55,218,368</u>
<b>TOTAL ASSETS</b>	<b><u>44,634,697</u></b>	<b><u>48,329,026</u></b>	<b><u>92,963,723</u></b>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$ 2,380,322	\$ 18,357	\$ 2,398,679
Due to other funds (Note 2G)	3,590,807	0	3,590,807
Tax and other deposits	89,298	0	89,298
Deferred revenue (Note 2D)	983,281	0	983,281
Interest payable	158,920	199,783	358,703
Capital Leases	46,636	0	46,636
Compensated absences (Notes 2F and 10)	63,252	0	63,252
Construction costs payable	0	3,249,224	3,249,224
Notes payable (Note 6)	147,621	0	147,621
General obligation bonds payable (Note 6)	960,397	0	960,397
Total Current Liabilities	<u>8,420,534</u>	<u>3,467,364</u>	<u>11,887,898</u>
Noncurrent Liabilities:			
Capital leases	73,995	0	73,995
Compensated absences (Notes 2F and 10)	29,560	0	29,560
Notes payable (Note 6)	1,476,469	0	1,476,469
General obligation bonds payable (Note 6)	17,139,760	0	17,139,760
Industrial revenue bonds payable	0	44,895,000	44,895,000
Total Noncurrent Liabilities	<u>18,719,784</u>	<u>44,895,000</u>	<u>63,614,784</u>
<b>TOTAL LIABILITIES</b>	<b><u>27,140,318</u></b>	<b><u>48,362,364</u></b>	<b><u>75,502,682</u></b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	22,950,907	0	22,950,907
Unrestricted	(5,456,528)	(33,338)	(5,489,866)
<b>TOTAL NET ASSETS</b>	<b><u>\$ 17,494,379</u></b>	<b><u>\$ (33,338)</u></b>	<b><u>\$ 17,461,041</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, 2002)	Component Unit— State Fair Park Exposition Center, Inc. (As of December 31, 2001) UNAUDITED	Total (Memorandum Only)
<b>OPERATING REVENUES</b>			
Charges for Sales and Services	\$ 15,223,722	\$ 0	\$ 15,223,722
Other Income	<u>6,163</u>	<u>0</u>	<u>6,163</u>
<b>Total Operating Revenues</b>	<b><u>15,229,885</u></b>	<b><u>0</u></b>	<b><u>15,229,885</u></b>
<b>OPERATING EXPENSES</b>			
Salaries and Fringe Benefits	5,091,466	0	5,091,466
Supplies and Services	8,304,534	33,338	8,337,872
Depreciation	2,493,511	0	2,493,511
Other Expenses	<u>4,704</u>	<u>0</u>	<u>4,704</u>
<b>Total Operating Expenses</b>	<b><u>15,894,215</u></b>	<b><u>33,338</u></b>	<b><u>15,927,553</u></b>
<b>NET OPERATING LOSS</b>	<b><u>(664,330)</u></b>	<b><u>(33,338)</u></b>	<b><u>(697,668)</u></b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment & Interest Income	(29,579)	0	(29,579)
Amortization Expense	(51,520)	0	(51,520)
Interest Expense	<u>(919,993)</u>	<u>0</u>	<u>(919,993)</u>
Total Nonoperating Revenues (Expenses)	<u>(1,001,092)</u>	<u>0</u>	<u>(1,001,092)</u>
Net Loss Before Operating Transfers	<u>(1,665,422)</u>	<u>(33,338)</u>	<u>(1,698,760)</u>
Transfers In (Note 2H)	4,511,519	0	4,511,519
Transfers Out (Notes 2H and 12)	<u>(2,326,522)</u>	<u>0</u>	<u>(2,326,522)</u>
<b>TOTAL NET INCOME (LOSS)</b>	<b><u>519,575</u></b>	<b><u>(33,338)</u></b>	<b><u>486,237</u></b>
<b>NET ASSETS</b>			
Total Net Assets, Beginning of Year as Previously Stated	17,230,882	0	17,230,882
Prior Period Adjustment (Note 8)	<u>(256,078)</u>	<u>0</u>	<u>(256,078)</u>
Total Net Assets—Beginning of Year (As Restated)	<u>16,974,804</u>	<u>0</u>	<u>16,974,804</u>
Total Net Assets—End of Year	<b><u>\$ 17,494,379</u></b>	<b><u>\$ (33,338)</u></b>	<b><u>\$ 17,461,041</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, 2002**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from Customers	\$ 14,563,239
Cash Payments to Suppliers for Goods and Services	(7,499,648)
Cash Payments to Employees for Services	(5,081,413)
Other Operating Revenues	6,163
Other Operating Expenses	(4,704)
Transfers Out	(1,240,922)
<b>Net Cash Provided by Operating Activities</b>	<b>742,715</b>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Proceeds from Issuance of Debt	732,303
Transfers In	4,511,519
Repayment of Debt	(3,172,088)
Interest Paid	(1,005,518)
Capital Lease Payments	(32,104)
Purchase of Fixed Assets	(4,502,420)
Other Cash Flows from Capital and Related Financing Activities	(50,197)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(3,518,505)</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment and Interest Income	(29,579)
<b>Net Cash Used by Investing Activities</b>	<b>(29,579)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,805,369)</b>
Cash and Cash Equivalents—Beginning of the Year	2,944,977
Cash and Cash Equivalents—End of the Year	\$ 139,608

The accompanying notes are an integral part of this statement.

**Statement of Cash Flows—State Fair Park Fund  
for the Year Ended June 30, 2002 (Continued)**

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

Net Operating Loss	<u>\$ (664,330)</u>
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation expense	2,493,511
Change in provision for uncollectible accounts	(52,935)
Transfers out	(1,240,922)
Change in Assets and Liabilities:	
Decrease (increase) in receivables	(162,704)
Decrease (increase) in due from other funds	(12,797)
Decrease (increase) in inventories	56,632
Decrease (increase) in prepaid items	54,976
Increase (decrease) in accounts payable	110,219
Increase (decrease) in due to other funds	573,517
Increase (decrease) in deposits	9,541
Increase (decrease) in deferred revenues	(432,046)
Increase (decrease) in compensated absences	10,053
Total Adjustments	<u>1,407,045</u>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 742,715</u></b>

Noncash Activity:

During FY 2001-02, Wisconsin State Fair Park entered into a capital lease for equipment for \$86,050.

The accompanying notes are an integral part of this statement.

**Unaudited Statement of Cash Flows: Component Unit—Exposition Center  
for the Year Ended December 31, 2001**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets	\$ (33,338)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:	
None	0
<b>Net Cash Used by Operating Activities</b>	<b>(33,338)</b>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Proceeds from Issuance of Industrial Revenue Bonds	44,895,000
Bond Issue Costs	(535,685)
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<b>44,359,315</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Exposition Center Construction	(8,463,155)
<b>Net Cash Used by Investing Activities</b>	<b>(8,463,155)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>35,862,822</b>
Cash and Cash Equivalents—Beginning of the Year	0
Cash and Cash Equivalents—End of the Year	\$ 35,862,822

The accompanying notes are an integral part of this statement.



## Notes to the Financial Statements

### 1. Description of the Wisconsin State Fair Park

The Wisconsin State Fair Park is located in the cities of West Allis and Milwaukee. 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 the 11-day event. In addition to holding 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 appointed by the Governor of the State of Wisconsin. 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 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. 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. The accompanying financial statements were prepared based on the flow of economic resources 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 non-operating. 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 disposal of capital assets and interest expense, are reported as non-operating 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 the State Treasurer, where available balances beyond immediate needs are pooled in the State Investment Fund, a short-term investment pool of state and local funds managed by the State of Wisconsin Investment Board with oversight by its Board of Trustees;
- 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	5 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, 2002. 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 primarily 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 provided by other state funds and statutorily-required lapses to the General Fund.

**3. Capital Assets**

The State Fair Park Fund’s capital asset transactions for the year ended June 30, 2002, are summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 988,747	\$ 3,798	\$ 0	\$ 992,545
Construction in Progress	<u>1,542,997</u>	<u>5,398,898</u>	<u>(1,235,207)<sup>1</sup></u>	<u>5,706,688</u>
Total Capital Assets, Not Being Depreciated	2,531,744	5,402,696	(1,235,207)	6,699,233
Capital Assets, Being Depreciated:				
Buildings and Improvements	54,212,815	3,459,476	(459,430)	57,212,861
Machinery and Equipment	<u>1,222,737</u>	<u>86,050</u>	<u>0</u>	<u>1,308,787</u>
Total Capital Assets, Being Depreciated	55,435,552	3,545,526	(459,430)	58,521,648
Less Accumulated Depreciation for:				
Buildings and Improvements	(19,322,274)	(2,414,955)	407,909	(21,329,320)
Machinery and Equipment	<u>(1,067,417)</u>	<u>(78,556)</u>	<u>0</u>	<u>(1,145,973)</u>
Total Accumulated Depreciation	<u>(20,389,691)</u>	<u>(2,493,511)</u>	<u>407,909</u>	<u>(22,475,293)</u>
Total Capital Assets Being Depreciated, Net	<u>35,045,861</u>	<u>1,052,015</u>	<u>(51,521)</u>	<u>36,046,355</u>
Total Capital Assets, Net	<u>\$37,577,605</u>	<u>\$6,454,711</u>	<u>\$(1,286,728)</u>	<u>\$42,745,588</u>

<sup>1</sup>Construction in progress disposals of \$1,235,207 represent construction projects in progress as of June 30, 2001, which were subsequently completed during FY 2001-02 and are now reported as buildings and improvements.

See Note 14 for information about the Wisconsin Exposition Center’s capital assets.

#### 4. Capital Lease Obligations

State Fair Park leased equipment valued at \$96,100 during FY 1999-2000 and \$86,050 during FY 2001-02 under capital leases. The assets are included in the State Fair Park Fund's capital assets and are depreciated over the term of the lease. The accumulated depreciation on the equipment totaled \$81,481, resulting in a net book value of \$100,669. Total lease payments for the fiscal year ended June 30, 2002 were \$36,923. Future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of June 30, 2002, are as follows:

<u>For the Year Ending:</u>	
June 30, 2003	\$ 50,663
June 30, 2004	50,664
June 30, 2005	17,509
June 30, 2006	<u>8,796</u>
Total Minimum Lease Payments	127,632
Less: Amount Representing Interest	<u>(7,001)</u>
Present Value of Minimum Lease Payments	<u>\$120,631</u>

During the year ended June 30, 2002, 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>\$66,685</u>	<u>\$86,050</u>	<u>\$(32,104)</u>	<u>\$120,631</u>	<u>\$46,636</u>

#### 5. Operating Lease Obligations

State Fair Park leases equipment under operating leases expiring in FY 2001-02. The State Fair Park Fund's total rental expense for the year ended June 30, 2002, was \$809.

#### 6. Debt Obligations

State of Wisconsin general obligation bonds and commercial paper are issued to finance the construction, development, improvement, and repair of some facilities on the State Fair Park grounds. 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 revenues 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, 2001</u>	<u>New Debt Proceeds</u>	<u>Payments</u>	<u>Balance June 30, 2002</u>
Notes Payable—				
Commercial Paper	\$3,120,796	\$ 0	\$(1,496,706)	\$ 1,624,090
General Obligation Bonds	<u>19,043,236</u>	<u>732,303</u>	<u>(1,675,382)</u>	<u>18,100,157</u>
Total	\$22,164,032	\$732,303	\$(3,172,088)	\$19,724,247

The bond debt has a fixed interest rate while the commercial paper has a variable interest rate which changes daily.

As of June 30, 2002, future debt service requirements to be paid from State Fair Park Fund program revenue are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2003	\$ 1,108,018	\$ 972,626	\$ 2,080,644
2004	1,066,470	978,511	2,044,981
2005	1,113,423	915,553	2,028,976
2006	1,016,936	854,295	1,871,231
2007	1,063,983	799,422	1,863,405
2008-2012	6,380,038	3,093,232	9,473,270
2013-2017	5,033,790	1,506,204	6,539,994
2018-2022	<u>2,941,589</u>	<u>392,301</u>	<u>333,890</u>
Total	<u>\$19,724,247</u>	<u>\$9,512,144</u>	<u>\$29,236,391</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 revenues represent a debt of the State of Wisconsin and 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 June 30, 2001</u>	<u>New Debt Proceeds</u>	<u>Payments and Refunds</u>	<u>Balance June 30, 2002</u>
Commercial Paper	\$ 2,806,053 <sup>1</sup>	\$ 32,264	\$ (5)	\$ 2,838,312
Bonds	<u>9,156,741</u>	<u>5,956,255</u>	<u>(1,971,718)</u>	<u>13,141,278</u>
Total	<u>\$11,962,794</u>	<u>\$5,988,519</u>	<u>\$ (1,971,723)</u>	<u>\$ 15,979,590</u>

<sup>1</sup> June 30, 2001 balance was restated to correct prior year's understatement of \$95,000.

The bond debt has a fixed interest rate while the commercial paper has a variable interest rate which changes daily.

As of June 30, 2002, future debt service requirements to be paid from State of Wisconsin general purpose revenues are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
2003	\$ 535,572	\$1,002,036	\$1,537,608
2004	561,241	811,404	1,372,645
2005	588,061	783,492	1,371,553
2006	621,239	751,749	1,372,988
2007	652,605	718,104	1,370,709
2008-2012	3,939,091	3,050,074	6,989,165
2013-2017	6,134,052	1,735,905	7,869,957
2018-2022	<u>2,947,729</u>	<u>363,641</u>	<u>3,311,370</u>
Total	<u>\$15,979,590</u>	<u>\$9,216,405</u>	<u>\$25,195,995</u>

See Note 14 for information about the Wisconsin Exposition Center's debt obligations.

## 7. Deposits

GASB Statement 3 requires 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.

The State Fair Park Fund's cash balances are deposited with the State of Wisconsin Treasurer and in a commercial checking account. In addition, cash is kept on hand for use during State Fair Park events. The State of Wisconsin Investment Board, through the State Investment Fund, invests cash deposited with the State of Wisconsin Treasurer. The carrying amount of shares in the State Investment Fund, which approximates market value, was \$79,108 as of June 30, 2002. Holdings of the State Investment Fund include certificates of deposit and investments consisting primarily of direct obligations of the federal government and the State, and unsecured notes of qualifying financial and industrial issuers. Where possible, investments in the State Investment Fund are reported at fair value for financial reporting purposes and are based on quoted market prices. Shares in the State Investment Fund are not required to be categorized under GASB Statement 3. The State Investment Fund is not registered with the Securities and Exchange Commission as an investment company.

The carrying amount that is the bank balance of the commercial checking account at June 30, 2002, was \$40,300. The Federal Deposit Insurance Corporation and the Wisconsin State Deposit Guarantee Fund (s. 34.08, Wis. Stats.) cover state deposits. The entire balance of \$40,300 at June 30, 2002, was insured and classified in risk category 1. The remaining cash balance of \$20,200 was on hand at State Fair Park and, therefore, not included in a risk category.

See Note 14 for information about the Wisconsin Exposition Center's cash and cash equivalent balances.

## 8. Prior-Period Adjustment

Due to a reporting error, State Fair Park Fund accounts receivable as of June 30, 2001 were overstated by \$256,078 and charges for sales and services for the period ending June 30, 2001 were overstated by the same amount. As a result, the beginning net assets for FY 2001-02 have been restated as follows:

Net Assets 6/30/01 (As Previously Reported)	\$17,230,882
Restatement of Accounts Receivable	<u>(256,078)</u>
Net Assets 7/1/02 (As Restated)	<u>\$16,974,804</u>

## 9. 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. 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 \$251,629 for FY 2001-02. 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.

## 10. Compensated Absences

The State Fair Park Fund's compensated absence activity for the fiscal year ended June 30, 2002 is 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>\$82,759</u>	<u>\$62,179</u>	<u>\$(52,126)</u>	<u>\$92,812</u>	<u>\$63,252</u>

## 11. Change in Accounting Principle

The State Fair Park Fund implemented a new financial reporting model for FY 2001-02, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussions and Analysis—for State and Local Governments*. Financial statement presentation changed to reflect assets invested in capital assets, net of related debt and unrestricted net assets.

## 12. Transfers to the General Fund

2001 Wisconsin Act 16, enacted on August 30, 2001, required that \$638,600 be lapsed in FY 2001-02 from the State Fair Park Fund to the State of Wisconsin's General Fund. 2001 Wisconsin Act 109, enacted on July 29, 2002, required the State Fair Park Fund to lapse an additional \$447,000 in FY 2001-02. Lapses totaling \$1,085,600 are reported as transfers out on the FY 2001-02 State Fair Park Fund statement of revenues, expenses, and changes in net assets.

## 13. Subsequent Events

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 was responsible for making monthly rent payments of \$74,341 to the State Fair Park Fund. This amount was equal to the debt service payments required under the initial bonds issued to fund the Pettit Center's construction. The Pettit Center is behind on making the payments and as of June 30, 2002, owed \$892,140 to the State Fair Park Fund. In January 2004, State Fair Park and the Pettit Center revised the monthly rent payments to equal the State Fair Park Fund's current debt service costs, which have changed since the initial agreement was signed due to bond refinancings. In addition, at its July 2004 meeting, the State Fair Park Board is expected to consider a proposal to forgive some of the Pettit Center's past-due rent, in recognition of annual rent that exceeded the actual debt service costs.



In past years State Fair Park contracted with a private racing promoter to sponsor and promote racing at the Milwaukee Mile, the race track located on State Fair Park grounds. In May 2003, State Fair Park entered into a contract to regain control of racing activities by buying out the racing promoter's contract. At that time, State Fair Park began managing the racing function internally.

As part of State Fair Park's master plan, a comprehensive plan to renovate and replace aging State Fair Park facilities, a number of buildings, including exhibit halls and the racing grandstand were demolished in late 2002. A new grandstand was substantially completed in time for the 2003 racing season. Some larger events previously held in demolished buildings have moved to the Exposition Center while other events have moved to smaller State Fair Park facilities or are no longer held at State Fair Park. As a result of the demolitions, the State Fair Park Fund revenue is expected to decline by an unknown amount.

#### **14. 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 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 State Fair Park Exposition Center, Inc. have been prepared on the accrual basis of accounting.

###### **BASIS OF PRESENTATION**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards SFAS No. 117, *Financial Statements of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CASH AND CASH EQUIVALENTS**

For purposes of the statement of cash flows, cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

**ACCOUNTS RECEIVABLE**

The Organization uses the allowance method for recording bad debts.

**B. *Construction in Progress***

Construction in progress represents costs incurred to erect an approximately 300,000 square foot exposition hall, which was not complete as of December 31, 2001, the end of the Exposition Center's fiscal year. Construction was finalized by August 2002.

**C. *Deferred Bond Issuance Costs***

Bond issuance costs are being amortized using the effective interest method over the twenty-eight-year life of the bond. Based on an issue date of August 1, 2001, amortization of such issue costs amounted to \$11,995 for the fiscal year ended December 31, 2001. The following is a summary of the original issue costs and accumulated amortization as of December 31, 2001:

Total Bond Issue Costs	\$537,185
Accumulated amortization	<u>(11,995)</u>
Unamortized Bond Issue Costs	<u>\$525,190</u>

**D. *Retainage on Contractor Payments***

Per contract with the general contractor, payments for work completed are subject to a ten percent retainer until 50 percent of the entire work has been completed. After such point, payments will be made in full. Release of retained amounts will occur upon final acceptance of the completed structure.

**E. *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, and a final maturity of August 1, 2028. Other than the final maturity date, the bond has no set schedule for principal repayment. The interest rate as of December 31, 2001 was approximately 5.34 percent.

Total interest incurred during the fiscal year ended December 31, 2001 amounted to \$998,914, all of which was capitalized as part of the cost of construction of the Exposition Center.

Repayment of the bonds is guaranteed by a letter of credit. The letter of credit has been extended to April 15, 2005.

F. ***Capitalized Interest***

All interest incurred on the bonds during 2001 was capitalized as part of the cost of the Exposition Center construction. Generally accepted accounting principles require that interest earned on temporary investment of such bond proceeds be offset against the interest incurred. The following is a summary on the net interest capitalized as part of the exposition center construction cost during 2001:

Interest Incurred on Bond Issue	\$998,914
Interest Earned on Temporary Investments	(373,973)
Letter of Credit Fees	163,509
Amortization of Bond Issue Costs	<u>11,995</u>
Total Capitalized Interest	<u>\$800,445</u>

G. ***Related Party Transactions***

The Exposition Center's Board 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 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.

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.

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## **Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting 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, 2002, and have issued our report thereon dated June 11, 2004. We did not audit the financial statements of the Wisconsin State Fair Park Exposition Center, Inc. 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 not audited.

### **Compliance**

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 that are required to be reported under *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 assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention related to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State Fair Park Fund's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

We believe that the State Fair Park Fund's financial statement compilation process represents a reportable condition because it did not appropriately summarize the State Fair Park Fund's activities, in accordance with new reporting standards implemented in fiscal year 2001-02. Procedures for the State Fair Park Fund's compilation process had not been documented, and the changes associated with the implementation of new reporting standards had not been fully considered. As a result, material adjustments were necessary, and financial reporting was not completed in a timely manner.

A material weakness is a 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

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we consider the reportable condition related to the State Fair Park Fund's compilation process described above to be a material weakness.

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 compliance or provide assurance on internal control over financial reporting, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

June 11, 2004

by



Julie Gordon  
Audit Director

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