

An Audit

State Fair Park

2009-2010 Joint Legislative Audit Committee Members

Senate Members:

Kathleen Vinehout, Co-chairperson
Robert Jauch
Mark Miller
Robert Cowles
Mary Lazich

Assembly Members:

Peter Barca, Co-chairperson
Andy Jorgensen
Mark Pocan
Bill Kramer
Samantha Kerkman

LEGISLATIVE AUDIT BUREAU

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

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

State Auditor – Janice Mueller

Audit Prepared by

Carolyn Stittleburg, *Director and Contact Person*

Brian Geib

Terry Casper

Timothy Gerberding

David Harkins

Kurt Petrie

Daniel Purcell

Director of Publications – Jeanne Thieme

Report Design and Production – Susan Skowronski

CONTENTS

Letter of Transmittal	1
Report Highlights	3
Introduction	9
State Fair Park Board and Staff	10
Financial Condition	11
Debt Service Costs	12
In-Kind Support	13
Types of In-Kind Support	13
Policies and Procedures	14
Monitoring and Reporting	15
Fair Tickets	17
Milwaukee Mile	21
Issues with External Promoters	21
Pending Litigation	23
Future of Racing at Milwaukee Mile	24
Wisconsin Exposition Center	27
State Fair Park Exposition Center, Inc.	27
Transition to State Fair Park	29
State Fair Park Management of the Wisconsin Exposition Center	31
Audit Opinion	33
Independent Auditor's Report on the Financial Statements of the Wisconsin State Fair Park	
Management's Discussion and Analysis	35

Financial Statements	43
Statement of Net Assets	44
Statement of Revenues, Expenses, and Changes in Net Assets	45
Statement of Cash Flows—State Fair Park Fund for the Year Ended June 30, 2009	46
Statement of Cash Flows: Component Unit— State Fair Park Exposition Center, Inc. for the Year Ended December 31, 2008	48
Notes to the Financial Statements	49
Report on Control and Compliance	67
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	
Appendices	
Appendix 1—State Fair Park Map	
Appendix 2—Scheduled Debt Service Payments for Milwaukee Mile Related Program Revenue-Supported Bonds	
Response	
From the Executive Director of State Fair Park	



STATE OF WISCONSIN
Legislative Audit Bureau

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

Janice Mueller
State Auditor

June 23, 2010

Senator Kathleen Vinehout and
Representative Peter Barca, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Vinehout and Representative Barca:

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) 2008-09 financial statements. In addition, we have continued to monitor its financial condition and efforts to improve its financial performance.

In FY 2008-09, State Fair Park's revenue exceeded expenditures by \$828,000 on a cash basis. Primarily because of a successful 2008 Wisconsin State Fair, State Fair Park was able to reduce its accumulated cash deficit to \$7.8 million on June 30, 2009. However, operations of the Milwaukee Mile racetrack continue to be a challenge. State Fair Park has been unable to find an external promoter and has managed racetrack operations internally since July 2009. In addition, the State of Wisconsin purchased the Wisconsin Exposition Center building in December 2009 for \$13.9 million, and State Fair Park now has the added responsibility of managing that facility.

As part of this year's audit, we reviewed the use of in-kind support, such as equipment or advertising, that State Fair Park solicits from businesses in exchange for tickets to the Wisconsin State Fair and advertising exposure on the fairgrounds. In-kind support allows State Fair Park to meet its operational needs and increase its advertising without a cash outlay and is therefore an important component of cost-effective operations. However, State Fair Park does not effectively monitor and report this activity, which increases the risk of inappropriate use. We have reported this issue as a material weakness in internal controls, along with certain other issues that are discussed in the Report on Control and Compliance included in this report.

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

Respectfully submitted,

Janice Mueller
State Auditor

JM/CS/ss

Report Highlights ■

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

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

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

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

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

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

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

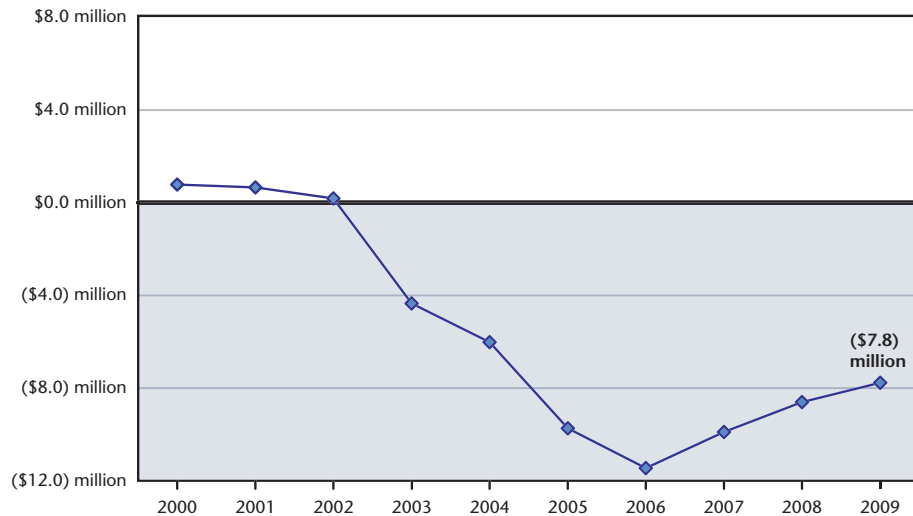
- the State of Wisconsin’s recent purchase of the Wisconsin Exposition Center, including State Fair Park’s financial projections for operating the facility.

Fiscal Condition

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

Figure 1

State Fair Park’s Program Revenue Cash Deficit¹
As of June 30



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

As shown in Figure 1, State Fair Park was able to reduce the accumulated cash deficit in its program revenue appropriation to \$7.8 million on June 30, 2009. However, because this deficit reduces funding available for other state programs and limits the State’s ability to generate income from investment earnings, State Fair Park will need to continue to take steps to address it.

In-Kind Support

An important source of funding for State Fair Park operations is in-kind support, which involves businesses providing goods or services to State Fair Park in exchange for admission tickets, parking passes, advertising exposure, and other items. In-kind support can be beneficial to State Fair Park. For example, by partnering with radio stations and other businesses through an agreement to promote the Wisconsin State Fair, State Fair Park is able to better reach its customers without a cash outlay. However, engaging in this type of activity comes with a risk of inappropriate use that requires careful monitoring and tracking.

We are concerned because State Fair Park has few policies and procedures in place to ensure transparency and accountability over the process. We reviewed 122 in-kind agreements from the 2008 and 2009 fairs and noted several concerns. For example, formal written agreements did not exist in nine instances, and the number of main stage concert tickets distributed did not always match the documentation authorizing their distribution. State Fair Park also has included an in-kind component in some procurement bids. We caution State Fair Park to ensure all businesses have an equal opportunity to participate in the bidding process.

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

Milwaukee Mile Racetrack

State Fair Park entered into a license agreement with Wisconsin Motorsports LLC in February 2009. Wisconsin Motorsports held two national races at the Milwaukee Mile but experienced financial difficulties, and State Fair Park terminated the license agreement in July 2009. State Fair Park was unable to secure a new external promoter for the 2010 racing season and announced in December 2009 that national races would not be held at the Milwaukee Mile in 2010. Racetrack operations are again being managed internally.

State Fair Park anticipates that revenue from racing events will exceed expenditures by \$80,900 for the 2010 racing season. However, in 2010, track improvements are planned and State Fair Park is responsible for \$1.9 million in debt service costs related to the

grandstand renovation and prior racetrack improvements. After considering these costs, we estimate State Fair Park will incur a net loss on racetrack operations of nearly \$2.0 million for 2010.

State Fair Park continues to be involved in a legal dispute over a letter of credit that was meant to protect it in the event the former racetrack promoter, Milwaukee Mile Holdings LLC, defaulted on or terminated its license agreement. To stop a payment under the terms of the letter of credit, Milwaukee Mile Holdings filed a lawsuit against State Fair Park in July 2009. A \$2.6 million payment to State Fair Park was made in August 2009, but the lawsuit remains pending in Dane County Circuit Court.

Wisconsin Exposition Center

The Wisconsin Exposition Center exhibition hall located on the fairgrounds was constructed with funding from \$44.9 million in industrial revenue bonds. The State Fair Park Exposition Center, Inc., which owned and managed the facility until December 2009, had accumulated a deficit of \$4.3 million through calendar year 2008. A contributing factor to this decline was the required interest on the construction bonds.

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

In March 2010, the Joint Committee on Finance approved the hiring of 9.0 full-time equivalent program revenue-supported positions to operate the Exposition Center. Until these positions are filled by State Fair Park, the facility's day-to-day operations will be managed by the Exposition Center, Inc., under a management agreement with State Fair Park. State Fair Park believes that it can reduce Exposition Center expenses through economies of scale and other efficiencies. State Fair Park anticipates that Exposition Center revenue will exceed expenditures in both FY 2009-10 and FY 2010-11.

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

Recommendations

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

- ☑ its steps to improve controls and better monitor the use of in-kind support ([p. 17](#));
- ☑ its steps to improve controls and better monitor the distribution of Wisconsin State Fair tickets by managers ([p. 19](#));
- ☑ its long-term plans for managing the Milwaukee Mile racetrack ([p. 26](#)); and
- ☑ the status of Wisconsin Exposition Center operations ([p. 32](#)).

■ ■ ■ ■

Introduction ■

State Fair Park has been home to the Wisconsin State Fair since 1892 and has operated as a separate state agency—the State Fair Park Board—since 1990. State Fair Park’s FY 2008-09 operating budget was \$18.2 million. 2009 Wisconsin Act 28 decreased State Fair Park’s operating budget to \$15.8 million for FY 2009-10 and \$16.4 million for FY 2010-11 to bring expenditures in line with revenues anticipated for the biennium.

State Fair Park’s operations are funded primarily by revenue from the Wisconsin State Fair.

Attendance fees and other revenue from the Wisconsin State Fair, which is held each August, are State Fair Park’s primary source of funding. Three other facilities on the fairgrounds affect its operations and are shown in Appendix 1:

- **The Pettit National Ice Center** is a United States Olympic training facility that was sold by State Fair Park in January 2007 to the not-for-profit corporation that had previously leased and managed it. Proceeds from the sale plus interest earnings were expected to pay the annual debt service payments associated with the facility’s construction.
- **The Wisconsin Exposition Center** is used exclusively for the Wisconsin State Fair each August but is available for other events throughout the year. Until December 2009, it was owned and governed by a private, not-for-profit corporation that was created by the State Fair Park Board in 2000. The facility was purchased by the State in December 2009 and has since been operated by State Fair Park.

- **The Milwaukee Mile** racetrack and grandstand seating area, which encompass more than one-quarter of the fairgrounds, has been managed by State Fair Park since an agreement with Wisconsin Motorsports LLC was terminated in July 2009. From February 2009 until the agreement was terminated, the private, for-profit promoter had managed and operated the racetrack in exchange for a license fee.

We issued an unqualified opinion on State Fair Park's FY 2008-09 financial statements.

As required by s. 13.94(1)(dm), Wis. Stats., the Legislative Audit Bureau performs an annual financial audit of State Fair Park. We have issued an unqualified opinion on the FY 2008-09 financial statements, which are included in this report. In addition, we have continued to monitor State Fair Park's financial condition and its efforts to improve its financial performance and have followed up on prior audit recommendations. We also evaluated the status of the management of the Milwaukee Mile racetrack and the State's recent purchase of the Wisconsin Exposition Center.

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

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

While the Board is attached to the Department of Tourism for administrative purposes, State Fair Park's Executive Director is responsible for day-to-day operations. The current Executive Director was appointed by the State Fair Park Board through the State's unclassified employment system in February 2010.

State Fair Park was recently authorized 9.5 new positions to operate the Wisconsin Exposition Center and Milwaukee Mile racetrack.

State Fair Park's authorized staffing level was 29.4 full-time equivalent positions in FY 2008-09. In March 2010, the Legislature's Joint Committee on Finance, through passive review, approved an increase of 9.5 full-time equivalent positions to manage operations and events at the Wisconsin Exposition Center and the Milwaukee Mile racetrack. These positions are funded by program revenue. State Fair Park also employs approximately 1,400 limited-term employees, most of whom work exclusively during the 11-day Wisconsin State Fair.

Financial Condition

In previous audits we have reported on the size of State Fair Park's annual operating deficits. However, for the past three fiscal years State Fair Park has been able to achieve positive annual operating results. As shown in Table 1, revenue exceeded expenditures—including operating, capital, and debt service costs—by \$828,000 in FY 2008-09.

Table 1

State Fair Park Revenue and Expenditures¹

Fiscal Year	Revenue	Expenditures ²	Revenue Less Expenditures
2004-05	\$20,994,949	\$24,731,774	\$(3,736,825)
2005-06	18,541,520	20,258,268	(1,716,748)
2006-07	17,467,763	16,138,719	1,329,044
2007-08	16,152,084	15,081,538	1,070,546
2008-09	16,065,356	15,237,095	828,261

¹ Data are provided on the cash basis of accounting.

² Includes statutorily required lapses to the State's General Fund of \$186,000 in FY 2004-05. No lapses have been required since then.

State Fair Park attributes its FY 2008-09 operating results to increased attendance at the Wisconsin State Fair held in August 2008. Attendance was approximately 873,000, which is an increase of nearly 71,000 from the 2007 event. Increased attendance resulted in increased admissions, concessions, and parking revenue. However, that revenue increase was somewhat offset by declines in racing revenue as a result of lower license fee payments from the private promoter of the Milwaukee Mile racetrack.

State Fair Park's capital expenditures are funded in part through past revenue that is set aside in a statutorily required capital reserve fund. Noncapital expenditures, including operating and debt service costs, are funded by an ongoing program revenue appropriation. As of June 30, 2009, the capital reserve fund had a balance of \$908,000. However, the program revenue appropriation has been in a deficit position since FY 2002-03. A cash deficit in any program revenue-funded appropriation reduces the cash balances of the State's General Fund and costs the General Fund an opportunity to invest and earn interest on amounts used to cover the shortfall. Positive operating results in recent years have allowed State Fair Park to reduce its cash deficit to \$7.8 million as of June 30, 2009.

While final financial data are not yet available for FY 2009-10, State Fair Park is projecting that revenue will exceed expenditures by approximately \$1.8 million, largely because of a successful 2009 Wisconsin State Fair and events held at the Wisconsin Exposition Center. In addition, State Fair Park received \$1.4 million from the purchase of the Exposition Center, consisting of cash from the sale of marketable securities and various checking accounts. If the surplus in operations is realized, State Fair Park will be able to reduce the accumulated cash deficit in its program revenue appropriation by \$3.2 million at the end of FY 2009-10.

Debt Service Costs

To fund the cost of improvements to the fairgrounds, State Fair Park has relied on program revenue and general purpose revenue (GPR)-supported bonds. In FY 2008-09, debt service payments on the debt funded by program revenue were \$3.4 million, and debt service payments on the debt funded by GPR were \$2.2 million. From FY 2009-10 through FY 2033-34, debt service payments related to program revenue-supported debt outstanding as of June 30, 2009, are expected to total approximately \$41.1 million. Over this same time period, debt service payments related to GPR-supported debt outstanding as of June 30, 2009, are expected to total approximately \$32.8 million. In addition, State Fair Park anticipates the State will issue program revenue-supported bonds to finance the recent purchase of the Wisconsin Exposition Center. State Fair Park estimates it will be required to pay annual debt service of approximately \$1.0 million on these bonds beginning in FY 2010-11.

In-Kind Support ■

As noted, State Fair Park's primary funding source is revenue from the annual Wisconsin State Fair, including admissions, concessions, and parking. State Fair Park also relies on cash sponsorships from businesses, as well as in-kind support provided by businesses in exchange for advertising exposure at the Wisconsin State Fair and admission and other tickets. While in-kind support is an important component of cost-effective operations, we are concerned that State Fair Park has few policies and procedures in place to ensure this activity is conducted appropriately, monitored adequately, and reported properly in its financial statements.

Types of In-Kind Support

State Fair Park solicits in-kind support, in which businesses provide goods and services in exchange for admission tickets and other items.

A common type of in-kind support at State Fair Park involves sponsorships, in which businesses provide equipment or advertising in exchange for admission tickets, parking passes, and advertising exposure. For example, in lieu of paying cash to rent forklifts and golf carts, State Fair Park will enter into an in-kind sponsorship for temporary use of the equipment. In recent years, State Fair Park has also sought to increase its advertising exposure statewide through in-kind sponsorships with various radio stations. Businesses that provide in-kind support benefit by creating goodwill in the community and showcasing themselves and their products to the public.

State Fair Park also participates in in-kind transactions that do not involve operations of the Wisconsin State Fair. For example, in April 2008, it leased the Wisconsin Products Pavilion to a private business for an event in exchange for \$1,000 in cash and \$3,100 in paint and related supplies, which were then used to paint a building at the fairgrounds. We identified only a few examples of this type of in-kind transaction, but State Fair Park officials indicate an interest in pursuing additional opportunities in this area, if they prove to be cost-effective.

Soliciting in-kind support from businesses has been beneficial to State Fair Park operations.

Soliciting in-kind support is a common practice in the event industry and can be beneficial to the operations of State Fair Park. For example, promotional agreements with radio stations and other businesses reduce its advertising costs, and advertising that increases public attendance will increase State Fair Park's admissions, concessions, and parking revenue. Moreover, when the businesses distribute the tickets they receive in exchange for in-kind contributions, State Fair Park is likely to benefit from additional purchases of food, beverages, and other items.

However, engaging in this type of activity comes with a risk of inappropriate use that requires careful monitoring and tracking by management. We are concerned that management has not adequately controlled this activity or disclosed the extent of in-kind support, whether through in-kind sponsorships or other transactions, to the State Fair Park Board or in its internal and external financial reporting.

Policies and Procedures

State Fair Park has provided few guidelines to managers who solicit in-kind support from businesses.

State Fair Park officials indicate that in-kind sponsorships have been solicited for many years, typically under written agreements with businesses. However, we could document few policies and procedures in place to ensure appropriate transparency and accountability. For example, while State Fair Park has an unwritten policy that allows only department-level managers to enter into in-kind support transactions, it provides few guidelines on how to conduct these transactions, and no written policies or procedures exist. Department managers indicated to us that the only guidelines they have are to ensure that in-kind transactions result in a benefit to State Fair Park.

We reviewed 122 in-kind agreements that were in place during the 2008 and 2009 fairs and found that the agreements generally provided enough detail to determine what State Fair Park received and provided in the exchange. However, we noted some

documentation concerns. For example, in nine instances, a formal written agreement did not exist; instead, the details of the transaction were agreed upon verbally or informally by e-mail. Further, there were inconsistencies between the number of main stage concert tickets provided to businesses and the numbers included in agreements. For example, for the 2008 fair we found that a total of 3,238 main stage concert tickets had been distributed, but documentation in the in-kind support agreements indicate that only 1,450 were to have been provided.

We also noted concerns with how State Fair Park has combined in-kind support with procurement transactions. While the transactions we reviewed followed state bidding requirements and were approved by State Fair Park and the Department of Administration, we are concerned that all businesses may not have had an equal opportunity to participate in the bidding process. For example, in a 2006 request for bid for asphalt repair and maintenance work, State Fair Park included a specification that the successful bidder would provide labor, equipment, and materials to pave a specified area of the fairgrounds in exchange for general admission tickets and main stage concert tickets. Only two businesses submitted proposals, which may have been a result of this specific bid requirement.

State Fair Park should follow proper procedures when soliciting bids that involve an in-kind support component, to avoid the appearance of favoritism.

In another case, State Fair Park provided a Milwaukee automobile dealership with storage space on the fairgrounds in 2009, in exchange for a \$3,000 credit to purchase a vehicle. State Fair Park used this credit in April 2009 for the purchase of a used vehicle from the dealership. State Fair Park prepared a simplified bid document and made a down payment on the vehicle three days before completing the simplified bid. Officials indicate that State Fair Park had researched online bids before making the down payment but cannot provide supporting documentation. While this in-kind exchange was beneficial for State Fair Park, it may appear as if State Fair Park had intended to purchase a vehicle from this dealership before it obtained the other bids.

Monitoring and Reporting

State Fair Park has not reported in-kind support activity in past annual financial statements.

While management has been aware of the use of in-kind support, because of other priorities this activity was not tracked and monitored until our current audit. Further, this activity was not reported in State Fair Park's financial statements, as required by generally accepted accounting principles.

State Fair Park estimates it received \$1.0 million in goods and services through in-kind support during FY 2008-09.

In order to report this activity in its FY 2008-09 financial statements, we asked State Fair Park to estimate the fair value of in-kind support, or what it would have paid in cash to purchase the goods or services. Given the limitations in its documentation, State Fair Park had difficulties but eventually estimated that it had received in-kind support of approximately \$1.0 million in various goods and services in FY 2008-09. Advertising and promotions accounted for more than three-quarters of the total estimate.

The State Fair Park Board has received limited information on the extent to which in-kind support funds operations.

Given the extent of the use of in-kind support and its importance to State Fair Park's operations, it would have been expected that management would have informed the State Fair Park Board of this activity. However, we found no mention of in-kind support in our review of materials provided to the Board, and the two members with whom we spoke had only general familiarity with this activity.

In response to our concerns, the Executive Director indicated in May 2010 that he will review all in-kind support, beginning with the 2010 fair, to ensure that all agreements are appropriate and that documentation exists to support the transactions.

Our Report on Internal Control and Compliance describes a material weakness related to State Fair Park's lack of controls over in-kind support. In addition, we have detailed our concerns and the steps necessary to improve this process in a separate management letter, which includes our recommendation to improve the process for in-kind support, by:

- developing written policies and procedures for staff, including a description of the expected process for negotiating in-kind support transactions;
- taking steps to improve the process for both tracking and reporting in-kind support, to allow for improved monitoring of the transactions and accurate reporting in the financial statements; and
- improving communication to the State Fair Park Board on the use and dollar value of in-kind support. For example, management could include a summary of in-kind support activity in its monthly financial report to the Board or summarize this activity each year after the Wisconsin State Fair, to help the Board better understand all aspects of funding its operations.

☑ Recommendation

We recommend State Fair Park report to the Joint Legislative Audit Committee by March 1, 2011, on the steps it has taken to improve controls and better monitor the use of in-kind support.

Fair Tickets

State Fair Park provides tickets to cash sponsors, event promoters, and through community outreach.

In addition to using fair tickets in in-kind support transactions, State Fair Park provides tickets to its cash sponsors as a sponsor benefit, to event promoters, and for various community outreach efforts. For the 2008 Wisconsin State Fair, State Fair Park distributed:

- 51,000 general admission tickets, as well as parking passes and main stage tickets as part of in-kind support transactions, at a value of \$382,000;
- 57,000 general admission tickets, as well as parking passes and main stage tickets to its cash sponsors, at a value of \$599,000; and
- 3,000 general admission tickets to its event promoters and various community outreach organizations, at a value of \$25,000.

Until the 2008 fair, State Fair Park had few procedures in place to track and account for the distribution of these types of tickets. State Fair Park officials indicated there is an unwritten policy that only department-level managers are allowed to request and distribute them.

Procedures for tracking and monitoring the distribution of tickets by managers need improvement.

Starting with the 2008 fair, State Fair Park implemented new procedures to better document and track the distribution of tickets by managers. However, several weaknesses remain in the process:

- department managers did not submit ticket request forms to the ticket office as required; ticket request forms were not available in 12 of the 22 ticket disbursements we reviewed;
- procedures were not in place to verify the number of tickets requested to a written agreement or other supporting documentation to ensure tickets are being distributed for appropriate purposes;

- the spreadsheet used to track tickets distributed by managers does not include the business purpose for providing these tickets, limiting its usefulness as a monitoring tool; and
- accounting staff were unable to reconcile the tracking spreadsheet to the electronic ticket system for the 2008 Wisconsin State Fair. State Fair Park estimated an unreconciled difference of \$18,000 remains, indicating that some tickets were likely distributed without a ticket request form.

State Fair Park has made improvements to this process for the 2009 fair, including updating the ticket request form to include space for department managers to document the business purpose of the tickets they distribute and revising the ticket tracking spreadsheet to include more detail documenting the reasons for providing these tickets or parking passes. In addition, State Fair Park was able to more closely reconcile the electronic ticket system to the ticket tracking spreadsheet. There was an unreconciled difference of \$1,600 remaining when we reviewed the 2009 Wisconsin State Fair reconciliation in May 2010.

Continued improvement is needed to better control the distribution of tickets by managers.

While State Fair Park has made improvements, weaknesses continue to exist in this process. The process would be improved if State Fair Park:

- developed written policies and procedures that describe the process managers are expected to use for requesting and distributing tickets;
- consistently reconciled the number of tickets requested on the ticket request form to the supporting documentation, to ensure the number of tickets requested is appropriate; and
- continued to improve the tracking and reporting of tickets to allow for improved monitoring, including requiring department managers to return any undistributed admission tickets to the ticket box office so that they can be accounted for.

Since we raised concerns in this area, State Fair Park officials have indicated that several additional changes will be made for the 2010 Wisconsin State Fair, including:

- creating new ticket request forms to differentiate among the different purposes for distribution of tickets by managers. For example, one form will be required for advertising trade agreements, and another will be required for tickets provided to cash sponsors;
- increasing oversight by the Executive Director, who will review the ticket request forms and ensure an appropriate audit trail exists before the tickets are provided to the box office for printing and distribution to the department managers;
- improving the process used by the Box Office Manager, who will ensure that the number of tickets requested on the ticket request form agrees with supporting documentation and that ticket request forms are appropriately reconciled to the electronic ticket system; and
- auditing of the ticket request forms by accounting staff, which will provide a check on the process.

Recommendation

We recommend State Fair Park report to the Joint Legislative Audit Committee by March 1, 2011, on the steps it has taken to improve controls and better monitor the distribution of Wisconsin State Fair tickets by managers.

■ ■ ■ ■

Milwaukee Mile ■

In February 2009, State Fair Park entered into a license agreement with a new promoter, Wisconsin Motorsports.

In February 2009, State Fair Park entered into a license agreement with Wisconsin Motorsports LLC, a newly formed for-profit private racing promoter, to manage the Milwaukee Mile. This agreement was terminated five months later, when Wisconsin Motorsports experienced financial difficulties. Subsequent attempts by State Fair Park to partner with an external promoter were not successful. As a result, State Fair Park was not able to secure the National Association for Stock Car Auto Racing (NASCAR) and Indy Racing League (IRL) national events for the 2010 racing season. In addition, State Fair Park is involved in a legal dispute with former racetrack promoter Milwaukee Mile Holdings LLC.

Issues with External Promoters

After the license agreement with Milwaukee Mile Holdings was terminated in February 2009, State Fair Park sought to quickly contract with a new promoter to operate the Milwaukee Mile racetrack for the 2009 season. State Fair Park officials indicated that three parties expressed interest in operating the racetrack, but Wisconsin Motorsports was the only group to submit a proposal. In February 2009, State Fair Park entered into a new racetrack and grandstand licensing agreement with Wisconsin Motorsports. State Fair Park officials have acknowledged that they were aware Wisconsin Motorsports principals needed additional investors for long-term success in operating the racetrack. However, given that both NASCAR and IRL approved of Wisconsin Motorsports and there was a short time frame for contracting with a promoter,

Wisconsin Motorsports was believed to be the only viable option to secure racing for the 2009 season, and State Fair Park contracted with the new promoter.

However, despite the fact two national races were held, by July 2009 Wisconsin Motorsports was not financially viable. Several factors affected Wisconsin Motorsports' success with the Milwaukee Mile, including:

- the inability to attract additional investors;
- lower than expected sponsorships and ticket sales for the 2009 races; and
- the loss of \$1.0 million in revenue from advance ticket sales for the 2009 season, which had been collected by Milwaukee Mile Holdings and spent on its obligations from the 2008 racing season.

By July 2009, Wisconsin Motorsports experienced financial difficulties that required State Fair Park to terminate the license agreement.

Wisconsin Motorsports was not able to pay over \$3.0 million in sanctioning fees owed for the NASCAR and IRL events held at the Milwaukee Mile in May and June 2009, and it was also unable to pay a June license fee of \$15,000 to State Fair Park. As a result, in July 2009 the State Fair Park Board voted to terminate the license agreement with Wisconsin Motorsports. Wisconsin Motorsports has indicated that it has since settled its dispute with NASCAR and IRL. State Fair Park indicates that Wisconsin Motorsports continues to owe it \$21,000 for outstanding license fee and other expenses, and efforts to collect are ongoing.

Soon after terminating the agreement with Wisconsin Motorsports, State Fair Park began to search for a new racing promoter for the 2010 racing season. A letter of intent established the following criteria for selecting a promoter:

- demonstration that the promoter has the necessary financial resources to pay the NASCAR and IRL sanctioning fees;
- evidence of the ability to secure a commitment with NASCAR to hold races in 2010;
- acceptance of the racetrack in its current condition; and
- assumption of liability for racetrack maintenance costs and future capital improvements required by NASCAR and IRL.

State Fair Park was unable to secure an external promoter for the Milwaukee Mile for the 2010 racing season.

Throughout the late summer and early fall of 2009, State Fair Park negotiated with four promoters who had expressed interest in managing the Milwaukee Mile racetrack. According to State Fair Park, in three instances the promoters were unable to secure the commitment with NASCAR to hold races in 2010. The fourth promoter was reportedly financially viable and had secured approval from NASCAR but would not accept liability for future capital and maintenance costs related to the racetrack.

Capital and maintenance costs are expected to be significant because of the age of the racetrack. State Fair Park officials estimate a track resurfacing will be needed in the next seven to ten years, at a cost of approximately \$1.0 million. Further, race sanctioning bodies may require the installation of various safety barriers around the track walls, which are estimated to cost between \$1.5 and \$2.0 million.

National races will not be held at the Milwaukee Mile in 2010.

In December 2009, the State Fair Park Board officially announced that it was unable to sign an external promoter and that national races would not be held at the Milwaukee Mile in 2010.

Pending Litigation

While State Fair Park spent much of the second half of 2009 searching for a new racetrack promoter, it also continued to be involved in a legal dispute with the previous promoter, Milwaukee Mile Holdings. State Fair Park first entered into a license agreement with Milwaukee Mile Holdings in January 2006. However, after renegotiating the license agreement in February 2008, a dispute arose over a letter of credit that was meant to protect State Fair Park in the event Milwaukee Mile Holdings defaulted on or terminated the license agreement.

State Fair Park continues to be involved in a legal dispute with former racetrack promoter, Milwaukee Mile Holdings.

The letter of credit was designed to guarantee obligations under the license agreement, including all deferred payments and two years of future license fees in the event Milwaukee Mile Holdings defaulted on or terminated the agreement. According to State Fair Park officials, Milwaukee Mile Holdings gave verbal and written assurances that it would update the letter of credit from the original January 2006 license agreement. However, as shown in Table 2, Milwaukee Mile Holdings did not submit an updated letter of credit, which has resulted in a protracted legal dispute between State Fair Park and Milwaukee Mile Holdings.

Table 2

State Fair Park Legal Dispute with Milwaukee Mile Holdings
Time Line of Events

Date	Event
February 2008	State Fair Park and Milwaukee Mile Holdings agree to a revised license agreement, which requires a letter of credit to be in place within 30 days.
March 2008	The 30-day deadline passes without State Fair Park receiving an updated letter of credit.
June 2008	Milwaukee Mile Holdings gives verbal and written assurances that it will direct its financial institution to update the letter of credit.
December 2008	<p>The financial institution provides notice to Milwaukee Mile Holdings and State Fair Park that the letter of credit will expire and not be extended beyond August 2009.</p> <p>Milwaukee Mile Holdings provides notice of termination of the license agreement and indicates it lacks the assets necessary to secure major national racing events for 2009.</p>
February 2009	On behalf of State Fair Park, the Wisconsin Department of Justice terminates the license agreement due to default by Milwaukee Mile Holdings.
July 2009	<p>The Wisconsin Department of Justice requests payment of \$2.6 million on the letter of credit to recover:</p> <ul style="list-style-type: none"> ▪ deferred payments of \$679,000; and ▪ two years of license fee security of \$1.9 million. <p>Milwaukee Mile Holdings files a lawsuit against State Fair Park alleging fraud, misrepresentation, and breach of contract and requests a restraining order to stop payment.</p> <p>The request for restraining order is denied in Dane County Circuit Court.</p>
August 2009	The financial institution pays State Fair Park \$2.6 million under the terms of the letter of credit. State Fair Park placed a portion of the funds in reserve pending resolution of the legal dispute.
August 2009 to June 2010	Following a series of hearings and appeals, Milwaukee Mile Holdings' lawsuit remains pending in Dane County Circuit Court.

State Fair Park received \$2.6 million under the letter of credit in August 2009, of which \$679,000, representing deferred license fee payments was used to reduce its cash deficit. The remaining \$1.9 million is being held in reserve by State Fair Park until settlement of the lawsuit filed by Milwaukee Mile Holdings, which is pending in Dane County Circuit Court.

Future of Racing at Milwaukee Mile

Operations of the Milwaukee Mile have not been profitable since at least 2000.

The future of major national races at the Milwaukee Mile is uncertain. Since at least 2000, racetrack operations have not been profitable. State Fair Park and three different external promoters attempted to manage racetrack operations during that time, and all were unsuccessful. For example, State Fair Park lost nearly

\$7.3 million from 2003 to 2005 when it internally managed the operations. While State Fair Park management and board members have indicated the desire to hold large national racing events, such as NASCAR and IRL, at the Milwaukee Mile, the cost and the expertise needed to manage these events are significant barriers to success.

For the short term, officials have indicated that State Fair Park will internally operate the Milwaukee Mile racetrack and continue to seek and manage smaller racing events, tire testing by racing teams, and racing schools. Further, State Fair Park is considering other types of motor racing events, such as snowmobile races, which were first run in December 2009, and motorcycle racing events. As of May 2010, State Fair Park has scheduled six races, eight NASCAR tire testing contracts, and three racing school events, for a total of 25 event days during the 2010 racing season. To manage racetrack operations internally, State Fair Park sought and received approval from the Legislature's Joint Committee on Finance for a 0.5 full-time equivalent position funded by program revenue.

State Fair Park projects a small profit from racetrack operations before considering annual debt service costs related to racetrack improvements.

As shown in Table 3, State Fair Park projects that for the 2010 racing season, operating revenue from racing events will exceed operating expenditures by \$80,900. However, in 2010, track improvements of \$180,000 that will be funded by general operations are planned and State Fair Park will make \$1.9 million in program revenue-supported debt service payments related to the grandstand renovation and prior racetrack improvements. After considering these costs, we estimate State Fair Park will incur a net loss on track operations of nearly \$2.0 million in 2010.

Table 3

Projected Milwaukee Mile Racetrack Revenue and Expenditures¹
2010 Racing Season

	Amount
Revenue:	
Races	\$ 127,000
Tire Testing	66,000
Racing Schools and Other	33,500
Total Revenues	226,500
Expenditures:	
Staff, Supplies, and Services	(120,600)
Insurance	(25,000)
Total Expenditures	(145,600)
Net Income	\$ 80,900

¹ Projections are as of May 2010 and are on a cash basis.

State Fair Park must make annual debt service payments related to the Milwaukee Mile.

In recent years, State Fair Park has subsidized racetrack-related debt service obligations with profits from the Wisconsin State Fair, and officials anticipate that this will continue until the debt service is nearly retired in 2023, unless there is a significant change in racetrack operations. From FY 2010-11 through FY 2026-27, program revenue-supported debt service payments related to racetrack improvements as of June 30, 2010, are expected to total approximately \$23.0 million, as shown in Appendix 2.

Given other priorities at State Fair Park, including the recent purchase of the Wisconsin Exposition Center, the State Fair Park Board has not discussed long-term strategic planning for the Milwaukee Mile racetrack. Board members with whom we spoke anticipated that this will be a priority after the 2010 Wisconsin State Fair.

Recommendation

We recommend State Fair Park report to the Joint Legislative Audit Committee by March 1, 2011, on its long-term plans for managing the Milwaukee Mile racetrack.

■ ■ ■ ■

Wisconsin Exposition Center ■

In December 2009, the State of Wisconsin purchased the Wisconsin Exposition Center, a 271,000-square-foot exhibition hall, and gave operating responsibility for the facility to State Fair Park. A private, not-for-profit corporation created by the State Fair Park Board in 2000—the State Fair Park Exposition Center, Inc.—had operated the facility since its opening in 2002.

State Fair Park Exposition Center, Inc.

Construction of the Wisconsin Exposition Center was funded with \$44.9 million in industrial revenue bonds.

In October 2000, the State Fair Park Board created the private, not-for-profit State Fair Park Exposition Center, Inc., to build and manage an exposition center facility on the fairgrounds. The Wisconsin Exposition Center was built to accommodate events that had previously been held in various State Fair Park exhibit buildings and to attract large consumer and trade shows to the fairgrounds. Its construction was funded with \$44.9 million in industrial revenue bonds issued by the City of West Allis. At the time of construction, a consultant working with the corporation projected that the facility would host 68 events annually, with the expectation that nearly all events would be large consumer and trade shows. However, as shown in Table 4, these projections were overly optimistic. Since 2003, the facility has averaged 52 events each year, and only 32 of these events were large consumer or trade shows.

Table 4

Wisconsin Exposition Center Events¹

Year	Consumer and Trade Shows	Meetings	Other ²	Total Events Held
2003	36	6	1	43
2004	30	13	11	54
2005	32	1	19	52
2006	33	11	25	69
2007	34	7	17	58
2008	27	6	11	44
2009	30	5	10	45

¹ The Wisconsin Exposition Center opened in August 2002; the first full year of operations was 2003.

² Includes events such as hospitality functions and political rallies.

Operations of the Wisconsin Exposition Center declined, resulting in a deficit of \$4.3 million on December 31, 2008.

The corporation was required by the bond agreement to make interest-only payments on the revenue bonds until maturity. As shown in Table 5, operation of the Wisconsin Exposition Center generated a profit, but when nonoperating expenses, which are primarily the required interest, were considered the corporation experienced a significant financial decline, resulting in a deficit of \$4.3 million on December 31, 2008.

Table 5

State Fair Park Exposition Center, Inc., Financial Results
Calendar Year 2003 through 2008

Calendar Year	Net Operating Profit (Loss)	Nonoperating Expenses ¹	Change in Net Assets	Net Assets, December 31
2003	\$1,217,312	\$(2,685,556)	\$(1,468,244)	\$1,052,801
2004	938,215	(2,638,221)	(1,700,006)	(647,205)
2005	1,835,240	(2,503,928)	(668,688)	(1,315,893)
2006	1,404,409	(2,349,206)	(944,797)	(2,260,690)
2007	1,533,032	(2,279,621)	(746,589)	(3,007,279)
2008	1,217,857	(2,551,622)	(1,333,765)	(4,341,044)

¹ Primarily interest expense on debt service.

Transition to State Fair Park

In prior audits, we expressed concern that State Fair Park could be affected by the financial condition of the State Fair Park Exposition Center, Inc., especially if the corporation were to default on its debt service payments. However, in 2009 the financial institution holding the bonds began to solicit proposals to sell them. In July 2009, State Fair Park became aware of this opportunity and alerted the Department of Administration Capital Finance Office, which began to negotiate with the financial institution. In August 2009, the parties agreed upon a purchase price for the bonds of \$16.9 million, which is a 58.8 percent discount from the bonds' \$41.0 million outstanding balance. The State was able to negotiate a lower price because the financial services company that had previously owned the bonds declared bankruptcy during the crisis in the financial markets in late 2008 and 2009.

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

At its September 2009 meeting, the Building Commission approved \$16.9 million in program revenue-supported bonds to finance the purchase of the Wisconsin Exposition Center. However, because the corporation had cash of \$3.0 million remaining in a reserve for debt service, the State paid only \$13.9 million to purchase the facility. The State completed the purchase on December 1, 2009, using cash available in the Capital Improvement Fund. The State anticipates issuing program revenue-supported bonds at some point in the future to finance the purchase, but that date has not been established. In the interim, State Fair Park is not responsible for any debt service payments. The corporation used the proceeds from the sale and the cash in its reserve for debt service to retire all of the outstanding industrial revenue bonds.

State Fair Park Exposition Center, Inc., will initially manage the facility under a management agreement with State Fair Park.

After purchasing the Wisconsin Exposition Center facility, the State granted operational responsibility to State Fair Park, which plans eventually to integrate it into State Fair Park operations. For continuing management of the facility's day-to-day operations, State Fair Park entered into a renewable six-month management agreement with the corporation in December 2009.

During this transition, all of the Wisconsin Exposition Center's receipts have been collected by State Fair Park and recorded on its accounting records. Under the terms of the original management agreement, State Fair Park paid a monthly management fee of \$180,000 to reimburse the corporation's expenses. The agreement also allows State Fair Park management to adjust the fee and requires the corporation to transfer all equipment, such as vehicles and cleaning equipment, to the State when the agreement is terminated.

As shown in Table 6, through the first three months of the management agreement, the fee paid to the corporation was \$218,560 higher than actual costs incurred to run the facility. As a result, the management agreement was amended to reduce the monthly fee to \$25 for both April and May 2010. State Fair Park estimates that by the end of May 2010, the corporation will have a balance of \$34,638 in fees received, which will be applied to costs incurred in June 2010.

Table 6

Wisconsin Exposition Center Management Agreement

	December 2009	January 2010	February 2010	March 2010	April 2010	May 2010
Beginning Cash	\$ 0	\$ 62,304	\$145,028	\$218,560	\$264,692	\$132,624
Management Fee	180,000	180,000	180,000	180,000	25	25
State Fair Park Exposition Center, Inc. Expenditures ^{1, 2}	(117,696)	(97,276)	(106,468)	(133,868)	(132,093)	(98,011)
Ending Cash	\$ 62,304	\$145,028	\$218,560	\$264,692	\$132,624	\$ 34,638

¹ Includes salaries and fringe benefits of corporation staff, insurance, legal, and other services.

² Expenditures for April and May are estimated.

***State Fair Park received
9.0 program revenue-
supported positions to operate
the Exposition Center.***

In order to integrate the facility into State Fair Park operations, additional positions are needed. In March 2010, the Legislature’s Joint Committee on Finance, through passive review, approved 9.0 full-time equivalent program revenue-supported positions to operate the facility.

State Fair Park has begun efforts to fill the new positions, and it expects that at least some current staff of the corporation will apply for these positions. However, given the additional time it will take to fill the positions, State Fair Park has extended the management agreement with the corporation from June through November 2010 and has adjusted the monthly management fee to \$70,000.

State Fair Park should continue to monitor the Wisconsin Exposition Center transition carefully, including ensuring the management fees paid to the State Fair Park Exposition Center, Inc., do not exceed the corporation’s expenditures.

State Fair Park Management of the Wisconsin Exposition Center

State Fair Park expects to rent the Wisconsin Exposition Center to private promoters for their events and to continue using it exclusively during the Wisconsin State Fair. State Fair Park officials have indicated that the acquisition of the facility will allow them to promote events of any size, given the many facility configuration options available.

State Fair Park projects that, on a cash basis, it will be able to generate a profit from operations even after paying debt service costs when they resume. Further, State Fair Park believes it will be able to reduce expenses through economies of scale and efficiencies that will result from bringing Wisconsin Exposition Center operations under State Fair Park management.

State Fair Park expects to host 27 consumer and trade shows in 2010 and anticipates the same number for 2011, based on events currently under contract or those currently being negotiated. In addition, the Wisconsin Exposition Center will be used exclusively for the annual Wisconsin State Fair.

State Fair Park expects to reduce labor costs through efficiencies achieved in integrating the Exposition Center into its operations.

State Fair Park expects that reduced labor costs will also help the facility be profitable. As noted, State Fair Park has received authority to hire 9.0 full-time equivalent positions to replace the 14.0 positions currently operating the facility. State Fair Park anticipates increased operational efficiencies will make up for the loss in staff. For example, finance and accounting redundancies have been eliminated, and efficiencies are expected to be gained because the peak workload season for the Wisconsin Exposition Center is winter, while the peak season for State Fair Park is summer. The same pool of employees will therefore be used to staff both venues, and the need for additional seasonal labor will be reduced.

At its May 2010 meeting, the Building Commission approved a transfer of ownership of the Wisconsin Exposition Center to State Fair Park, with the requirement that State Fair Park will pay all debt service costs on the facility when bonds are issued. The Department of Administration has not yet issued bonds related to the purchase of the facility. However, State Fair Park estimates debt service payments of approximately \$1.0 million per year, which is significantly less than the \$2.5 million debt service payment the corporation had been making each year.

As shown in Table 7, State Fair Park anticipates revenue will exceed expenditures by \$1.3 million for FY 2009-10, and it is budgeting that revenue from operations for FY 2010-11 will exceed expenditures by

\$512,400. The operating results for FY 2009-10 are higher because State Fair Park will not be required to make any debt service payments in that year.

Table 7

Wisconsin Exposition Center Projected and Budgeted Revenue and Expenditures¹
 For the Fiscal Years Ended June 30

	2010 Projected ²	2011 Budget
Revenues	\$2,600,000	\$3,280,000
Expenditures:		
Operating Expenditures	(1,300,000)	(1,767,600)
Debt Service Payments	0	(1,000,000)
Total Expenditures	(1,300,000)	(2,767,600)
Net Income (Loss)	\$1,300,000	\$ 512,400

¹ Data are presented on a cash basis.

² Projected results for 2010 are for the period December 1, 2009, through June 30, 2010.

The current priority for management is to complete the hiring process for the 9.0 new positions for the Wisconsin Exposition Center. Board members and management indicate that long-term planning for the facility will take place this fall, after the Wisconsin State Fair. We believe it will be important for State Fair Park to market and promote the Wisconsin Exposition Center within the structure of its current business operations and capitalize on the new event management options now available.

Recommendation

We recommend State Fair Park report to the Joint Legislative Audit Committee by March 1, 2011, on the status of Wisconsin Exposition Center operations.



Audit Opinion ■

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

We have audited the accompanying financial statements of the Wisconsin State Fair Park as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Wisconsin State Fair Park's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the State Fair Park Exposition Center, Inc., which represent 100.0 percent of the financial activity of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the State Fair Park Exposition Center, Inc., is based solely on their report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the State Fair Park Exposition Center, Inc., were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to in the first paragraph present only 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 other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Wisconsin State Fair Park as of June 30, 2009, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the financial statements, the amount reported as in-kind support is an estimate. The Wisconsin State Fair Park's management believes that the fair value of the in-kind support is reasonable based on the available evidence. However, uncertainties inherent in determining the fair value of the in-kind support make it likely that the actual value will differ from the reported estimate because of weaknesses identified in Wisconsin State Fair Park's internal controls. These differences cannot currently be quantified.

As discussed in Note 16 to the financial statements, the State Fair Park Exposition Center, Inc., which is reported in the financial statements as a discretely presented component unit of the Wisconsin State Fair Park, sold the Wisconsin Exposition Center to the State of Wisconsin in December 2009. The State transferred title of the Wisconsin Exposition Center to State Fair Park in May 2010.

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 35 through 42 is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 11, 2010, on our consideration of the Wisconsin State Fair Park's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

June 11, 2010

by

LEGISLATIVE AUDIT BUREAU



Carolyn Stittleburg
Audit Director

Management's Discussion and Analysis ■

Prepared by State Fair Park's Management

This section presents management's discussion and analysis of the financial performance of State Fair Park for the fiscal year ended June 30, 2009. 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 State Fair Park

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 oldest and largest events in Wisconsin and typically hosts in excess of 800,000 people during its 11-day duration. In addition to the annual fair, State Fair Park hosts cultural, sporting, agricultural, domestic, and commercial interest events.

State Fair Park is a separate state agency within the administrative structure of the State of Wisconsin. State Fair Park is governed by a 13-member board. The current charter of the Wisconsin State Fair Park Board reads as follows:

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

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

State Fair Park Exposition Center, Inc., which owned and managed the Wisconsin Exposition Center until December 2009, 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 2008-09, the assets of the State Fair Park Fund exceeded its liabilities by \$8.2 million (net assets). This total consists of \$17.8 million invested in capital assets, net of related debt and a deficit of \$9.6 million in unrestricted net assets.

The State Fair Park Fund's total net assets increased by \$1.0 million during FY 2008-09.

Overview of the Financial Statements

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

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

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

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

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

Financial Analysis of the State Fair Park Fund

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

The State Fair Park Fund has \$17.8 million of net assets that are invested in capital assets (e.g., land, buildings, equipment, improvements, and construction in progress). Total net capital assets are \$45.1 million, while the related outstanding

debt is \$27.3 million. State Fair Park uses these assets to provide services to users of the fairgrounds; thus, they are not available for future spending. Although the State Fair Park Fund's investment in its capital assets is net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table A presents summary financial information with comparisons to the prior year. State Fair Park began estimating in-kind support in FY 2008-09. As a result, no estimate has been included for in-kind support for FY 2007-08. Since in-kind support is reported both as revenue and expense, it has no effect on net assets. In-kind support is further discussed in Note 7.

Table A
Condensed Financial Information
 State Fair Park Fund

	FY 2008-09	FY 2007-08 ¹	Dollar Increase/(Decrease)
Current Assets	\$ 2,129,122	\$ 2,228,580	\$ (99,458)
Noncurrent Assets	2,462,973	3,977,130	(1,514,157)
Capital Assets (Net of Depreciation)	45,063,534	46,106,046	(1,042,512)
Total Assets	<u>49,655,629</u>	<u>52,311,756</u>	<u>(2,656,127)</u>
Current Liabilities	12,797,048	14,321,245	(1,524,197)
Long-Term Liabilities	28,666,701	30,836,724	(2,170,023)
Total Liabilities	<u>41,463,749</u>	<u>45,157,969</u>	<u>(3,694,220)</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	17,750,706	17,406,549	344,157
Unrestricted (Deficit)	(9,558,826)	(10,252,762)	693,936
Total Net Assets	<u>8,191,880</u>	<u>7,153,787</u>	<u>1,038,093</u>
Operating Revenues	17,145,920	16,081,454	1,064,466
Operating Expenses	16,225,954	15,258,937	967,017
Operating Income (Loss)	919,966	822,517	97,449
Nonoperating Revenues (Expenses)	(1,360,583)	(1,352,749)	(7,834)
Transfers In	1,539,719	12,833	1,526,886
Transfers Out	(61,009)	(386,276)	325,267
Changes in Net Assets	1,038,093	(903,675)	1,941,768
Net Assets—Beginning of Year	7,153,787	8,057,462	(903,675)
Net Assets—End of the Year	<u>\$8,191,880</u>	<u>\$ 7,153,787</u>	<u>\$1,038,093</u>

¹ FY 2007-08 operating revenues and operating expenses do not include an estimate for in-kind support because data were not available.

Financial Commentary for the State Fair Park Fund

Operating Revenues

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

Table B includes a comparison of revenues by activity (rounded to the nearest \$1,000) for FY 2008-09 and FY 2007-08.

Table B

Revenues by Activity State Fair Park Fund

	FY 2008-09	Percentage of Total	FY 2007-08	Percentage of Total	Dollar Increase/(Decrease)
Annual State Fair	\$11,742,000	68.5%	\$11,177,000	69.5%	\$ 565,000
Non-Fair Events	1,091,000	6.4	1,129,000	7.0	(38,000)
Milwaukee Mile Racetrack Events	65,000	0.4	725,000	4.5	(660,000)
RV Park	598,000	3.5	508,000	3.2	90,000
Youth Center	499,000	2.9	442,000	2.7	57,000
Sponsorship	2,097,000	12.2	2,095,000	13.0	2,000
Other Income	8,000	0.0	5,000	0.1	3,000
Subtotal	16,100,000		16,081,000		19,000
In-Kind Support ¹	1,046,000	6.1	0	0.0	1,046,000
Total	<u>\$17,146,000</u>		<u>\$16,081,000</u>		<u>\$1,065,000</u>

¹ FY 2007-08 does not include an estimate for in-kind support because data were not available.

Attendance for the annual Wisconsin State Fair increased by 71,000 people, from 801,500 for the 2007 fair to 872,500 for the 2008 fair. This increase in attendance resulted in significant increases in admissions, food and beverage, and main stage event revenue. In addition, an increase from \$9.00 to \$10.00 per car in parking fees for the fair resulted in an increase in fair revenue. Non-fair event revenue has been reduced primarily due to fewer events utilizing the Wisconsin Products Pavilion. The decrease in Milwaukee Mile racetrack event revenue is the result of State Fair Park entering into a licensing agreement in February 2009 with a new private racetrack promoter at a significantly reduced licensing fee from the previous year.

As discussed in Note 15, fees due under the previous license agreement are currently being contested.

State Fair Park estimates that it received \$1.0 million in in-kind support through various agreements with private businesses as described in Note 7.

Operating Expenses

Table C includes a comparison of operating expenses (rounded to the nearest \$1,000) for FY 2008-09 and FY 2007-08.

Table C

Operating Expenses
State Fair Park Fund

	FY 2008-09	Percentage of Total	FY 2007-08	Percentage of Total	Dollar Increase/(Decrease)
Personal Services	\$ 5,422,000	33.4%	\$ 5,398,000	35.4%	\$ 24,000
Advertising	641,000	4.0	654,000	4.3	(13,000)
Entertainment	1,408,000	8.7	1,526,000	10.0	(118,000)
Other Expenses ¹	4,717,000	29.1	4,626,000	30.3	91,000
Depreciation	2,992,000	18.4	3,055,000	20.0	(63,000)
Subtotal	15,180,000		15,259,000		(79,000)
In-Kind Support ²	1,046,000	6.4	0	0.0	1,046,000
Total	\$16,226,000		\$15,259,000		\$ 967,000

¹ Other expenses include utilities, maintenance and repairs, equipment rental, governmental services, prizes and awards, and contracted services (excluding entertainment).

² FY 2007-08 does not include an estimate for in-kind support because data were not available.

Overall, operating expenses declined by \$79,000 before considering in-kind support. Personal services expenses, which include both permanent and limited-term employee (LTE) salaries, as well as the associated fringe benefits, increased by less than one percent. In addition, other expenses increased primarily due to building maintenance costs such as repairs, supplies, and janitorial expenses. Advertising expenses were reduced as part of the overall State Fair Park cost management strategy, and entertainment costs decreased due to a reduction in fees paid to entertainers in the amount of \$86,000 and reductions on equipment rental of \$39,000.

Capital Assets

Table D includes a comparison of capital assets for FY 2008-09 and FY 2007-08.

Table D

Capital Assets State Fair Park Fund

	FY 2008-09	FY 2007-08	Dollar Increase/(Decrease)
Capital Assets	\$81,318,089	\$79,368,307	\$ 1,949,782
Accumulated Depreciation	(36,254,555)	(33,262,261)	2,992,294
Net Capital Assets	<u>\$45,063,534</u>	<u>\$46,106,046</u>	<u>\$(1,042,512)</u>
Depreciation Expense	\$2,992,294	\$3,054,748	\$(62,454)

Capital assets increased by \$1.9 million during FY 2008-09. Asset additions consisted of an increase in land of \$1.5 million from the purchase of the AmeriGas property, an increase in construction in progress of \$0.3 million, and an increase in machinery and equipment of \$0.1 million.

Debt—Program Revenue—Funded

Table E includes a comparison for FY 2008-09 and FY 2007-08 of debt funded with program revenue.

Table E

Program Revenue—Funded Debt State Fair Park Fund

	FY 2008-09	FY 2007-08	Dollar Increase/(Decrease)
Commercial Paper	\$ 408,692	\$ 592,854	\$ (184,162)
General Obligation Bonds	30,091,929	31,963,393	(1,871,464)
Total Debt	<u>\$30,500,621</u>	<u>\$32,556,247</u>	<u>\$(2,055,626)</u>

The change in commercial paper debt reflects payments on the existing debt. The change in general obligation bonds reflects the issuance of bonds for new projects,

principal payments on existing debt, and the refunding of debt, which involves paying off some bonds with the issuance of new bonds. See Note 5 for detailed information about the future debt service requirements to be paid from State Fair Park's program revenue.

Debt—General Purpose Revenue—Funded

Table F includes a comparison for FY 2008-09 and FY 2007-08 of debt funded by the State's General Fund.

Table F

General Purpose Revenue—Funded Debt Related to State Fair Park

	FY 2008-09	FY 2007-08	Dollar Increase/(Decrease)
Commercial Paper	\$ 1,075,156	\$ 1,075,156	\$ 0
General Obligation Bonds	22,833,576	22,627,617	205,959
Total	<u>\$23,908,732</u>	<u>\$23,702,773</u>	<u>\$205,959</u>

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. See Note 5 for detailed information about State Fair Park's future debt service requirements to be paid from the State's General Fund.

Other Known Facts

While State Fair Park had a license agreement with a private racetrack promoter to manage the Milwaukee Mile racetrack and grandstand through the 2009 racing season, it has not been able to contract with an external promoter for the 2010 racing season. In addition, State Fair Park was not able to secure a national racing event to be held at the Milwaukee Mile for the 2010 racing season. Smaller regional races and events are being planned at the Milwaukee Mile in 2010.

State Fair Park is involved in litigation with a former racetrack promoter, Milwaukee Mile Holdings LLC, regarding a dispute over a letter of credit that was intended to protect State Fair Park in the case of default or early termination of the license agreement. In August 2009, the financial institution holding the letter of credit paid State Fair Park \$2.6 million in outstanding contract fees. The lawsuit is still pending in Dane County Circuit Court.

Component Unit

The State Fair Park Exposition Center, Inc., is organized as a separate not-for-profit organization and reports on a calendar year. Following the guidance of the Governmental Accounting Standards Board (GASB), the corporation 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 corporation is to finance, build, manage, and maintain an exposition center on the Wisconsin State Fair Park grounds.

The component unit is reported for the year ended December 31, 2008. Financial highlights include:

- 1) Cash and cash equivalents decreased \$0.7 million from 2007, to \$5.1 million for 2008.
- 2) Total operating revenue decreased \$259,727 from 2007 to 2008, while operating expenses increased by \$55,448.
- 3) Interest expense increased \$127,125 from 2007, to \$2.4 million for 2008.
- 4) State Fair Park Exposition Center, Inc.'s income from operations was \$1.2 million in 2008, compared to \$1.5 million for 2007.
- 5) State Fair Park Exposition Center, Inc.'s unrestricted net assets decreased by \$1.3 million from 2007, to (\$4.3) million for 2008.

On December 1, 2009, the State of Wisconsin purchased the Wisconsin Exposition Center from the State Fair Park Exposition Center, Inc., for \$13.9 million. See Note 16 for further discussion on this subsequent event.

Contacting State Fair Park and State Fair Park Exposition Center, Inc., Management

This financial report is designed to provide a general overview of State Fair Park's financial performance for FY 2008-09 and the financial performance of the State Fair Park Exposition Center, Inc., for calendar year 2008. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

State Fair Park
Craig Barkelar, Deputy Director
640 South 84th Street
West Allis, Wisconsin 53214

■ ■ ■ ■

Financial Statements ■

Statement of Net Assets

	State Fair Park Fund (As of June 30, 2009)	Component Unit— State Fair Park Exposition Center, Inc. (As of December 31, 2008)	Total (Memorandum Only)
ASSETS			
Current Assets:			
Cash and cash equivalents (Notes 2D and 6)	\$ 160,500	\$ 5,122,211	\$ 5,282,711
Marketable securities	0	930,049	930,049
Receivables (net of estimated uncollectible accounts) (Note 11)	930,918	264,011	1,194,929
Due from other funds (Notes 2H and 11)	869,575	0	869,575
Inventories	12,836	0	12,836
Prepaid Items	155,293	78,984	234,277
Total Current Assets	<u>2,129,122</u>	<u>6,395,255</u>	<u>8,524,377</u>
Noncurrent Assets:			
Receivables (Note 11)	80,000	0	80,000
Due from other funds (Notes 2H and 11)	2,270,256	0	2,270,256
Deferred charges	112,717	323,674	436,391
Capital assets (net of accumulated depreciation) (Notes 2F and 3)	45,063,534	31,985,900	77,049,434
Total Noncurrent Assets	<u>47,526,507</u>	<u>32,309,574</u>	<u>79,836,081</u>
TOTAL ASSETS	<u>49,655,629</u>	<u>38,704,829</u>	<u>88,360,458</u>
LIABILITIES			
Current Liabilities:			
Accounts payable (Note 11)	608,523	140,162	748,685
Due to other funds (Notes 2H and 11)	136,362	0	136,362
Interfund payables (Note 11)	6,228,112	0	6,228,112
Tax and other deposits	163,582	0	163,582
Unearned revenue (Note 2E)	3,070,581	0	3,070,581
Interest payable	239,889	1,036,873	1,276,762
Capital leases (Note 4)	93,719	0	93,719
Compensated absences (Notes 2G and 9)	61,641	0	61,641
Other accrued expenses	0	75,623	75,623
Unearned license fees	0	998,215	998,215
Notes payable (Note 5)	195,092	0	195,092
General obligation bonds payable (Note 5)	1,999,547	0	1,999,547
Total Current Liabilities	<u>12,797,048</u>	<u>2,250,873</u>	<u>15,047,921</u>
Noncurrent Liabilities:			
Capital leases (Note 4)	138,456	0	138,456
Compensated absences (Notes 2G and 9)	105,880	0	105,880
Postemployment benefits (Note 10)	116,383	0	116,383
Notes payable (Note 5)	213,600	0	213,600
General obligation bonds payable (Note 5)	28,092,382	0	28,092,382
Industrial revenue bonds payable (Note 17F)	0	40,795,000	40,795,000
Total Noncurrent Liabilities	<u>28,666,701</u>	<u>40,795,000</u>	<u>69,461,701</u>
TOTAL LIABILITIES	<u>41,463,749</u>	<u>43,045,873</u>	<u>84,509,622</u>
NET ASSETS			
Net Assets (Note 2J):			
Invested in Capital Assets Net of Related Debt	17,750,706	0	17,750,706
Unrestricted	(9,558,826)	(4,341,044)	(13,899,870)
TOTAL NET ASSETS	<u>\$ 8,191,880</u>	<u>\$ (4,341,044)</u>	<u>\$ 3,850,836</u>

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets

	State Fair Park Fund (For the Year Ended June 30, 2009)	Component Unit— State Fair Park Exposition Center, Inc. (For the Year Ended December 31, 2008)	Total (Memorandum Only)
OPERATING REVENUES			
Charges for Sales and Services:			
Annual State Fair	\$ 11,741,546	\$ 0	\$ 11,741,546
Non-Fair Events	1,090,554	0	1,090,554
Milwaukee Mile Racetrack Events	65,293	0	65,293
RV Park	597,819	0	597,819
Youth Center	499,465	0	499,465
Exposition Center	0	3,951,852	3,951,852
Total Charges for Sales and Services	<u>13,994,677</u>	<u>3,951,852</u>	<u>17,946,529</u>
Sponsorships	2,096,679	0	2,096,679
In-Kind Support (Note 7)	1,046,223	0	1,046,223
Other Income	8,341	307,470	315,811
Total Operating Revenues	<u>17,145,920</u>	<u>4,259,322</u>	<u>21,405,242</u>
OPERATING EXPENSES			
Personal Services	5,422,393	1,079,370	6,501,763
Supplies and Services (Note 7)	7,811,267	938,720	8,749,987
Depreciation Expense (Notes 2F and 3)	2,992,294	1,014,931	4,007,225
Other Expenses	0	8,444	8,444
Total Operating Expenses	<u>16,225,954</u>	<u>3,041,465</u>	<u>19,267,419</u>
OPERATING INCOME (LOSS)	<u>919,966</u>	<u>1,217,857</u>	<u>2,137,823</u>
NONOPERATING REVENUES (EXPENSES)			
Investment and Interest Income	61,515	(119,908)	(58,393)
Gifts and Donations	14,828	0	14,828
Interest Expense	(1,435,147)	(2,431,449)	(3,866,596)
Gain (Loss) on Sale of Capital Assets	(5,217)	(265)	(5,482)
Other Income	3,438	0	3,438
Total Nonoperating Revenues (Expenses)	<u>(1,360,583)</u>	<u>(2,551,622)</u>	<u>(3,912,205)</u>
Income (Loss) Before Operating Transfers	<u>(440,617)</u>	<u>(1,333,765)</u>	<u>(1,774,382)</u>
Transfers In (Notes 2I and 12)	1,539,719	0	1,539,719
Transfers Out (Notes 2I and 12)	(61,009)	0	(61,009)
CHANGE IN NET ASSETS	<u>1,038,093</u>	<u>(1,333,765)</u>	<u>(295,672)</u>
NET ASSETS			
Total Net Assets—Beginning of Year	7,153,787	(3,007,279)	4,146,508
Total Net Assets—End of the Year	<u>\$ 8,191,880</u>	<u>\$ (4,341,044)</u>	<u>\$ 3,850,836</u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows—State Fair Park Fund for the Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$	16,610,736
Cash Payments to Suppliers for Goods and Services		(6,626,557)
Cash Payments to Employees for Services		(5,342,902)
Other Operating Revenues		8,341
Net Cash Provided by Operating Activities		<u>4,649,618</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating Transfers Out		(61,009)
Proceeds from Gifts and Donations		14,828
Change in Interfund Loans		(1,514,342)
Other Cash Flows from Noncapital Financing Activities		3,438
Net Cash Used by Noncapital Financing Activities		<u>(1,557,085)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Issuance of Debt		59,501
Transfers In		1,539,719
Repayment of Long-Term Debt		(2,115,127)
Interest Paid		(1,448,463)
Capital Lease Payments		(95,986)
Proceeds from Bond Security and Redemption Fund to Pay Pettit Center Debt Service		945,943
Purchase of Capital Assets		(1,970,194)
Other Cash Flows from Capital and Related Financing Activities		(29,441)
Net Cash Used by Capital and Related Financing Activities		<u>(3,114,048)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment and Interest Receipts		<u>61,515</u>
Net Cash Provided by Investing Activities		<u>61,515</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>40,000</u>
Cash and Cash Equivalents—Beginning of the Year		<u>120,500</u>
Cash and Cash Equivalents—End of the Year	\$	<u><u>160,500</u></u>

The accompanying notes are an integral part of this statement.

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

Operating Income	\$	919,966
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense		2,992,294
Change in Provision for Uncollectible Accounts		(193,549)
Changes in Assets and Liabilities:		
Decrease (Increase) in receivables		893,274
Decrease (Increase) in due from other funds		36,466
Decrease (Increase) in inventories		2,021
Decrease (Increase) in prepaid items		(1,098)
Increase (Decrease) in accounts payable		115,043
Increase (Decrease) in due to other funds		25,931
Increase (Decrease) in deposits		(71,400)
Increase (Decrease) in unearned revenues		(145,411)
Increase (Decrease) in postemployment benefits		55,316
Increase (Decrease) in compensated absences		20,765
Total Adjustments		<u>3,729,652</u>
Net Cash Provided by Operating Activities	\$	<u>4,649,618</u>

Noncash Activities:

Contributed In-kind support totaled \$1,046,223.

The accompanying notes are an integral part of this statement.

Statement of Cash Flows: Component Unit—State Fair Park Exposition Center, Inc. for the Year Ended December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$	(1,333,765)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided (Used) by Operating Activities:		
Adjustment to allowance for bad debts		626
Loss on Sale of Marketable Securities		158,753
Depreciation Expense		1,014,931
Amortization Expense		28,788
Gain on Sale of Fixed Assets		265
Changes in Assets and Liabilities:		
Decrease (Increase) in receivables		35,693
Decrease (Increase) in prepaid items		(22,584)
Increase (Decrease) in accounts payable		38,377
Increase (Decrease) in accrued bond interest		0
Increase (Decrease) in other accrued expenses		(84,601)
Increase (Decrease) in unearned license fees		108,967
Total Adjustments		1,279,215
Net Cash Provided by Operating Activities		(54,550)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Repayment of Letter of Credit Fees		0
Net Cash Used by Capital and Related Financing Activities		0

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sale of Marketable Securities		513,353
Purchase of Marketable Securities		(1,052,199)
Proceeds from Sale of Fixed Assets		2,250
Purchase of Fixed Assets		(55,449)
Net Cash Used by Investing Activities		(592,045)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(646,595)
Beginning of the Year—Cash and Cash Equivalents		5,768,806
End of the Year—Cash and Cash Equivalents	\$	5,122,211

Supplemental Disclosure:

Cash paid during the year for:		
Interest	\$	2,473,752

Notes to the Financial Statements ■

1. DESCRIPTION OF STATE FAIR PARK

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

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

Until December 2009, the Wisconsin Exposition Center, which is located on State Fair Park grounds, was 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 corporation is considered a discrete component unit of the State of Wisconsin. In addition, although the corporation 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 State Fair Park Exposition Center, Inc., are included in this report. The governing board of the State Fair Park Exposition Center, Inc., 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.

Subsequent to this reporting period, the State of Wisconsin purchased the Wisconsin Exposition Center. See Note 16 for further discussion on the purchase of the Exposition Center.

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 generally derived from exchange transactions, such as sales. Operating expenses include salaries, supplies, and depreciation of capital assets. Revenues and expenses from in-kind support transactions are estimated and recorded in the period received.

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

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

B. Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from management's estimates. Estimates that are particularly susceptible to change are the estimate for in-kind support as described in Note 7.

C. Revenue Recognition

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

D. 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.

E. Unearned Revenue

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

F. 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

G. 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, 2009. The liability and expense for compensated absences are based on current rates of pay.

H. 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.”

I. Transfers In (Out)

Transfers In (Out) represent transfers of cash between state agencies. “Transfers In” consists 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” consists of transfers to the Wisconsin Department of Administration to cover costs paid by other state funds.

J. 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, 2009, 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	\$1,539,153	\$ (5,217)	\$2,532,440
Construction in Progress	<u>565,853</u>	<u>318,618</u>	<u>(556,898)</u>	<u>327,573</u>
Total Capital Assets Not Being Depreciated	1,564,357	1,857,771	(562,115)	2,860,013
Capital Assets Being Depreciated:				
Buildings and Improvements	75,633,538	563,449	0	76,196,987
Machinery and Equipment	<u>2,170,412</u>	<u>90,677</u>	<u>0</u>	<u>2,261,089</u>
Total Capital Assets Being Depreciated	77,803,950	654,126	0	78,458,076
Less Accumulated Depreciation for:				
Buildings and Improvements	(31,367,712)	(2,874,209)	0	(34,241,921)
Machinery and Equipment	<u>(1,894,549)</u>	<u>(118,085)</u>	<u>0</u>	<u>(2,012,634)</u>
Total Accumulated Depreciation	<u>(33,262,261)</u>	<u>(2,992,294)</u>	<u>0</u>	<u>(36,254,555)</u>
Total Capital Assets Being Depreciated, Net	<u>44,541,689</u>	<u>(2,338,168)</u>	<u>0</u>	<u>42,203,521</u>
Total Capital Assets, Net	<u>\$46,106,046</u>	<u>\$ (480,397)</u>	<u>\$(562,115)</u>	<u>\$45,063,534</u>

See Note 17 for information on the State Fair Park Exposition Center, Inc.'s capital assets.

4. LEASE OBLIGATIONS

Equipment items, including street signs and other signage to direct visitors to and around the fairgrounds, have been leased through capital leases and are included in the State Fair Park Fund's capital assets. Leased equipment is depreciated over a period of between two and seven years. The accumulated depreciation on this leased equipment totaled \$766,335, resulting in a net book value of \$160,829. Total lease payments for the fiscal year ended June 30, 2009, were \$95,986. Future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2009, are as follows:

For the Year Ending:	
June 30, 2010	\$104,083
June 30, 2011	96,956
June 30, 2012	<u>48,478</u>
Total Minimum Lease Payments	249,517
Less: Amount Representing Interest	<u>(17,342)</u>
Present Value of Minimum Lease Payments	<u>\$232,175</u>

During the year ended June 30, 2009, 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	\$328,161	\$ 0	\$(95,986)	\$232,175	\$93,719

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 and commercial paper authorized and issued by the State are secured by the full faith, credit, and taxing power of the State of Wisconsin. Funding to cover debt service payments comes from program revenue received from State Fair Park Fund operations, as well as from general purpose revenue of the State of Wisconsin.

Debt to Be Repaid from State Fair Park Fund Program Revenue

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

	<u>Balance June 30, 2008</u>	<u>New Debt Proceeds</u>	<u>Principal Payments and Refunds</u>	<u>Balance June 30, 2009</u>
Notes Payable—				
Commercial Paper	\$ 592,854	\$ 0	\$ (184,162)	\$ 408,692
General Obligation				
Bonds Payable	<u>31,963,393</u>	<u>59,501</u>	<u>(1,930,965)</u>	<u>30,091,929</u>
Total	<u>\$32,556,247</u>	<u>\$59,501</u>	<u>\$(2,115,127)</u>	<u>\$30,500,621</u>

The general obligation bond debt has fixed interest rates, while the commercial paper has a variable interest rate that changes daily. New debt proceeds from bonds include amounts received from bonds issued to fund payments on outstanding debt. Reductions in the long-term liability for

bonds reflect principal payments on outstanding debt and refunds of existing debt.

As of June 30, 2009, estimated future debt service requirements to be paid from State Fair Park Fund program revenue are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service
2010	\$ 2,194,639	\$ 1,447,241	\$ 3,641,880
2011	2,317,303	1,343,715	3,661,018
2012	2,611,534	1,227,952	3,839,486
2013	2,740,138	1,098,820	3,838,958
2014	1,964,551	986,182	2,950,733
2015-2019	10,573,610	3,472,254	14,045,864
2020-2024	7,722,348	977,389	8,699,737
2025-2029	374,303	39,441	413,744
2030-2034	<u>2,195</u>	<u>132</u>	<u>2,327</u>
Total	<u>\$30,500,621</u>	<u>\$10,593,126</u>	<u>\$41,093,747</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 of Wisconsin’s General Fund long-term debt to be paid on behalf of the State Fair Park Fund are as follows:

	Balance June 30, 2008	New Debt Proceeds	Principal Payments and Refunds	Balance June 30, 2009
Commercial Paper	\$ 1,075,156	\$ 0	\$ 0	\$ 1,075,156
Bonds	<u>22,627,617</u>	<u>1,317,022</u>	<u>(1,111,063)</u>	<u>22,833,576</u>
Total	<u>\$23,702,773</u>	<u>\$1,317,022</u>	<u>\$(1,111,063)</u>	<u>\$23,908,732</u>

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

As of June 30, 2009, estimated future debt service requirements to be paid from State of Wisconsin general purpose revenue are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2010	\$ 1,404,090	\$ 1,201,103	\$ 2,605,193
2011	1,498,837	1,130,116	2,628,953
2012	1,706,333	1,045,777	2,752,110
2013	1,842,926	959,352	2,802,278
2014	1,889,713	863,407	2,753,120
2015-2019	9,536,560	2,821,856	12,358,416
2020-2024	5,355,171	823,362	6,178,533
2025-2029	622,456	89,911	712,367
2030-2034	<u>52,646</u>	<u>3,159</u>	<u>55,805</u>
Total	<u>\$23,908,732</u>	<u>\$8,938,043</u>	<u>\$32,846,775</u>

See Note 17F for information on the State Fair Park Exposition Center, Inc.'s debt obligations.

6. DEPOSITS

GASB Statement 40, *Deposit and Investment Risk Disclosures—an Amendment of GASB Statement 3*, requires certain disclosures related to custodial credit risk. Custodial credit risk is the risk that in the event of a failure of a depository financial institution, deposits may not be returned. As of June 30, 2009, \$107,770 of the State Fair Park Fund's cash balance was deposited in a commercial checking account. The State Fair Park Fund's deposits in this commercial checking account are insured by the Federal Deposit Insurance Corporation. Since accounts at the banks are insured by the Federal Deposit Insurance Corporation up to \$100,000 (\$250,000 from October 3, 2008, through December 31, 2013), none of the Fund's June 30 balance would be considered uninsured and uncollateralized. The remaining \$52,730 was on hand at State Fair Park for use during State Fair Park events.

See Note 17 for information on the State Fair Park Exposition Center, Inc.'s cash and cash equivalent balances.

7. IN-KIND SUPPORT

In-kind support includes the goods and services businesses provide State Fair Park in support of the Wisconsin State Fair, including items such as advertising and equipment. State Fair Park provides the businesses with admission tickets, space on the grounds during the fair, advertising, and other items. In-kind support is reported as both revenue and expense in the year received, and therefore has no effect on net assets.

State Fair Park estimates it received \$1,046,223 in goods and services through in-kind support during FY 2008-09. This was the first year that an estimate of the fair value of in-kind support was attempted. Limitations in the available documentation required State Fair Park to base \$370,159 of its estimate on the value of the tickets and space rental provided to various businesses, which is reported as promotion in the table that follows. The remaining portion of the estimate was developed based on the documented fees typically charged by businesses for the types of goods or services provided.

In-kind support is included in the financial statements as a revenue, "In-kind Support" and as an offsetting expense, "Supplies and Services." State Fair Park estimates it received in-kind support for the following items during FY 2008-09:

	<u>FY 2008-09</u>
Advertising	\$ 442,449
Equipment	188,664
Miscellaneous	44,951
Promotion	<u>370,159</u>
Total In-Kind Support	<u>\$1,046,223</u>

8. EMPLOYEE RETIREMENT PLAN

As permanent full-time employees of the State of Wisconsin, employees of State Fair Park are participants in the Wisconsin Retirement System, a cost-sharing, multiple employer, defined benefit plan governed by ch. 40, Wis. Stats. 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
P.O. Box 7931
Madison, Wisconsin 53707-7931

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

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

In addition, state agencies are required to make contributions to fund bond payments.

The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee’s classification, plus employer contributions at a rate determined annually. Both employee and employer contributions are included as part of personal service expenses each year. The State Fair Park Fund’s contributions to the plan were \$253,162 for FY 2008-09. 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, 2009, 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	\$146,756	\$82,093	\$(61,328)	\$167,521	\$61,641

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires the State to report other postemployment benefit (OPEB) expenses and related liabilities in its financial statements and notes. The FY 2008-09 financial statements include State Fair Park’s portion of the State’s OPEB expenses as part of personal service expenses and the related liabilities.

A. Health Insurance

The State’s health insurance program, a cost-sharing, multiple-employer, defined benefit plan not held in trust, is an employer-sponsored program offering group medical coverage to eligible employees and retirees of the State that was created under ch. 40, Wis. Stats. The Wisconsin Department of Employee Trust Funds and the Group Insurance Board have program administration and oversight responsibilities under ss. 15.165(2) and 40.03(6), Wis. Stats.

Under this plan, retired employees of the State contribute the same healthcare premium as active employees, creating an implicit rate subsidy for retirees. This implicit rate subsidy, which is calculated to cover pre-age 65 retirees (since at age 65 retirees are eligible to enroll in Medicare), is treated as an OPEB.

As of the January 1, 2007 actuarial valuation, the State of Wisconsin’s annual required contribution was \$158.7 million for 2008. The State’s

actual contribution was \$48.8 million in 2008, which results in a net OPEB obligation for the State of \$214.1 million as of December 31, 2008. The portion of this obligation allocated to the State Fair Park Fund for FY 2008-09 was \$116,383, which reflects the amortization of the actuarial accrued liability for FY 2008-09 plus the current expense for active employees.

The State's Comprehensive Annual Financial Report includes financial statements, additional note disclosures, and required supplementary information for this plan. That report is publicly available at <http://doa.wi.gov> or may be obtained by writing to:

State Controller's Office
Department of Administration
101 East Wilson Street
Madison, Wisconsin 53703

B. Life Insurance and Duty Disability

The State's life insurance program, a cost-sharing, multiple-employer, defined benefit plan held in trust, provides post-employment coverage to all eligible employees. The plan is administered under s. 40.70, Wis. Stats. Beginning at age 65, retirees and terminating members continue to receive, at no cost to them, basic life insurance coverage at a reduced level. Retirees and terminating members under age 65 must continue to pay the employee premium to maintain coverage. The amount contributed by the State Fair Park Fund to this plan is not readily determinable because this is a statewide, multiple-employer plan.

The State's duty disability program, a cost-sharing, multiple-employer, defined benefit plan held in trust, offers special disability insurance for employees in protective occupations. This plan covers State Fair Park's police officers. It is administered under s. 40.65, Wis. Stats. Qualified employees receive benefits under this program approximating 80 percent of salary, less certain offsets, based upon the type and level of disability suffered and the implications of the disability on their ability to work. There are no employee contributions associated with this plan. State Fair Park contributed \$1,834 to this program during calendar year 2009.

The Department of Employee Trust Funds issues publicly available financial reports that include financial statements, additional note disclosures, and required supplementary information for these plans. The reports are available at <http://etf.wi.gov> or may be obtained upon request from:

Department of Employee Trust Funds
P.O. Box 7931
Madison, Wisconsin 53707-7931

11. DISAGGREGATION OF RECEIVABLES AND PAYABLES

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

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

	As of <u>June 30, 2009</u>
Accounts Receivable:	
Racing Activities	\$ 702,556
State Fair Park Youth Foundation	100,000
Miscellaneous	<u>208,362</u>
Total Accounts Receivable	<u>\$1,010,918</u>
Due from Other Funds:	
Bond Security and Redemption	\$3,138,307
Miscellaneous	<u>1,524</u>
Total Due from Other Funds	<u>\$3,139,831</u>

The Wisconsin State Fair Park Youth Foundation was established to develop public and private partnerships to support youth programming and facilities development at State Fair Park. In addition, the Foundation provides financial and volunteer services to the Governor’s Blue Ribbon Livestock Auction Committee. In February 2007, State Fair Park provided a \$50,000 interest-free loan to the Foundation. Another \$50,000 interest-free loan was made in February 2008. Both loans are to be repaid beginning in 2009, over a period not to exceed six years.

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

	As of <u>June 30, 2009</u>
Accounts Payable:	
Vendors	\$448,928
Employees	<u>159,595</u>
Total Accounts Payable	<u>\$608,523</u>
Due to Other Funds:	
Due to Other State Programs	<u>\$136,362</u>
Total Due to Other Funds	<u>\$136,362</u>
Interfund Payables:	
Amounts Due to Other Funds for Short-Term Loans to Cover the State Fair Park Fund’s Cash Overdraft	<u>\$6,228,112</u>
Total Interfund Payables	<u>\$6,228,112</u>

12. INTERFUND TRANSFERS

Interfund transfers that occurred during FY 2008-09 are as follows:

A. State Fair Park Fund Transfers In	
For Capital Building Projects	\$1,539,719
B. State Fair Park Fund Transfers Out	
For Prior Service Cost Bond Contributions	\$61,009

13. PETTIT NATIONAL ICE CENTER DEBT SERVICE

In January 2007, State Fair Park sold the Pettit National Ice Center to Pettit National Ice Center, Inc. Proceeds from the sale were deposited into the State's Bond Security and Redemption Fund. The balance in the Bond Security and Redemption Fund related to the Pettit Center sale is reported as "Due from Other Funds" on State Fair Park's financial statements.

Based on estimates of future interest rate earnings, it was anticipated that the sale proceeds plus interest earnings would fund the entire remaining Pettit Center debt service. However, with the recent decline in interest rates earned by the State's Bond Security and Redemption Fund, that no longer appears likely. As of June 30, 2009, \$3.7 million in debt service costs were outstanding and \$3.1 million in sales proceeds and interest earnings were available in the Bond Security and Redemption Fund. While the sale proceeds will continue to earn interest, State Fair Park officials estimate that beginning in FY 2012-13 State Fair Park could be liable for an estimated \$410,000 of the remaining Pettit Center debt service when the sales proceeds are exhausted.

14. POLLUTION REMEDIATION OBLIGATIONS

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and it is effective for FY 2008-09. In accordance with the provisions of GASB Statement 49, state and local governments are required to display and disclose in financial reports pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

In April 2009, State Fair Park acquired from AmeriGas L.P., a large propane company, a 2.54-acre parcel of land located on the fairgrounds. Because of past uses of the property, State Fair Park hired a consultant to conduct environmental studies and determine whether there are pollution remediation costs. Through June 30, 2009, State Fair Park has incurred \$13,861 for these studies. While several studies have been completed, State Fair Park awaits

final determination by the Wisconsin Department of Natural Resources on what, if any, remediation activities are needed. Since total remediation costs cannot be reasonably determined, a liability has not been reported in the Statement of Net Assets.

15. SUBSEQUENT EVENT FOR STATE FAIR PARK FUND—MILWAUKEE MILE LICENSE AGREEMENT

On December 12, 2008, Milwaukee Mile Holdings LLC, the private racetrack promoter, notified State Fair Park that it was exercising its right to terminate the February 2008 Milwaukee Mile racetrack and grandstand license agreement. The agreement stipulated that once Milwaukee Mile Holdings terminated the contract, it was responsible for two years of licensing fees, and thus it was anticipated that Milwaukee Mile Holdings would manage the track for two years, through the 2010 racing season. However, because of a dispute over the letter of credit, which was intended to protect State Fair Park in case of default or early termination, State Fair Park terminated the agreement with Milwaukee Mile Holdings effective February 11, 2009.

In July 2009, the Wisconsin Department of Justice, on behalf of State Fair Park, requested payment on the letter of credit. In response, Milwaukee Mile Holdings filed a lawsuit against State Fair Park contesting this payment and alleging fraud, misrepresentation, and breach of contract by State Fair Park. However, in August 2009 the financial institution holding the letter of credit paid State Fair Park \$2.6 million in outstanding contract fees, including 2007 and 2008 deferred license fees totaling \$679,000, and 2009 and 2010 license fees totaling \$1.9 million. The lawsuit is still pending in Dane County Circuit Court. The probability of State Fair Park retaining the full \$2.6 million is unknown at this time.

16. SUBSEQUENT EVENT FOR STATE FAIR PARK FUND—WISCONSIN EXPOSITION CENTER

On December 1, 2009, the State of Wisconsin purchased the Wisconsin Exposition Center from the State Fair Park Exposition Center, Inc., for \$13.9 million. State Fair Park Exposition Center, Inc., used the proceeds from the sale and \$3.0 million in cash it had in a reserve for debt service to retire all of the outstanding industrial revenue bonds as described in Note 17F. At its May 2010 meeting, the Wisconsin Building Commission approved the transfer of ownership of the Exposition Center to State Fair Park. State Fair Park has entered into a six-month management agreement with the State Fair Park Exposition Center, Inc., to manage the facility during the transition period. See Note 17 for information about the State Fair Park Exposition Center, Inc., as of December 31, 2008.

17. COMPONENT UNIT—STATE FAIR PARK EXPOSITION CENTER, INC.

A. Summary of Significant Accounting Policies

Organization

The purpose of the 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 facility was substantially complete and placed in service as of August 1, 2002. The corporation reports on a fiscal year ended December 31.

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

On December 1, 2009, subsequent to this reporting period, the Wisconsin Exposition Center facility was sold to the State of Wisconsin and the bonds issued to construct it were satisfied in full. See Note 16 for further discussion of this subsequent event. As a result of the sale of the facility, the notes included in State Fair Park's financial report have been condensed. Copies of the corporation's separately issued financial report that includes financial statements, complete note disclosures, and required supplementary information may be obtained by writing to:

State Fair Park
640 S. 84th Street
West Allis, Wisconsin 53214-0307

Basis of Accounting

The financial statements for the State Fair Park Exposition Center, Inc., have been prepared on the accrual basis of accounting.

Basis of Presentation

The State Fair Park Exposition Center, Inc., reports under the provisions of FASB Statement 117, *Financial Statements for Not-for-Profit Organizations*.

1. Unrestricted net assets:

Unrestricted net assets include unrestricted resources available for the organization's operations and purchase of fixed assets. As of December 31, 2008, the Board of Directors has designated \$100,000 as a contingency fund.

2. Temporarily and permanently restricted net assets:

There were no temporarily or permanently restricted net assets as of December 31, 2008.

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 State Fair Park Exposition Center, Inc., considers all short-term investments with a maturity of three months or less to be a cash equivalent. Cash and cash equivalents includes \$3.8 million as of December 31, 2008, which is held in trust accounts and restricted in accordance with the terms of the industrial revenue bonds payable.

Accounts Receivable

The State Fair Park Exposition Center, Inc., uses the allowance method for recording bad debts.

Capital Assets

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

Bond Issuance and Letter of Credit Costs

Bond issuance costs of \$537,185 are being amortized using the effective-interest method over the 28-year life of the related bonds. Amortization of bond issuance costs for the year ended December 31, 2008, were \$28,788 and are included in interest expense.

Total Bond Issuance and Letter of Credit Costs	\$537,185
Accumulated Amortization	<u>(213,511)</u>
Unamortized Bond Issuance and Letter of Credit Costs at December 31, 2008	<u>\$323,674</u>

Unearned License Fees

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

Advertising and Marketing Costs

The State Fair Park Exposition Center, Inc., expenses advertising and marketing costs as incurred. Advertising and marketing expenses, which are included in supplies and services expenses on the Statement of Revenue, Expenses, and Changes in Net Assets, totaled \$12,355 in 2008.

B. Concentration of Credit Risk for Cash and Cash Equivalents

The State Fair Park Exposition Center, Inc., maintains cash balances at two banks. Accounts at the banks are insured by the Federal Deposit Insurance Corporation up to \$100,000 (\$250,000 from October 3, 2008, through December 31, 2013). The uninsured portion, without regard to outstanding checks and deposits in transit, was \$782,504 as of December 31, 2008.

The corporation 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, was \$3.8 million as of December 31, 2008.

C. Retirement Plan

Effective January 1, 2003, the State Fair Park Exposition Center, Inc., has a SIMPLE IRA retirement plan covering substantially all employees. Participants may elect to make voluntary pre-tax contributions of their compensation, up to the amount allowable by the IRS. The corporation matches 100.0 percent of the participant's voluntary contributions, up to 3.0 percent of the participant's compensation. The corporation contributed \$20,891 to the plan for the year ended December 31, 2008.

D. Related Party Transactions

The Board of Directors of State Fair Park Exposition Center, Inc., is required to have two members who are also members of the State Fair Park Board. The corporation entered into a ground lease agreement with the State Fair Park Board effective August 1, 2001, that allowed it to construct and operate an exposition center on State Fair Park grounds and required it to pay rent equal to the excess of its annual gross revenues from all sources over its annual expenses of operating the Exposition Center facility, including debt service of any type, debt reserves, operating costs, and reserves. No rents were payable relating to this ground lease agreement as of December 31, 2008.

The State Fair Park Exposition Center, Inc., has also entered into a license agreement with the State Fair Park Board granting the State Fair Park Board the sole right to use the entire Exposition Center facility during the two-week period in August of each year when the State Fair Park Board holds the annual Wisconsin State Fair. License fees pursuant to this agreement totaled \$215,000 in 2008.

Accounts payable and accrued expenses include \$4,110 to the State Fair Park Board as of December 31, 2008, primarily for contracted labor and services.

E. Marketable Securities

Marketable securities are stated at fair market value. Net gains or losses on the sale of marketable securities are recognized using the specific identification method. Aggregate cost was \$1,093,121 as of December 31, 2008. The portfolio of marketable securities classed as current includes net losses of (\$158,753) as of December 31, 2008.

F. Industrial Revenue Bonds Payable

On August 1, 2001, \$44.9 million in City of West Allis, Wisconsin Variable Rate Demand Revenue Bonds, Series 2001, were issued to finance the construction of the Exposition Center facility. The bonds call for monthly interest-only payments until the date of maturity. When issued, the bonds had a final maturity of August 1, 2028. The State Fair Park Exposition Center, Inc., had not been notified of any event of default with respect to the industrial revenue bonds payable restrictive covenants as of December 31, 2008.

The balance outstanding on the industrial revenue bonds payable was \$40.8 million as of December 31, 2008. In January 2003, the corporation redeemed \$4.1 million of bonds in accordance with the mandatory redemption requirements for unused bond proceeds.

A summary of interest expense for 2008 is as follows:

	<u>Interest Expense</u>
Interest Incurred	\$2,473,752
Letter of Credit and Remarketing Fees	0
Amortization of Bond Issuance Costs	28,788
Interest Earned	<u>(71,091)</u>
Total	<u>\$2,431,449</u>

As discussed in Note 16, the Exposition Center facility was sold to the State of Wisconsin and the industrial revenue bonds issued to construct the facility were satisfied in full. As of December 31, 2008, the State Fair Park Exposition Center, Inc., had a future debt service payment of \$2,488,495 for the year ended December 31, 2009. As a result of this purchase, there are no additional future payments for the industrial revenue bonds.



Report on Control and Compliance ■

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

We have audited the financial statements of the Wisconsin State Fair Park as of and for the year ended June 30, 2009, and have issued our report thereon dated June 11, 2010. Our report was modified to include (1) a reference to other auditors, (2) a discussion of the in-kind support estimate, and (3) a description of a significant subsequent event. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the State Fair Park Exposition Center, Inc., as described in our opinion on Wisconsin State Fair Park's financial statements. The financial statements of the State Fair Park Exposition Center, Inc., were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Wisconsin State Fair Park's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Wisconsin State Fair Park's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Wisconsin State Fair Park's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the following paragraphs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or will not be detected and corrected on a timely basis. We consider the following two deficiencies to be material weaknesses in internal control over financial reporting.

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

- \$2.0 million in revenue related to the letter of credit dispute with Milwaukee Mile Holdings LLC was inappropriately reported in the financial statements, rather than disclosed in the notes. Because of pending litigation, accounting rules require this revenue be reported in the notes, but not on the financial statements. As a result, both the "Charges for Sales and Services" account on the Statement of Revenues, Expenses, and Changes in Net Assets and the "Receivables" account on the Statement of Net Assets were overstated by \$2.0 million.
- a \$1.5 million land purchase was inappropriately reported as construction in progress in the notes to the financial statements, understating land by \$1.5 million and overstating construction in progress by the same amount in the capital asset note disclosure.

While management questioned both of these items during its review of the financial statements, steps were not taken to adjust the financial statements and notes for these items.

Management has now corrected these errors in the financial statements and agrees with the recommendation. Further, management believes that the hiring of a new Executive Director will help ensure that controls over the preparation of the financial statements will improve.

Second, as further discussed in the chapter titled "In-Kind Support," a source of funding that is common in the events industry is in-kind support, in which vendors provide a good or service as support to the entity. In exchange, State Fair Park

provides admission tickets, parking passes, advertising exposure at the Wisconsin State Fair, and other items. We found that State Fair Park has not implemented policies and procedures to ensure in-kind support transactions are properly controlled. Further, while State Fair Park management was aware of this activity, it chose not to record these transactions in the financial statements, as required by generally accepted accounting principles. After we brought these concerns to its attention, management estimated the value of in-kind support during FY 2008-09 and recorded approximately \$1.0 million in "In-Kind Support" revenue and "Supplies and Services" expenses on the Statement of Revenues, Expenses, and Changes in Net Assets.

Management notes that State Fair Park's control and accountability over tickets and in-kind support have increased over the past several years, but recognizes that additional improvements are needed. Management indicates that the recommendations will be implemented, including the establishment of written procedures and staff training on appropriate practices, such as the negotiation and valuation of in-kind support.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Wisconsin State Fair Park's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

June 11, 2010

by

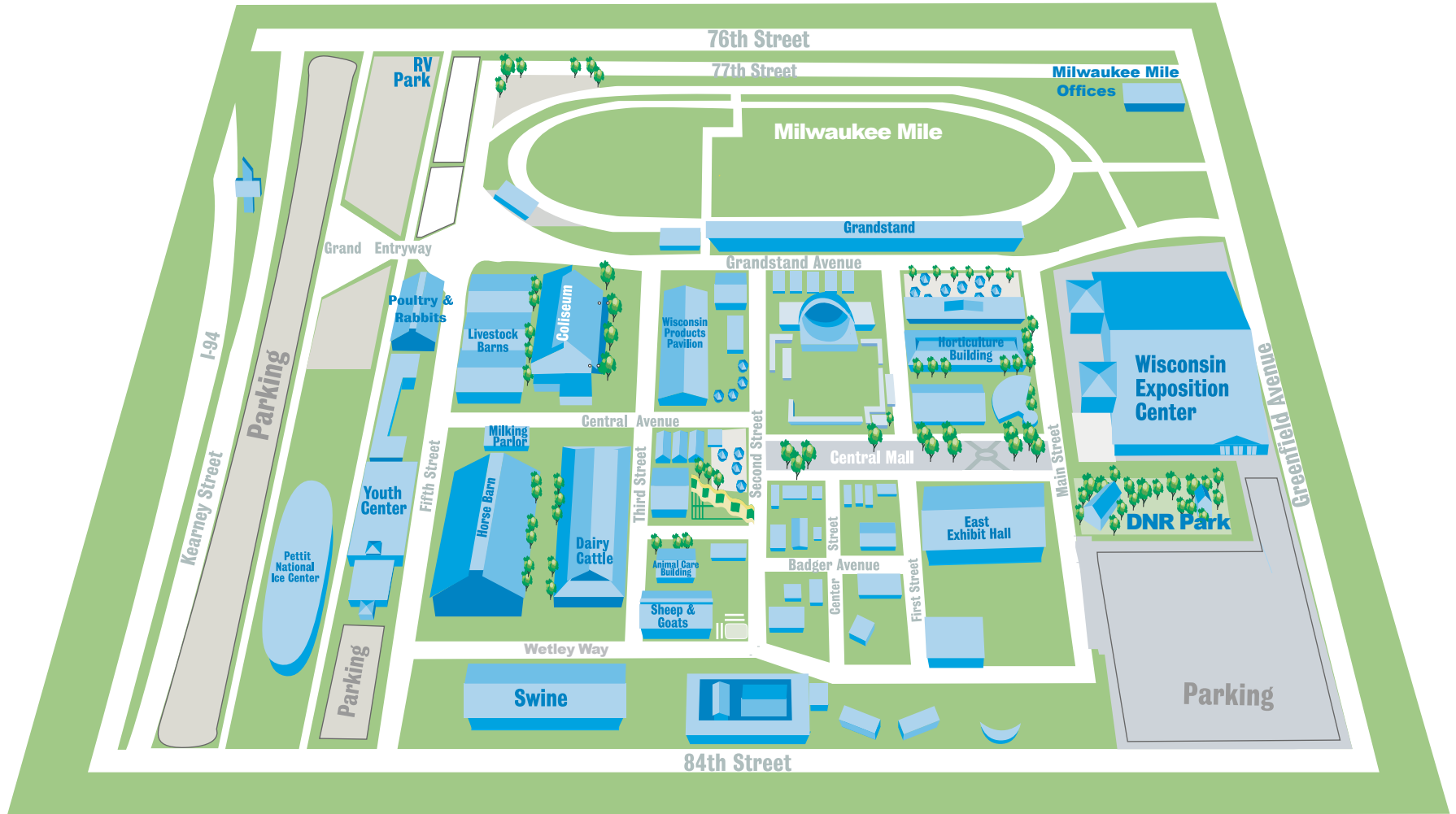
LEGISLATIVE AUDIT BUREAU



Carolyn Stittleburg
Audit Director

Appendix 1

Wisconsin State Fair Park



Appendix 2

**Scheduled Debt Service Payments for Milwaukee Mile Related
Program Revenue-Supported Bonds**

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service
2011	\$ 995,654	\$ 818,539	\$1,814,193
2012	1,129,110	767,964	1,897,074
2013	1,224,536	711,592	1,936,128
2014	759,699	650,020	1,409,719
2015	1,291,212	612,133	1,903,345
2016	1,173,892	547,195	1,721,087
2017	1,216,049	491,879	1,707,928
2018	1,327,275	435,854	1,763,129
2019	1,426,170	370,035	1,796,205
2020	1,387,177	298,738	1,685,915
2021	1,493,378	229,388	1,722,766
2022	1,510,549	154,728	1,665,277
2023	1,586,157	85,726	1,671,883
2024	130,204	12,276	142,480
2025	111,034	5,775	116,809
2026	2,548	235	2,783
2027	2,676	120	2,796
Total	<u>\$16,767,320</u>	<u>\$6,192,197</u>	<u>\$22,959,517</u>



Wisconsin State Fair Park

640 S. 84th St. • West Allis, WI 53214 • (414) 266-7000 • wistatefair.com

June 15, 2010

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

Dear Ms. Mueller:

Thank you and your auditors for the comprehensive audit of State Fair Park's Fiscal Year (FY) 2008-09 financial statements and the review of certain management issues. The auditors were professional and very thorough while being considerate of staff time. The audit issues identified in the report are important to State Fair Park and appropriate action will be taken to resolve them.

The recommendations included in the audit report require an update on the implementation of procedures and other actions that address issues noted in the report. By March 1, 2011, State Fair Park readily agrees to report to the Joint Legislative Audit Committee on:

- the steps it has taken to improve controls over and better monitor in-kind trade and the distribution of State Fair tickets by managers;
- its long-term plans for managing the Milwaukee Mile; and
- the status of the Wisconsin Exposition Center operations.

Please contact me at any time if you wish to discuss the issues raised in the report, our planned actions, or any other topic related to Wisconsin State Fair Park.

Sincerely,

Richard Frenette
Executive Director