



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500
MADISON, WISCONSIN 53703
(608) 266-2818
FAX (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

DATE: June 21, 2004

TO: Karen Asbjornson and Pamela Matthews
Committee Clerks to the Joint Legislative Audit Committee

FROM: Julie Gordon *Julie Gordon*
Financial Audit Director

SUBJECT: Report 04-5: An Audit of State Fair Park

As required by s. 13.94(1)(dm), Wis. Stats., we have completed financial audits of the Wisconsin State Fair Park for fiscal year (FY) 2001-02 and FY 2002-03. We have issued unqualified opinions for both years. The FY 2002-03 financial statements are provided in report 04-5, while the FY 2001-02 financial statements are issued separately.

As part of our audit, we also followed up on recommendations included in our 2003 report (report 03-11). The State Fair Park Board and entities operating within the fairgrounds—the Milwaukee Mile, Wisconsin Exposition Center, and Pettit National Ice Center—have taken steps to improve State Fair Park's overall financial condition and to solidify operations. For example, as recommended in our previous report, business plans for 2004 have been prepared for each entity. However, those business plans contain optimistic projections that rely on a strong performance by the Milwaukee Mile, reduced losses from other non-fair events, and significant revenues from sponsorships and naming rights.

We include recommendations for State Fair Park to continue to refine and modify the current business plans as necessary for future years and to report to the Joint Legislative Audit Committee on its financial condition and tentative business plans for 2005 by October 31, 2004.

The audit will be released on Tuesday, June 22, at 9:00 a.m. Please contact me if you have any questions regarding the report.

JG/bm

Enclosures

unqualified level
opinion on financial look forward

04-5

NASCAR Race = crown jewel
good weather attendees.
Positioning

Business Plans = imp
Imp 1st steps toward
improvement

An Audit:
State Fair Park
Advanced June 2004
tickets only

quested for

2002
lost less
1.5m.

exp center -
is include
Continue to

Amisa Johnson - SSS.

AN update after fair
03-04
to committee

4.5 m\$
deficit
2.4m lapse
to general
fund

Report Highlights ■

As reported in 2003, State Fair Park's overall financial condition deteriorated through FY 2002-03.

State Fair Park, the 190-acre fairgrounds located in West Allis and Milwaukee, is home to the annual Wisconsin State Fair. Statutes require us to perform an annual financial audit of State Fair Park. However, in 2003, State Fair Park was unable to provide us with accurate and complete financial statements for fiscal year (FY) 2001-02.

State Fair Park has taken some steps to solidify its operations and increase its revenues.

State Fair Park subsequently hired a private accounting firm to prepare its financial statements for FY 2001-02 and FY 2002-03, and we have issued an unqualified audit opinion for each year. In addition, we followed up on concerns we expressed in 2003 regarding State Fair Park's financial condition, as well as business planning related to three fairgrounds activities or entities:

Business plans for 2004 are optimistic and rely on revenues that have not been fully secured, such as sponsorships.

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

State Fair Park's 2004 business plans should be refined and modified to ensure financial estimates are reasonable and staffing concerns are addressed.



*projections
not recommended*

Key Facts and Findings

We have issued unqualified audit opinions on State Fair Park's financial statements for FY 2001-02 and FY 2002-03.

Program revenue-supported debt service payments will be more than \$3.4 million annually through FY 2012-13.

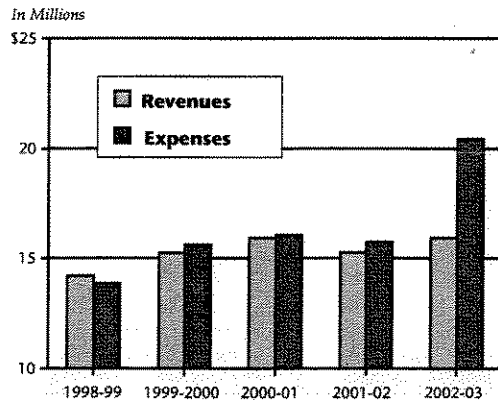
Through May 2004, State Fair Park's expenses exceeded revenues by \$2.1 million.

State Fair Park currently projects that total revenues for FY 2003-04 will exceed expenses by nearly \$195,000.

State Fair Park must eliminate 6.0 positions to meet its current authorized staffing level.

Fiscal Decline through 2003

As we noted in 2003, State Fair Park's expenses have exceeded revenues since FY 1999-2000. In FY 2002-03, they exceeded revenues by \$4.5 million. While FY 2002-03 expenses—including a required lapse of \$2.4 million to the State's General Fund—were beyond the control of agency staff or the State Fair Park Board, FY 2002-03 expenses would have exceeded revenues by \$1.8 million even without such outside factors.



In recent years, State Fair Park has undertaken a \$160.0 million building program to make the fairgrounds a year-round entertainment attraction. This program included new and renovated facilities that were intended to be self-supporting, such as:

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

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

However, overly optimistic revenue projections that were used to support these and other construction projects have not been met. Instead, the projects have contributed to State Fair Park's declining financial condition. For example, we estimated in 2003 that State Fair Park:

- incurred annual costs of at least \$39,100 on behalf of the Exposition Center, including parking lot maintenance and sewer costs;
- paid the Exposition Center \$73,540 more than its net parking revenue from non-fair events over an eight-month period; and
- lost 104 days' revenue from events that left the fairgrounds when the Exposition Center was built and several other buildings were demolished.

To fund fairgrounds improvements, State Fair Park has relied on funding from bonds. Through FY 2012-13, program revenue-supported debt service payments are expected to be more than \$3.4 million annually. If program revenues are insufficient to cover these debt service costs, the State could ultimately be called on to fund them, as well as at least



① 1st NASCAR Race Series ② TRUCK Race Series 4- Indy CAR SERIES

2.0 million in annual debt service costs from general purpose revenue-supported bonds.

Recent Operational Changes

In the nine months since our 2003 report, the State Fair Park Board and entities operating within the airgrounds have taken steps to improve State Fair Park's overall financial condition and to solidify operations. For example, in accordance with our recommendations, all fairgrounds entities have developed business plans for 2004. In addition:

- The Exposition Center Board hired a president in 2003, and the State Fair Park Board hired a chief financial officer in 2004.
- The Milwaukee Mile has expanded its 2004 racing program and will host four major events, compared to two in prior years.
- State Fair Park has implemented procedures to recoup some of the costs it incurs on the Exposition Center's behalf.
- State Fair Park has received nearly \$38,600 from the Exposition Center, which represents one-half of the amount by which State Fair Park's parking expenses exceeded revenues. Furthermore, the agreement related to parking revenues has been changed to ensure that State Fair Park does not incur such losses in the future.

- The Exposition Center is attempting to attract additional events by contacting those events that previously left the fairgrounds.

However, as debt service costs increase, the importance of overall profitability is heightened. At least in the short run, State Fair Park's ability to meet its program revenue-supported debt obligations will be limited if program revenues do not increase or if expenses do not decrease.

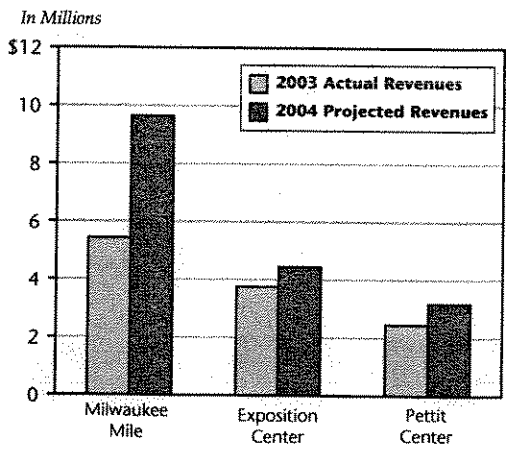
2004 Business Planning

Although State Fair Park's expenses exceeded revenues by \$2.1 million through May 2004, its staff anticipate that additional revenues from a June 2004 race at the Milwaukee Mile and the August 2004 State Fair will be received before the end of FY 2003-04. With the receipt of that revenue, they project that FY 2003-04 total revenues will exceed expenses by nearly \$195,000.

Nevertheless, this projection relies on an optimistic financial performance by the Milwaukee Mile, as well as reduced losses from other non-fair operations. For example:

- State Fair Park staff estimate that revenues from the Milwaukee Mile will increase from \$5.4 million during the 2003 racing season to \$9.6 million for the 2004 season, an increase of 77.7 percent.

- The Pettit Center projects that program revenues will increase from \$2.1 million in 2003 to \$2.8 million in 2004, an increase of 35.8 percent.
- Milwaukee Mile revenues are projected to include nearly \$1.1 million from sponsorship and naming rights in 2004, while the Exposition Center projects \$500,000 in sponsorship revenues. However, these revenues have not yet been fully secured.



Any future demands the Exposition Center may place on State Fair Park are also unknown, but the Exposition Center is projecting a net loss of \$206,500 for calendar year 2004. Exposition Center staff have indicated that if sufficient resources are not available to meet financial obligations in 2005, reserve funds may be used to cover debt service costs. Doing so could jeopardize a letter of credit issued by a commercial lender to support Exposition Center construction bonds.

Finally, staffing levels within the various entities have not been resolved. For example:

Handwritten notes:
 \$2.1 projected in 2004 by NASCAR
 still overly opt
 l. 2m over
 Part out a Release - not too negative
 sponsorships - d. not have it yet

Financials

at least 21 -
bearing last mtg
Nov/Dec.

not
5/15/06
is
*

- State Fair Park currently funds ten employees through the Exposition Center. This funding mechanism bypasses both legislative and executive control. Furthermore, State Fair Park has not fully addressed the potential duplication of effort between its own staff and Milwaukee Mile staff.

- As of May 2004, State Fair Park still needed to eliminate 6.0 positions to reach its current authorized staffing level, which was reduced by 15.0 positions under 2003 Wisconsin Act 33.

Recommendations

We include a recommendation for State Fair Park to:

- continue to refine and modify current business plans as necessary for future years, considering internal operations—including the Milwaukee Mile's racing activities—and external operations such as the Wisconsin Exposition Center and the Pettit National Ice Center; and
- report to the Joint Legislative Audit Committee by October 31, 2004, on its final FY 2003-04 revenues and expenses and its revised business plans for 2005 (pp. 35-36).

At a minimum, we believe revised business plans should include reassessments of operating revenues and expenses, to ensure estimates are reasonable; staffing plans, to incorporate budgetary position reductions and Milwaukee Mile employees; and strategies to continue to improve the entities' profitability.

Matters for Legislative Consideration

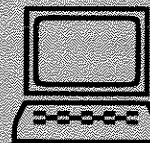
Both State Fair Park and the Legislature have taken steps to improve State Fair Park's financial status, but changes in the fairgrounds' operations and improvements to major facilities have not yet allowed State Fair Park to become financially secure.

As the State Fair Park Board, the Legislature, and the Governor consider the future of State Fair Park, challenges related to financial operations, the fairgrounds' management structure, the level of state support, and future building plans continue to need attention.

Encl.
State Fair
Staff out of house
as well as in house
Quasi public authority
Lewisville - Pettit

Additional Information

For a copy of report 04-5, which includes a response from State Fair Park's chief executive officer, call (608) 266-2818 or visit our Web site:



www.legis.state.wi.us/lab

Address questions regarding this report to: •

Julie Gordon
(608) 266-2818

The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

Legislative Audit Bureau

22 East Mifflin Street
Suite 500
Madison, WI 53703
(608) 266-2818

Janice Mueller
State Auditor

An Audit

State Fair Park

2003-2004 Joint Legislative Audit Committee Members

Senate Members:

Carol A. Roessler, Co-chairperson
Robert Cowles
Alberta Darling
Jeffrey Plale
Julie Lassa

Assembly Members:

Suzanne Jeskewitz, Co-chairperson
Samantha Kerkman
Dean Kaufert
David Cullen
Mark Pocan

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 E. Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to Leg.Audit.Info@legis.state.wi.us. Electronic copies of current reports are available on line at www.legis.state.wi.us/lab/windex.htm.

State Auditor - Janice Mueller

Audit Prepared by

Julie Gordon, Director and Contact Person
Jennifer Blumer
Dana Apfelbeck
Brian Geib
Michael Rateike
Erin Scharlau

CONTENTS

Letter of Transmittal	1
Report Highlights	3
Introduction	9
State Fair Park Management	10
The Building Program	11
State Fair Park Finances	13
Revenues and Expenditures	13
Debt Service Costs	14
The Milwaukee Mile	17
Milwaukee Mile Construction	17
Milwaukee Mile Management	18
Milwaukee Mile's Financial Condition	20
Wisconsin Exposition Center	23
Exposition Center Operating Agreements	23
Ground Lease Agreement	24
Licensing Agreement	25
Exposition Center's Financial Condition	25
Pettit National Ice Center	29
Future Considerations	33
Financial Operations	33
Management Structure	34
Level of State Support	36
Future of the Master Building Plan	36
Audit Opinion	37
Independent Auditor's Report on the Financial Statements of the Wisconsin State Fair Park	

Management's Discussion and Analysis	39
<hr/>	
Financial Statements	49
Statement of Net Assets	50
Statement of Revenues, Expenses, and Changes in Net Assets	51
Statement of Cash Flows—State Fair Park Fund for the Year Ended June 30, 2003	52
Statement of Cash Flows: Component Unit—Exposition Center for the Year Ended December 31, 2002	54
<hr/>	
Notes to the Financial Statements	55
<hr/>	
Report on Compliance and Control	69
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	
<hr/>	
Appendix	
Map of Wisconsin State Fair Park	
<hr/>	
Response	
From the Chief Executive Officer of State Fair Park	



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500
MADISON, WISCONSIN 53703
(608) 266-2818
FAX (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

June 22, 2004

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

Dear Senator Roessler and Representative Jeskewitz:

We are required by s. 13.94(1)(dm), Wis. Stats., to conduct an annual financial audit of State Fair Park. In 2003 (report 03-11), we were unable to render an audit opinion because State Fair Park could not provide complete and accurate financial statements for fiscal year (FY) 2001-02. State Fair Park later contracted with a private accounting firm to compile its financial statements for both FY 2001-02 and FY 2002-03. We have issued unqualified audit opinions for each year, and FY 2002-03 statements are included in this report. We also followed up on our 2003 recommendations regarding improvements to State Fair Park's financial operations.

In our 2003 report, we found that State Fair Park's financial condition continued to deteriorate through FY 2002-03, when total expenses, including a required \$2.4 million lapse to the State's General Fund, exceeded revenues by \$4.5 million. Our 2003 report also noted that poor business planning and overly optimistic financial projections for three fairgrounds activities or entities—the Milwaukee Mile, the new Wisconsin Exposition Center, and the Pettit National Ice Center—contributed to State Fair Park's FY 2002-03 deficit. As we recommended, all three entities subsequently prepared business plans for 2004.

Considering these business plans, State Fair Park projects that in FY 2003-04, overall revenues will exceed expenses by nearly \$195,000. However, through May 2004, total expenses exceeded revenues by \$2.1 million. State Fair Park anticipates that additional revenue related to the August 2004 State Fair and two major racing events will be received in the last month of FY 2003-04. Its financial projections for FY 2003-04 also rely on a strong performance by the Milwaukee Mile, reduced losses from non-fair events, and significant revenues from sponsorships and naming rights. As State Fair Park moves forward, we believe initial 2004 business plans will need to be refined and modified to ensure financial projections are reasonable and that staffing issues for all entities are efficiently addressed.

We appreciate the courtesy and cooperation extended to us by the staff of State Fair Park. A response from State Fair Park's chief executive officer follows the appendix.

Respectfully submitted,

Janice Mueller
State Auditor

JM/JG/ss

Report Highlights ■

As reported in 2003, State Fair Park's overall financial condition deteriorated through FY 2002-03.

State Fair Park has taken some steps to solidify its operations and increase its revenues.

Business plans for 2004 are optimistic and rely on revenues that have not been fully secured, such as sponsorships.

State Fair Park's 2004 business plans should be refined and modified to ensure financial estimates are reasonable and staffing concerns are addressed.

State Fair Park, the 190-acre fairgrounds located in West Allis and Milwaukee, is home to the annual Wisconsin State Fair. Statutes require us to perform an annual financial audit of State Fair Park. However, in 2003, State Fair Park was unable to provide us with accurate and complete financial statements for fiscal year (FY) 2001-02.

State Fair Park subsequently hired a private accounting firm to prepare its financial statements for FY 2001-02 and FY 2002-03, and we have issued an unqualified audit opinion for each year. In addition, we followed up on concerns we expressed in 2003 regarding State Fair Park's financial condition, as well as business planning related to three fairgrounds activities or entities:

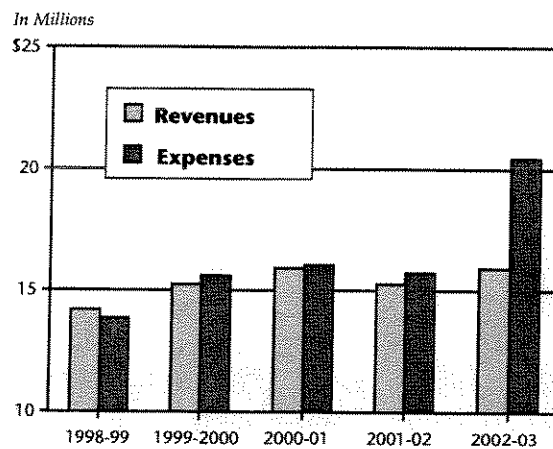
- the Milwaukee Mile racetrack and its new grandstand, which State Fair Park began to manage internally in May 2003;
- the new Wisconsin Exposition Center, which is owned by a not-for-profit corporation, used exclusively for the Wisconsin State Fair each August, and rented for non-fair events during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

Fiscal Decline through 2003

As we noted in 2003, State Fair Park's expenses have exceeded revenues since FY 1999-2000. In FY 2002-03, they exceeded revenues by \$4.5 million. While some FY 2002-03 expenses—including a required lapse of \$2.4 million to the State's General Fund—were beyond the control of agency staff or the State Fair Park Board, FY 2002-03 expenses would have exceeded revenues by \$1.8 million even without such outside factors.

Figure 1

State Fair Park Revenues and Expenses



In recent years, State Fair Park has undertaken a \$160.0 million building program to make the fairgrounds a year-round entertainment attraction. This program included new and renovated facilities that were intended to be self-supporting, such as:

- a new grandstand and expanded bleacher seating for the Milwaukee Mile racetrack, which were completed in time for the 2003 racing season at a cost of \$19.1 million; and
- the new Wisconsin Exposition Center, which replaced several existing exhibit buildings and was completed in time for the 2002 State Fair at a cost of \$37.8 million.

However, overly optimistic revenue projections that were used to support these and other construction projects have not been met. Instead, the projects have contributed to State Fair Park's declining financial condition. For example, we estimated in 2003 that State Fair Park:

- incurred annual costs of at least \$39,100 on behalf of the Exposition Center, including parking lot maintenance and sewer costs;
- paid the Exposition Center \$73,540 more than its net parking revenue from non-fair events over an eight-month period; and
- lost 104 days' revenue from events that left the fairgrounds when the Exposition Center was built and several other buildings were demolished.

To fund fairgrounds improvements, State Fair Park has relied on funding from bonds. Through FY 2012-13, program revenue-supported debt service payments are expected to be more than \$3.4 million annually. If program revenues are insufficient to cover these debt service costs, the State could ultimately be called on to fund them, as well as at least \$2.0 million in annual debt service costs from general purpose revenue (GPR)-supported bonds.

Recent Operational Changes

In the nine months since our 2003 report, the State Fair Park Board and entities operating within the fairgrounds have taken steps to improve State Fair Park's overall financial condition and to solidify operations. For example, in accordance with our recommendations, all fairgrounds entities have developed business plans for 2004. In addition:

- The Exposition Center Board hired a president in 2003, and the State Fair Park Board hired a chief financial officer in 2004.
- The Milwaukee Mile has expanded its 2004 racing program and will host four major events, compared to two in prior years.
- State Fair Park has implemented procedures to recoup some of the costs it incurs on the Exposition Center's behalf.

- State Fair Park has received nearly \$36,800 from the Exposition Center, which represents one-half of the amount by which State Fair Park's parking expenses exceeded revenues. Furthermore, the agreement related to parking revenues has been changed to ensure that State Fair Park does not incur such losses in the future.
- The Exposition Center is attempting to attract additional events by contacting those events that previously left the fairgrounds.

However, as debt service costs increase, the importance of overall profitability is heightened. At least in the short run, State Fair Park's ability to meet its program revenue-supported debt obligations will be limited if program revenues do not increase or if expenses do not decrease.

2004 Business Planning

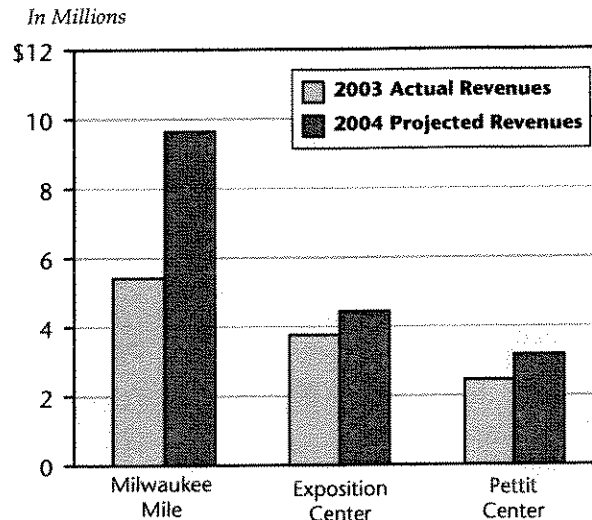
Although State Fair Park's expenses exceeded revenues by \$2.1 million through May 2004, its staff anticipate that additional revenues from June 2004 races at the Milwaukee Mile and the August 2004 State Fair will be received before the end of FY 2003-04. With the receipt of that revenue, they project that FY 2003-04 total revenues will exceed expenses by nearly \$195,000.

Nevertheless, this projection relies on optimistic financial performance by the Milwaukee Mile, as well as reduced losses from other non-fair operations. For example:

- State Fair Park staff estimate that revenues from the Milwaukee Mile will increase from \$5.4 million during the 2003 racing season to \$9.6 million for the 2004 season, an increase of 77.7 percent.
- The Pettit Center projects that program revenues will increase from \$2.1 million in 2003 to \$2.8 million in 2004, an increase of 35.8 percent.
- Milwaukee Mile revenues are projected to include nearly \$1.1 million from sponsorship and naming rights in 2004, while the Exposition Center projects \$500,000 in sponsorship revenues. However, these revenues have not yet been fully secured.

Figure 2

2004 Revenue Projections



Any future demands the Exposition Center may place on State Fair Park are also unknown, but the Exposition Center is projecting a net loss of \$206,500 for calendar year 2004. Exposition Center staff have indicated that if sufficient resources are not available to meet financial obligations in 2005, reserve funds may be used to cover debt service costs. Doing so could jeopardize a letter of credit issued by a commercial lender to support Exposition Center construction bonds.

Finally, staffing levels within the various entities have not been resolved. For example:

- State Fair Park currently funds ten employees through the Exposition Center. This funding mechanism bypasses both legislative and executive control. Furthermore, State Fair Park has not fully addressed the potential duplication of effort between its own staff and Milwaukee Mile staff.
- As of May 2004, State Fair Park still needed to eliminate 6.0 positions to reach its current authorized staffing level, which was reduced by 15.0 positions under 2003 Wisconsin Act 33.

Recommendations

We include a recommendation for State Fair Park to:

- ☑ continue to refine and modify current business plans as necessary for future years, considering internal operations—including the Milwaukee Mile’s racing activities—and external operations such as the Wisconsin Exposition Center and the Pettit National Ice Center; and
- ☑ report to the Joint Legislative Audit Committee by October 31, 2004, on its final FY 2003-04 revenues and expenses and its tentative business plans for 2005 (*pp. 35-36*).

At a minimum, we believe revised business plans should include reassessments of operating revenues and expenses, to ensure estimates are reasonable; staffing plans, to incorporate budgetary position reductions and Milwaukee Mile employees; and strategies to continue to improve the entities’ profitability.

Matters for Legislative Consideration

Both State Fair Park and the Legislature have taken steps to improve State Fair Park’s financial status, but changes in the fairgrounds’ operations and improvements to major facilities have not yet allowed State Fair Park to become financially secure.

As the State Fair Park Board, the Legislature and the Governor consider the future of State Fair Park, challenges related to financial operations, the fairgrounds’ management structure, the level of state support, and future building plans continue to need attention.

■ ■ ■ ■

Introduction ■

State Fair Park has been home to the Wisconsin State Fair since 1892 and has been governed by an independent state agency—the State Fair Park Board—since 1990. For administrative purposes, the Board is attached to the Department of Tourism. State Fair Park’s financial operations are closely tied to two not-for-profit corporations: The Wisconsin Exposition Center, which is located on the fairgrounds, is owned and governed by a not-for-profit corporation whose governing body includes the chair of the State Fair Park Board; the not-for-profit corporation that manages and leases the Pettit National Ice Center is not affiliated with State Fair Park. Racing activities also significantly affect State Fair Park’s financial operations. The Milwaukee Mile racetrack and grandstand seating area, which encompass more than one-quarter of the fairgrounds, were managed by a private racing contractor until May 2003, at which time State Fair Park began internally managing its racing facilities.

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

State Fair Park is funded primarily by program revenue from the 11-day Wisconsin State Fair held each August and from non-fair enterprises and activities. Its program revenue-funded operating budget totaled \$16.8 million in FY 2002-03. In 2003 Wisconsin Act 33, the 2003-05 biennial budget, State Fair Park’s FY 2003-04 operating budget was established at \$16.0 million. However, that amount was later increased to \$23.3 million to take into consideration costs State Fair Park would incur for the Milwaukee Mile. While State Fair Park was authorized 45.2 full-time equivalent employees in FY 2002-03, its authorized staff was reduced by 15.0 positions, from 45.2 to 30.2, for the 2003-05 biennium. State Fair Park also employs approximately

1,200 limited-term employees, the majority of whom work exclusively during the 11-day State Fair.

Under the provisions of 1999 Wisconsin Act 197, the Legislative Audit Bureau must perform an annual financial audit of State Fair Park. In our 2003 report (report 03-11), we noted that State Fair Park's financial condition continued to deteriorate through FY 2002-03 and could deteriorate further if new facilities did not generate revenue as State Fair Park had projected. Although we had access to State Fair Park records to be able to make this determination, we were unable to issue our audit opinion on its FY 2001-02 financial statements because State Fair Park had not provided statements that were materially correct and that accurately reflected that year's financial activity. To address this financial reporting concern, the State Fair Park Board hired a private accounting firm in November 2003 to complete its FY 2001-02 and FY 2002-03 financial statements. Through April 2004, State Fair Park has paid this firm approximately \$45,000 for its services.

We provided unqualified audit opinions on State Fair Park's FY 2001-02 and FY 2002-03 financial statements.

Based on the financial statements compiled by the private accounting firm and adjustments we identified during the course of our audit, we were able to issue an unqualified opinion on the FY 2001-02 financial statements, which are being issued in a separate letter report dated June 22, 2004, and the FY 2002-03 financial statements, which are included in this report. In addition, we have followed up on prior-audit findings and recommendations by reviewing:

- business plans developed in 2003 by the Milwaukee Mile, the Wisconsin Exposition Center, and the Pettit National Ice Center, and presented at recent State Fair Park Board meetings;
- State Fair Park's efforts to revise agreements with the Wisconsin Exposition Center and the Pettit National Ice Center that financially favored these not-for-profit corporations or did not take into consideration State Fair Park's actual costs; and
- options the Legislature and others may wish to consider related to State Fair Park's current operations and future mission.

State Fair Park Management

Under s. 15.445(4)(a), Wis. Stats., the State Fair Park Board's members include:

- the Secretary of the Department of Tourism;

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

Except for the legislators, State Fair Park Board members are appointed by the Governor and confirmed by the Senate for staggered five-year terms. A chief executive officer is responsible for State Fair Park's day-to-day operations. Before October 2001, State Fair Park's chief executive officer was a state employee appointed by the State Fair Park Board. Since October 2001, the chief executive officer has been a private consultant working under contract with the State Fair Park Board.

The Building Program

In the past, State Fair Park's facilities and infrastructure did not receive consistent, adequate attention for extended periods of time, and years passed without significant building or renovation projects. In 1996, the need for improvements to the fairgrounds was highlighted when deferred repair and maintenance projects were identified by the Department of Administration and by us, and when safety concerns with the existing youth dormitory were identified by the State Fair Park Board.

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

To address the youth dormitory needs, \$13.0 million in GPR was provided in 1996 to construct what became the Tommy G. Thompson Youth Center. In May 1999, a strategic development committee that had studied the condition of the fairgrounds recommended hiring an outside design team of entertainment industry experts and local architects to conduct further evaluations and to propose a master plan for redevelopment. In August 2000, after it was determined that a number of State Fair Park buildings could not be used in their existing condition or easily adapted for current needs, a \$160.0 million building program was initiated.

From FY 2000-01 through FY 2002-03, State Fair Park's building program cost \$76.7 million.

The comprehensive program, known as the master plan, was intended to enhance State Fair Park's opportunities to generate revenue and to increase total revenues from non-fair events. The master plan has affected almost all fairgrounds activities, with construction to date including a new grandstand and expanded bleacher seating for the Milwaukee Mile, a new exposition center, new and remodeled agriculture and livestock buildings, a park for recreational vehicles, and aesthetic items such as a new gateway at the fairgrounds' north entrance, lighting, fencing, and signage. As shown in Table 1, from FY 2000-01 through FY 2002-03, these projects cost \$76.7 million. An additional \$3.5 million has been spent in the first nine months of FY 2003-04, primarily for a new livestock building. A map of State Fair Park, including its major facilities, is the appendix.

Table 1

Building Program Expenditures
FY 2000-01 through FY 2002-03
(In Millions)

Construction of Exposition Center	\$37.8
Milwaukee Mile Grandstand, Bleacher Seating, and Racetrack Improvements	19.6
Renovation and Construction of Agricultural Buildings	9.5
Infrastructure	5.6
Construction of Entrance Gate and Fencing	2.5
Construction of Recreational Vehicle Park	1.7
Total	\$76.7

The master plan described State Fair Park's long-term objectives and vision for the fairgrounds, as well as conceptual designs for facilities. However, as noted in our 2003 report, it was neither sufficiently detailed to provide a logical framework for business planning nor sufficiently accurate in its projections to serve as a basis for financial discussions with commercial lenders or the Legislature and the Governor. In addition, financial stability has been questioned as debt service payments related to recent construction increase, and as the State's current fiscal condition and non-fair activities have resulted in State Fair Park's expenditures far exceeding revenues.

State Fair Park Finances

In prior reports, we indicated that State Fair Park's ability to finance additional debt would be limited unless operating revenues increased. Recent improvements and changes at the fairgrounds have the potential to increase future revenues; however, both revenue and expenditure trends and increasing reliance on revenues from the 11-day Wisconsin State Fair indicate that the investment has not yet resulted in non-fair revenues exceeding expenditures. State Fair Park's financial condition deteriorated through FY 2002-03.

Revenues and Expenditures

As shown in Table 2, State Fair Park's total expenditures, which include operating, capital, and debt service costs, have exceeded total revenues in four of the past five years. Since FY 1999-2000, State Fair Park has reported a total deficit of \$5.5 million. In FY 2002-03 alone, total expenditures exceeded revenues by \$4.5 million.

Table 2

State Fair Park Revenues and Expenditures¹

Fiscal Year	Revenues	Expenditures ²	Excess/(Deficit)
1998-99	\$14,189,961	\$13,867,263	\$ 322,698
1999-2000	15,242,451	15,610,735	(368,284)
2000-01	15,920,033	16,044,593	(124,560)
2001-02	15,271,172	15,746,449	(475,277)
2002-03	15,918,264	20,446,226	(4,527,962)

¹ Data are provided on a budgetary basis.

² FY 2002-03 expenditures include \$2.4 million required to be lapsed to the State's General Fund.

While the State Fair Park Board approved both the operating budget and the building projects that resulted in capital costs and subsequent debt service costs, some factors affecting FY 2002-03 revenues and expenditures were beyond the control of either the Board or State Fair Park staff. For example, as a result of actions to improve the State's financial condition, State Fair Park was required to lapse \$2.4 million in program revenue to the State's General Fund. That lapse is reflected in FY 2002-03 expenditures. However, even without such outside factors, FY 2002-03 expenditures would have exceeded revenues by nearly \$1.8 million.

Final FY 2003-04 financial data are not yet available. However, through May 2004, State Fair Park reported revenues of \$15.5 million and expenditures of \$17.6 million, resulting in a deficit of \$2.1 million. State Fair Park staff note that significant additional revenues will be received in the last month of FY 2003-04 for the August 2004 State Fair and for two major racing events. It is unclear whether these revenues will be sufficient to eliminate the deficit reported through May 2004.

The 11-day Wisconsin State Fair represents an increasing share of State Fair Park's revenues.

Although State Fair Park's master plan was developed, in part, to increase revenues from sources other than the 11-day Wisconsin State Fair, State Fair Park's reliance on the fair has increased in each of the past four years. While the fair represented 56.8 percent of State Fair Park's total revenues in FY 1998-99, it accounted for 63.2 percent of total revenues in FY 2002-03.

State Fair Park's ability to make debt service payments will be limited if revenues do not increase in the future.

Debt Service Costs

To fund improvements to the fairgrounds, State Fair Park has relied on program revenue-supported bonds, GPR-supported bonds, and the State's Stewardship Program. From FY 1995-96 through FY 2002-03, improvements using these funding sources have cost \$58.8 million, as shown in Table 3. The Wisconsin Exposition Center, which was funded with industrial revenue bonds issued by the City of West Allis, is excluded from this amount because Department of Administration officials believe the State has no legal or other obligation to repay these bonds. Nevertheless, State Fair Park's ability to meet its program revenue-supported debt obligations may be limited, at least in the short run, if program revenues from the Wisconsin State Fair and other sources do not increase, or if expenditures do not decline. If program revenues are insufficient to cover these debt service costs, the State could ultimately be called on to fund them with GPR.

State Fair Park used program revenue-supported bonds primarily to fund construction of the new Milwaukee Mile grandstand; refurbishment of its north gate entrance; and installation of laundry facilities, shower facilities, and year-round hook-ups for sewer, water, and electricity for its recreational vehicle park. According to bond information available as of June 30, 2003, debt service payments from FY 2003-04 through FY 2022-23 for these program revenue-supported bonds are expected to total approximately \$58.6 million. Annual payments are expected to be more than \$3.4 million through FY 2012-13.

Table 3

Funding Sources for State Fair Park Construction¹
(In Millions)

Fiscal Year	Program Revenue– Supported Bonds	GPR– Supported Bonds	Stewardship Program	Total Construction Costs	Annual Percentage Change
1995-96	\$ 1.9	\$ 2.6	\$ 0.0	\$ 4.5	–
1996-97	0.5	7.4	0.0	7.9	73.9%
1997-98	1.3	1.0	0.0	2.3	(70.5)
1998-99	1.9	0.5	0.0	2.4	2.4
1999-2000	1.2	1.6	0.0	2.8	15.7
2000-01	6.0	3.3	0.0	9.3	238.3
2001-02	4.0	1.7	2.0	7.7	(17.6)
2002-03	14.3	7.6	0.0	21.9	186.9
Total	\$31.1	\$25.7	\$2.0	\$58.8	

¹ Excludes industrial revenue bonds used to fund construction of the Wisconsin Exposition Center.

Annual GPR debt service payments for State Fair Park improvements will be at least \$2.0 million through FY 2012-13.

GPR funds, including GPR-supported bonds and the Stewardship Program, which is funded primarily with GPR funds, have been provided to State Fair Park for a variety of projects. GPR-supported projects include the youth dormitory and improvements to State Fair Park's agricultural buildings and infrastructure. Stewardship Program funds were used for site development costs related to construction of the Wisconsin Exposition Center. As of June 30, 2003, debt service payments to be funded with GPR funds were expected to total \$38.3 million from FY 2003-04 through FY 2022-23. Annual payments are expected to be at least \$2.0 million through FY 2012-13.

The future profitability of State Fair Park as a whole and its ability to pay future debt service costs are closely linked with the profitability of other non-fair activities and facilities located on the fairgrounds, including the Milwaukee Mile, the Wisconsin Exposition Center, and the Pettit Center. Because in several instances these non-fair activities and facilities have not met their initial financial projections or commitments, comprehensive business plans to increase revenues and define operating and management relationships with State Fair Park will be important and should serve as a basis for financial discussions among all involved parties.

The Milwaukee Mile ■

State Fair Park began to manage the Milwaukee Mile internally in May 2003.

The Milwaukee Mile racetrack, its management structure, and its financial relationship with State Fair Park have undergone significant changes in addition to the grandstand renovation that was substantially completed in time for the 2003 racing season. In May 2003, two days before the start of the 2003 racing season, the State Fair Park Board announced that it was terminating its racing contract with a private promoter so that the Milwaukee Mile could be managed and promoted internally. State Fair Park officials believe this change in management will help limit financial losses in the short-term and will ultimately generate profits over time from racing activities.

Milwaukee Mile Construction

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

In response to concerns that the original grandstand, which was built in 1938, was unsafe and did not provide concession, meeting, and restroom space desirable for racing and other events, the State Fair Park Board in 2002 approved \$19.5 million in program revenue-supported bonds for rebuilding the grandstand. In addition, the State's Building Commission authorized \$1.0 million in GPR-supported bonds for site development costs for the project.

Ultimately, corporate suites and permanent concession and vendor stands that had been included in State Fair Park's initial plans were removed from the project to reduce costs, and the new grandstand facility was completed in two phases. First, new bleacher seating for 16,000 spectators was installed outside the grandstand in time for

the 2002 racing season. Second, the old grandstand was razed in September 2002, and a new grandstand with seating for 23,000 spectators was substantially completed in May 2003, providing the Milwaukee Mile with total seating capacity for 39,000 spectators.

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

In October 2003, the State Fair Park Board approved several additional improvements to the Milwaukee Mile racetrack at a cost not to exceed \$1.8 million. In January 2004, the State Building Commission approved \$1.4 million of this amount in program revenue-supported bonds. These additional improvements will include:

- new construction intended to enhance revenues or reduce costs, such as reconfiguring and repaving the infield course to offer additional programming options, and building media and critical care centers that will eliminate the need to rent mobile trailers for this purpose;
- safety improvements mandated by racing sanctioning bodies, such as repaving the pit area and replacing the pit wall; and
- other projects, such as decorative fencing and electrical upgrades, that are intended to further enhance the aesthetics and safety of the racetrack.

Milwaukee Mile Management

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

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

Because the racing agreement was cancelled just days before the start of the 2003 racing season, State Fair Park officials wished to retain the promoter's general manager and eight other employees. Therefore, as part of the buyout agreement, State Fair Park assumed the promoter's responsibility for a contract for services with the general manager. Under that contract, which expired in January 2004, the general manager received an annual salary of \$150,000. In January 2004, the State Fair Park Board approved a new two-year contract with the general manager. A competitive contracting process was not used because State Fair Park staff believe relatively few people are qualified for this position. As a sole-source contract, this contract was approved by the Governor in May 2004.

Under the terms of the contract approved by the State Fair Park Board and signed by the Governor, State Fair Park:

- pays the general manager \$12,750 per month, for a total annual salary of \$153,000;
- pays the general manager a bonus of 4.0 percent of the Milwaukee Mile's annual net profit;
- reimburses the general manager for the cost of health insurance, which is not to exceed \$900 per month; and
- pays moving expenses associated with the general manager relocating his primary residence from Massachusetts to Wisconsin, which must be done by October 2004.

Several employment options were considered for the eight other employees, including hiring them as state employees or seeking authorization from the Department of Administration to enter into individual consulting contracts. However, because of the time required to implement these options, these individuals were instead hired by the Wisconsin Exposition Center, which is not subject to the State's hiring requirements. The Exposition Center is reimbursed by State Fair Park for salary and fringe benefit costs, plus a processing fee of 2 percent.

Ten Milwaukee Mile employees are currently paid through the Wisconsin Exposition Center.

In our prior report, we noted that funding Milwaukee Mile employees through the Exposition Center bypasses mechanisms for executive and legislative control of State Fair Park's position authority. While State Fair Park staff indicated this funding method was a temporary arrangement that would be used only for the 2003 racing season, the arrangement continues as the State Fair Park Board considers the long-term organizational structure of its racing activities. In addition, two more employees have joined the Milwaukee Mile staff since our 2003 report: a vacant public relations position has been filled, and a position to provide assistance with ticketing functions has been added. Therefore, in FY 2003-04, ten Milwaukee Mile positions are being paid through the Exposition Center, at a total cost of \$376,400 from July 2003 through April 2004.

State Fair Park reviewed bids from temporary staffing agencies to manage the Milwaukee Mile employees. However, according to State Fair Park staff, this approach was not pursued because it was determined to be more costly than paying the employees either directly or through the Exposition Center.

Milwaukee Mile's Financial Condition

Concerns regarding the Milwaukee Mile's financial condition were expressed as State Fair Park's racing revenues declined significantly between the 2001 and 2002 racing seasons. At the same time, the grandstand project and other capital improvements were being supported largely with program revenue bonds, which resulted in annual debt service payments of approximately \$1.8 million in FY 2003-04.

Our 2003 report noted that under the contract with Haas Racing, State Fair Park's racing revenues had declined 95.5 percent, from \$773,000 in the 2001 racing season to \$34,900 in 2002. In addition, Haas Racing was not required to reimburse State Fair Park for \$376,600 in debt service payments related to racetrack improvements. As a result, for the 2002 season, State Fair Park reported a net loss from racing activities of \$341,700.

State Fair Park staff estimate the Milwaukee Mile generated a \$693,600 net loss in the 2003 racing season.

For the 2003 season, State Fair Park staff estimate that the Milwaukee Mile generated a net loss of \$693,600, as shown in Table 4. The 2003 expenses include the \$250,000 one-time payment to Haas Racing for termination of the promoter's contract. The expenses also reflect debt service payments required for the new grandstand and bleacher seating, which began in 2003 and will continue over the 20-year life of the program revenue bonds that supported the construction.

Table 4

Estimated Milwaukee Mile Deficit Calendar Year 2003

Revenues	\$5,424,600
Expenses	6,118,200
Deficit	\$ (693,600)

To address these financial issues, we recommended in 2003 that State Fair Park develop a detailed, comprehensive business plan for its racing activities. A calendar year 2004 business plan for the Milwaukee Mile was presented to the State Fair Park Board in November 2003. This plan highlights the addition of two new races in 2004, bringing the total of major races from two in 2003 to four. In addition, the plan describes several strategies to increase State Fair Park's racing revenues, including:

- marketing initiatives, such as a large media campaign with radio, television, and newspaper advertising, a variety of promotions, and a new Milwaukee Mile Web site;
- entertainment initiatives intended to provide additional activities, such as concerts and festivals, in conjunction with racing events; and
- additional partnerships with private corporations.

State Fair Park projects that Milwaukee Mile revenues will increase 77.7 percent in 2004.

The business plan also includes an operating budget for the Milwaukee Mile's 2004 racing season. As shown in Table 5, State Fair Park staff estimate that in 2004, the Milwaukee Mile will generate a profit of approximately \$70,700. With additional races and track rentals and the new initiatives, the budget includes total revenues of \$9.6 million, a 77.7 percent increase from the \$5.4 million generated in the 2003 racing season. Revenue sources in the 2004 budget include nearly \$5.9 million in admissions revenue, \$2.7 million from other sources such as parking and concessions, and nearly \$750,000 in sponsorships and \$300,000 in naming rights revenue.

Table 5

**Milwaukee Mile Budget
Calendar Year 2004**

Revenues:	
Admissions	\$5,875,000
Other Revenues	2,716,600
Sponsorships and Naming Rights	1,050,000
Total Revenues	9,641,600
Operating Expenses	(7,724,600)
Debt Service Expenses	(1,846,300)
Net Profit	\$ 70,700

This budget does not reflect any revenues or expenses that may be generated by the additional \$1.4 million in program revenue-supported improvements that were approved in January 2004. The initial projections for these improvements estimated that debt

service costs would be approximately \$122,000 annually. While State Fair Park staff estimate that annual revenues will increase by at least \$380,000, they acknowledge that this increase will not be immediate and may take several years to reach. In addition, these projections again include revenue from sponsorships and naming rights. For example, State Fair Park estimates it will receive naming rights revenue of \$100,000 annually for the infield road course that will be reconfigured and repaved, \$50,000 annually for the new critical care center, and \$20,000 annually for the new media center.

The Milwaukee Mile's ability to generate projected revenue from sponsorships and naming rights is uncertain.

Although the Milwaukee Mile's 2004 budget projects a modest profit, its estimates of growth in racing revenues may be optimistic. Some uncertainties also remain over the amounts that naming rights and sponsorships will generate. If the Milwaukee Mile is unsuccessful in generating the additional revenues identified in its business plan and approved budget, program revenue funds from non-racing activities will again be needed to support racing activities, and funding available for other fairgrounds operations will effectively be reduced.

■ ■ ■ ■

Wisconsin Exposition Center ■

In addition to construction of the new grandstand facility, State Fair Park's 2000 master plan included construction of a new exposition center at a cost of nearly \$37.8 million. While this construction was funded with industrial revenue bonds, the Wisconsin Exposition Center is required to maintain a letter of credit to secure those bonds. The initial letter of credit was effective through August 15, 2003, but has since been extended through April 15, 2005.

The 271,000-square-foot Exposition Center, which opened in August 2002 and is owned by a not-for-profit corporation, was built to accommodate large events that had previously been held in various State Fair Park exhibit buildings and to attract new events, including large consumer and trade shows. The Exposition Center employs 11 full-time employees and additional limited-term employees as needed for various events. Its construction has created an attractive new venue at the fairgrounds. However, in the short term, the Exposition Center has not operated at a profit.

Exposition Center Operating Agreements

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

To facilitate operation of the Exposition Center, the State Fair Park Board and the Exposition Center Board entered into two agreements in August 2001: a ground lease agreement and a licensing agreement. As noted in our 2003 report, both agreements contained provisions that favored the Exposition Center at the expense of State Fair Park.

Ground Lease Agreement

Under the terms of a 28-year ground lease agreement, State Fair Park leases 7.52 acres of the fairgrounds to the Exposition Center Board for the Exposition Center. The lease agreement also outlines the expenses that each party will pay. The Exposition Center is responsible for utility charges, insurance premiums to protect against losses or damages and general commercial liability, and maintenance costs to keep the building in good condition and repair. The Exposition Center is also responsible for making annual rent payments to State Fair Park based on the Center's annual gross revenues and expenses. However, if the Exposition Center's expenses and contributions to its reserve funds are greater than its revenues, State Fair Park receives no rent.

The ground lease agreement further stipulates that State Fair Park is responsible for all municipal service payments to the cities of West Allis and Milwaukee for police and fire protection. State Fair Park staff indicated that this payment requirement was not the intention of either the State Fair Park Board or the Exposition Center Board. Although the Exposition Center has paid past municipal service assessments and the Exposition Center Board passed a resolution to pay future assessments, we previously recommended that State Fair Park renegotiate the ground lease agreement to clarify responsibility for these payments. State Fair Park staff indicate they have considered revising the agreement as it relates to municipal service assessments, but that negotiating such an amendment may pose legal difficulties because of terms defined in the Exposition Center's letter of credit.

In FY 2003-04, State Fair Park implemented procedures to recover more costs it incurred on the Exposition Center's behalf.

In addition, we recommended in our 2003 report that State Fair Park seek reimbursement of costs it incurs in support of Exposition Center operations, which we estimated to be \$39,100 annually. These include costs associated with the parking lots, such as snow and litter removal, and other miscellaneous costs, including pest and weed control, fence repairs, flowers, and signs. According to State Fair Park staff, additional procedures have been implemented to more fully identify staff time spent on Exposition Center events and the Exposition Center's usage of State Fair Park equipment. State Fair Park currently bills the Exposition Center for these costs, and staff note they are attempting to identify additional costs to recoup.

Licensing Agreement

In addition to the ground lease agreement, State Fair Park also entered into a licensing agreement with the Wisconsin Exposition Center. The agreement provides State Fair Park the sole right to use the Exposition Center during the annual Wisconsin State Fair but requires State Fair Park to pay a fee for that use, which was \$200,000 in 2003. In addition, the licensing agreement addresses the division of parking revenues between State Fair Park and the Exposition Center.

Under the terms of the licensing agreement, State Fair Park retains parking revenue from the Wisconsin State Fair and other events held within State Fair Park-owned facilities. The Exposition Center is entitled to all parking revenue generated from its non-fair events. However, as noted in our 2003 report, the formula established in the licensing agreement to calculate the Exposition Center's parking revenue included faulty assumptions. As a result, State Fair Park paid more to the Exposition Center than the net parking revenue it received from non-fair events, resulting in a net loss of \$73,540 for events held from September 2002 through April 2003.

State Fair Park has revised its agreement related to parking revenues to prevent future losses in this area.

In 2003, we recommended that State Fair Park renegotiate its licensing agreement with the Wisconsin Exposition Center to more reasonably assign parking revenues and expenses related to Exposition Center events. State Fair Park staff noted that new procedures were implemented to prevent State Fair Park from incurring future losses from parking. In addition, the Exposition Center has paid State Fair Park \$36,800, or one-half of the amount by which State Fair Park's parking expenses exceeded revenues.

Exposition Center's Financial Condition

In our prior audit, we expressed concerns with the financial condition of the Exposition Center. We noted that the number of events held or scheduled to be held at the Exposition Center was less than projected by a private consultant, who was hired in 2000 to complete a financial analysis of the Exposition Center's feasibility. We also identified several factors, including a vacancy in the position of Exposition Center president and a downturn in the national and local economies, that would make it difficult for the Exposition Center to significantly improve its profitability in the short-term. We recommended the State Fair Park Board work in conjunction with the Wisconsin Exposition Center Board to develop a detailed, comprehensive business plan for the non-fair activities of the Exposition Center.

The 41 events in 2003 were well below the Exposition Center's initial projection of 68 events.

While initial projections were that the Exposition Center would hold 68 events annually, the number of events held or scheduled to be held at the Exposition Center has been well below that projection. The Exposition Center held 41 events in calendar year 2003. As of January 2004, 37 events had been planned for 2004, and 29 events in 2005.

Although projections for the number of events have been proven to be overly optimistic, financial projections for the Exposition Center's first two years of operation are somewhat consistent with actual losses to date. In 2000, a private consultant projected net losses in the first two full years of operation. After that, the Exposition Center was projected to essentially break even in its third year and begin generating a profit in its fourth year.

To date, State Fair Park has received no rent from the Exposition Center.

According to audited financial statements, the Exposition Center's net operating loss was approximately \$404,000 in calendar year 2002, when it operated for five months. Preliminary 2003 figures show that the gain from operations was \$1.2 million, an increase of approximately \$1.6 million from 2002. However, after interest costs of \$2.7 million are considered, the Exposition Center's net loss for 2003 was \$1.5 million. Because of these net losses, State Fair Park has received no rent from the Exposition Center to date.

Because reserve funds were set aside from the original bond proceeds, the Exposition Center has been able to pay its operating expenses in calendar years 2002 and 2003 and is expected to do so in 2004. However, the Exposition Center is currently projecting an operating loss of approximately \$206,500 in calendar year 2004, as shown in Table 6. As a result of its net losses, the Exposition Center's cash balance has declined from \$10.0 million at the end of calendar year 2002 to \$5.3 million in cash at the end of 2003.

Table 6

Wisconsin Exposition Center Budget
Calendar Year 2004

Revenues:	
Facility Rental	\$2,735,000
Parking	700,000
Concessions and Catering	500,000
Advertising and Sponsorships	500,000
Other	5,500
Total Revenues	\$4,440,500
Expenses:	
Salaries and Fringe Benefits	(\$1,100,600)
Debt Service	(2,578,500)
Other	(967,900)
Total Expenses	(\$4,647,000)
Net Loss	(\$206,500)

If revenues do not increase, the Exposition Center may be unable to pay all expenses, including debt service costs, in 2005.

According to Exposition Center staff, if a loss is realized in 2004 and operations do not improve the following year, the Exposition Center may not have the necessary resources to meet its financial obligations in 2005 and, for the first time, may need to use reserve funds to cover a portion of its debt service costs. Under the terms of the Exposition Center's letter of credit, if reserve funds are used for debt service costs, the reserve funds must be replenished by year-end. This may be difficult to do with limited cash flow, and concerns would likely arise with the commercial lending institution that issued the letter of credit.

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

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

To improve the Exposition Center's financial condition, the Wisconsin Exposition Center Board and the State Fair Park Board have taken several steps. In November 2003, the Exposition Center Board appointed a new president. The president's contract provides for an annual base salary of \$110,000 and an annual bonus equal to 10 percent of the base salary, if the Exposition Center's total revenues exceed total expenses. In addition, in January 2004, the Exposition Center presented a 2004 business plan to the State Fair Park Board that outlines several initiatives to increase the number of events held at the Exposition Center. For example, Exposition Center staff plan to identify shows that had previously been held at State Fair Park but were lost during the construction of the Exposition Center, in order to determine their interest in returning to the fairgrounds. In addition, the Exposition Center plans to develop an advertising campaign to solicit consumer and trade shows and to gain name recognition for the Exposition Center.

While the Exposition Center is attempting to attract additional events, the business plan also includes several options to generate revenues through other sources. For example, the business plan notes that revenue of \$500,000 will be generated through the sale of advertising space and sponsorships. As with the Milwaukee Mile, some uncertainties exist over the likelihood of generating significant revenues through such activities.

■ ■ ■ ■

Pettit National Ice Center ■

The Pettit National Ice Center is owned by State Fair Park but operated and maintained by the Pettit National Ice Center, Inc., a not-for-profit corporation. It was built in 1992 at a cost of \$13.3 million, financed with \$4.0 million in private contributions and \$9.3 million in program revenue-supported bonds. Funds to retire the debt are to be provided through rent payments from the not-for-profit corporation under a lease agreement that gives the Pettit Center responsibility for its own operating costs and for the debt service costs that State Fair Park incurs on its behalf.

Throughout FY 2002-03, the Pettit Center was expected to pay State Fair Park rent of approximately \$74,400 per month to cover debt service costs. However, as of June 2003, the Pettit Center owed a total of nearly \$1.3 million, or 17 monthly payments, to State Fair Park. In FY 2002-03 alone, the Pettit Center did not provide rent payments to State Fair Park for five months. Because State Fair Park must continue to make debt service payments on the Pettit Center facility without offsetting rental revenue, the amount available for other fairgrounds operations is reduced.

In 2003, the Pettit Center's expenses exceeded revenues by \$477,800.

According to financial information submitted to the State of Wisconsin Department of Regulation and Licensing and obtained from the Pettit Center's audited financial statements, the Pettit Center has generated net losses in four of the last five years. As shown in Table 7, since 1999, total expenses have exceeded revenues by more than \$1.3 million. The largest annual loss in the Pettit Center's recent history, \$477,800, was reported in 2003.

Table 7
Pettit National Ice Center Revenues and Expenses
 For Years Ending August 31

	1999	2000	2001	2002	2003
Revenues:					
Program	\$2,178,500	\$2,704,100	\$2,098,400	\$2,276,700	\$2,060,200
Contributions	490,800	510,500	444,500	403,500	391,100
Total Revenues	2,669,300	3,214,600	2,542,900	2,680,200	2,451,300
Expenses	(2,910,500)	(3,180,700)	(2,960,900)	(2,904,600)	2,929,100
Net Profit/(Loss)	\$(241,200)	\$ 33,900	\$(418,000)	\$(224,400)	\$(477,800)

State Fair Park continues to work with the Pettit Center and its executive director, who was appointed in July 2003, to address the overdue payments and help improve the Pettit Center's financial condition. For example, because the bonds that initially funded the Pettit Center's construction were refinanced to take advantage of lower interest rates, State Fair Park's debt service costs no longer agreed with the rent schedule included in the initial lease agreement. Starting in January 2004, State Fair Park and the Pettit Center adjusted the rent agreement to reflect State Fair Park's current debt service costs. As a result, the Pettit Center's monthly rent payments will be reduced to \$55,250 in FY 2004-05, will gradually increase to \$78,650 per month in FY 2007-08, and will decline again thereafter. In addition, a proposal to reduce the Pettit Center's delinquent rent by the amount past rent payments exceeded State Fair Park's actual debt service costs will be considered by the State Fair Park Board at its July 2004 meeting.

In our prior report, we recommended that State Fair Park, in conjunction with the Pettit National Ice Center, Inc., develop a detailed, comprehensive business plan for the Pettit Center. A 2004 business plan was presented to the State Fair Park Board in December 2003. The plan included a number of initiatives to generate additional revenues, such as hosting events at the Pettit Center during the Wisconsin State Fair, sponsoring annual fundraising events, and adding a third sheet of ice.

The Pettit Center projects it will essentially break even in 2004.

With these initiatives, the Pettit Center projects it will essentially break even in 2004, as shown in Table 8. This budget assumes that private contributions will be comparable to 2003 levels, but revenues from all program activities, sponsorships, and other activities will increase 35.8 percent, from nearly \$2.1 million in 2003 to \$2.8 million in 2004.

Table 8

**Pettit National Ice Center Budget
For Year Ending August 31, 2004**

Operating Revenues:	
Developmental Programs	\$1,043,000
General Public and Contract Ice Time	962,000
Private Contributions	387,700
Sponsorships	285,000
Other	507,100
Total Revenues	3,184,800
Operating Expenses	3,184,000
Net Profit	\$ 800

According to Pettit Center staff, the 2004 budget assumes all monthly rent payments will be made to State Fair Park for the current year, but it does not include provisions to repay any remaining past-due rent to State Fair Park. It also does not include any provision to build reserves for future capital or operating expenses.

State Fair Park officials continue to work with the Pettit Center to define the operating and management relationship between the two entities. However, uncertainty regarding the Pettit Center's financial condition continues to make it difficult to assess the future demands it may place on State Fair Park's financial resources.

■ ■ ■ ■

Future Considerations ■

Although both State Fair Park and the Legislature have taken steps designed to improve State Fair Park's financial status, changes in the fairgrounds' operations and improvements to major facilities have not yet allowed State Fair Park to become financially secure. As the State Fair Park Board, the Legislature, and the Governor consider the future of State Fair Park, challenges related to financial operations, the fairgrounds' management structure, the level of state support, and future building plans of State Fair Park facilities continue to need attention.

Financial Operations

State Fair Park's financial condition will continue to deteriorate as long as operating expenses increase at a greater rate than revenues. While final FY 2003-04 financial information is not yet available, State Fair Park staff projected in March 2004 that FY 2003-04 revenues will exceed expenses by nearly \$195,000. This projection relies on strong financial performances by the Wisconsin State Fair and the Milwaukee Mile, as well as reduced losses from the Pettit Center and other non-fair operations. Furthermore, any amount by which revenues exceed expenses will only address a small portion of the deficit accumulated by State Fair Park in FY 2002-03.

In addition, it will be important for State Fair Park to continue to improve its financial management and reporting systems. The State Fair Park Board took steps in this direction in October 2003, when it directed State Fair Park staff to provide it with monthly and year-to-

year financial information for all fairgrounds entities, including the Milwaukee Mile and the Exposition Center. However, this information is provided on a cash basis, which may be helpful in making some management decisions but does not recognize all expenses or liabilities associated with a given year. Information on an accrual basis, such as the audited financial statements, may provide a more complete picture of the overall financial condition.

While we were able to provide an unqualified audit opinion on State Fair Park's FY 2001-02 and FY 2002-03 financial statements, these statements were completed with significant assistance from the Audit Bureau and a private accounting firm. As part of its contract, the private accounting firm will provide written documentation of the steps necessary for the proper preparation of financial statements. This documentation, as well as the procedures and guidance already provided by the Department of Administration, should allow State Fair Park and its new chief financial officer, who was hired in March 2004, to complete the financial statements internally in the future, without significant delays and without the assistance or cost of a private accounting firm.

Management Structure

State Fair Park's management structure is complex, partially because both the Exposition Center and the Pettit Center are governed by separate not-for-profit boards but interact with and have placed demands on State Fair Park resources in the past. In addition, State Fair Park will soon undergo internal changes to its management structure. State Fair Park currently relies on an independent contractor as the chief executive officer to manage the fairgrounds' day-to-day operations. Because the chief executive officer is not a state employee, the Secretary of the Department of Tourism, to which State Fair Park is attached for administrative purposes, has had to take responsibility for certain personnel and financial decisions that contractors are not statutorily authorized to address.

In 2004, State Fair Park plans to hire an executive director within the State's unclassified employment system.

However, State Fair Park's current chief executive officer has announced that he will be resigning as of October 2004. With this change in leadership, the State Fair Park Board has decided to hire an executive director through the State's unclassified employment system, instead of hiring an independent contractor. State Fair Park announced the executive director position in April 2004, requesting candidates with event management, business, and strategic planning experience, and stating a salary range of \$75,000 to \$100,000 annually.

State Fair Park must eliminate six positions to meet its authorized staffing level established under the 2003-05 biennial budget.

Other staffing decisions will need to be made to address budget and staffing cuts authorized under the 2003-05 biennial budget, 2003 Wisconsin Act 33. As previously noted, State Fair Park's authorized staff has been reduced by 15.0 positions, from 45.2 to 30.2. According to staff, State Fair Park has not yet met the required staffing reduction. With nine positions eliminated as of May 2004, State Fair Park would need to eliminate six additional positions to reach its authorized level. State Fair Park is working with the Department of Tourism and the Department of Administration to determine how best to address these reductions, which must be completed by June 30, 2004.

These staffing reductions do not take into consideration the ten Milwaukee Mile staff who are currently paid through the Wisconsin Exposition Center. Because State Fair Park and the Milwaukee Mile both require ticketing, marketing, and general operations staff, there may be an opportunity for consolidation and cost savings. However, State Fair Park has not yet conducted a comprehensive analysis of how functions could be consolidated and which positions, if any, could be eliminated through this process. The Milwaukee Mile's 2004 business plan did not address this issue. As future business plans are developed and refined, State Fair Park and Milwaukee Mile staff may want to consider such consolidations to absorb budgetary reductions while activities on the fairgrounds are increasing.

Recommendation

We recommend State Fair Park continue to refine and modify the current business plans as necessary for future years, considering its internal operations, including the Milwaukee Mile's racing activities, and external entities such as the Wisconsin Exposition Center and the Pettit National Ice Center. At a minimum, these plans should include:

- *reassessments of operating revenues and expenses, to ensure estimates are reasonable based on planned future activities and past experiences;*
- *staffing plans that include the Milwaukee Mile's ten employees, incorporate an analysis of overall fairgrounds operations and potential staff consolidations, and determine how the remaining budgetary staffing reduction of six positions will be met; and*

- *strategies to continue to improve the profitability of individual fairgrounds entities and State Fair Park as a whole.*

We further recommend that State Fair Park report to the Joint Legislative Audit Committee on its financial condition and tentative business plans for 2005 by October 31, 2004.

Level of State Support

In the future, the Legislature may be asked to define an appropriate level of state support for State Fair Park's operations and capital needs. Further, to improve State Fair Park's financial condition, the Legislature may also be asked to exempt it from requirements to lapse program revenue to the State's General Fund, if the Legislature considers such lapses necessary again in the future. In deciding these issues, the Legislature and the Governor will need to weigh the level of public support for State Fair Park and the Wisconsin State Fair against competing demands for limited state resources.

Future of the Master Building Plan

State Fair Park has largely completed several phases of its master plan, at a total cost from FY 2000-01 through FY 2002-03 of nearly \$76.7 million. However, it has not yet completed phases involving the Wisconsin Heritage Hall, which was planned to serve as a showcase for Wisconsin products; remaining components of the agricultural village; and a landscaped lawn area.

While future construction plans for these components of the master plan are uncertain, some have suggested that a hotel, which was not part of the master plan, could be an important addition to the fairgrounds and may help attract consumer and trade shows to the Exposition Center. Officials of the City of West Allis have indicated that West Allis would be willing to establish a tax incremental financing district on one side of the fairgrounds, if financial projections support a hotel. Given past concerns regarding overly optimistic feasibility studies for construction projects on the fairgrounds, any analysis to further consider construction of a hotel would need to include realistic and accurate financial projections and careful consideration of the legal and operating relationships between State Fair Park, the City of West Allis, and hotel developers.

■ ■ ■ ■

Audit Opinion ■

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

We have audited the accompanying statement of net assets of the Wisconsin State Fair Park as of June 30, 2003, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the Wisconsin State Fair Park's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Wisconsin State Fair Park Exposition Center, Inc., which represents 100 percent of the financial activity of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Wisconsin State Fair Park Exposition Center, Inc., is based solely upon their report.

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

estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State Fair Park Fund as of June 30, 2003, and the Wisconsin State Fair Park Exposition Center, Inc., as of December 31, 2002, and the changes in their financial positions and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Wisconsin State Fair Park. The supplementary information included as Management's Discussion and Analysis on pages 39 through 47 is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

LEGISLATIVE AUDIT BUREAU



by

Julie Gordon
Audit Director

June 11, 2004

Management's Discussion and Analysis ■

Prepared by State Fair Park's Management

This section of State Fair Park's financial report presents management's discussion and analysis of the financial performance of State Fair Park for the fiscal year ended June 30, 2003. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of State Fair Park's management.

Description of Wisconsin State Fair Park

The Wisconsin State Fair Park is located in the cities of West Allis and Milwaukee. The Wisconsin State Fair, which is held on State Fair Park grounds, is one of the state's oldest and largest events and typically hosts approximately one million people during the 11-day event. In addition to holding the annual fair, State Fair Park hosts cultural, sporting, agricultural, domestic, and commercial interest events.

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

The State Fair Park Board is directed to manage State Fair Park and supervise its use for fairs, exhibits, or promotional events for agricultural, commercial, educational, and recreational purposes, to lease or license the property's use for other purposes when not needed for a public purpose,

and to charge reasonable rents and fees for use of the premises. The Board is also directed to develop new facilities at State Fair Park and to provide a permanent location for an annual Wisconsin State Fair, major sports events, agricultural and industrial expositions, and other programs of civic interests.

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

The Wisconsin State Fair Park Exposition Center, Inc., which owns and manages the Exposition Center, is considered a component unit of the State of Wisconsin for financial reporting purposes. It is shown as a discretely presented component unit in the State of Wisconsin's Comprehensive Annual Financial Report and, because of its financial and operational affiliation with the State Fair Park Fund, it is also presented with the State Fair Park Fund's financial statements.

Financial Highlights

At the end of FY 2002-03, the assets of the State Fair Park Fund exceeded its liabilities by \$19.4 million (net assets). This total consists of \$24.7 million invested in capital assets, net of related debt; \$1.3 million restricted for debt and capital assets; and a deficit of unrestricted net assets of \$6.6 million.

The State Fair Park Fund's total net assets increased by \$2.0 million during FY 2002-03.

Overview of the Financial Statements

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

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

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

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

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

Financial Analysis of the State Fair Park Fund

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

The State Fair Park Fund has \$24.7 million of net assets that are invested in capital assets (e.g., land, buildings, equipment, improvements, and construction in progress). The total capital assets are \$63.7 million, while the related outstanding debt is \$39.0 million. Although the State Fair Park Fund's investment in its capital assets is net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

State Fair Park has been constructing new facilities over the past few years and added approximately \$25.3 million of new construction during the year. Much of this new construction has been financed by the issuance of new debt, which totaled \$27.3 million and will be repaid by program revenues as well as from state tax supported debt. The State's contribution for new construction was \$7.1 million for FY 2002-03. Table A presents summary financial information with comparisons to the prior year.

Table A

Condensed Financial Information
State Fair Park Fund
Fiscal Years 2002-03 and 2001-02

	Fiscal Year 2002-03	Fiscal Year 2001-02	Dollar Increase/(Decrease)
Current Assets	\$ 4,450,907	\$ 1,838,912	\$ 2,611,995
Capital Assets (Net of Depreciation)	63,659,690	42,745,588	20,914,102
Other Assets	190,473	50,197	140,276
Total Assets	<u>68,301,070</u>	<u>44,634,697</u>	<u>23,666,373</u>
Current Liabilities	11,461,086	8,420,534	3,040,552
Long-Term Liabilities	37,461,142	18,719,784	18,741,358
Total Liabilities	<u>48,922,228</u>	<u>27,140,318</u>	<u>21,781,910</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	24,667,744	22,950,907	1,716,837
Restricted	1,321,127	0	1,321,127
Unrestricted (Deficit)	(6,610,029)	(5,456,528)	(1,153,501)
Total Net Assets	<u>19,378,842</u>	<u>17,494,379</u>	<u>1,884,463</u>
Operating Revenues	14,951,455	15,229,885	(278,430)
Operating Expenses	17,298,974	15,894,215	1,404,759
Operating Income (Loss)	(2,347,519)	(664,330)	(1,683,189)
Nonoperating Revenues (Expenses)	(1,214,754)	(1,001,092)	(213,662)
Transfers In	7,121,126	4,511,519	2,609,607
Transfers Out	(1,531,067)	(2,326,522)	795,455
Changes in Net Assets	2,027,786	519,575	1,508,211
Net Assets—Beginning of the Year (as Restated)	17,351,056	16,974,804	376,252
Net Assets—End of the Year	<u>\$19,378,842</u>	<u>\$17,494,379</u>	<u>\$1,884,463</u>

Financial Commentary for the State Fair Park Fund

Operating Revenues

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

Table B includes a comparison of revenues by activity (rounded to \$1,000) for FY 2002-03 and FY 2001-02.

Table B

Revenues by Activity
State Fair Park Fund
Fiscal Years 2002-03 and 2001-02

	FY 2002-03	Percentage of Total	FY 2001-02	Percentage of Total	Dollar Increase/ (Decrease)
Annual State Fair	\$ 9,453,000	63.2%	\$ 9,515,000	62.5%	\$ (62,000)
Promoter Events	1,496,000	10.0	3,095,000	20.3	(1,599,000)
Racing	2,356,000	15.8	1,024,000	6.7	1,332,000
Sponsored Events	286,000	1.9	411,000	2.7	(125,000)
General Operations ¹	1,360,000	9.1	1,185,000	7.8	175,000
Total	<u>\$14,951,000</u>		<u>\$15,230,000</u>		<u>\$(279,000)</u>

¹ Major components are the RV Park, Youth Center, and Pettit Center rent payments.

Operating Expenses

Table C includes a comparison of operating expenses (rounded to \$1,000) between FY 2002-03 and FY 2001-02.

Table C

Operating Expenses
 State Fair Park Fund
 Fiscal Years 2002-03 and 2001-02

	Fiscal Year 2002-03	Percentage of Total	Fiscal Year 2001-02	Percentage of Total	Dollar Increase/ (Decrease)
Personal Services	\$ 4,303,000	24.9%	\$ 5,091,000	32.0%	\$ (788,000)
Advertising	779,000	4.5	538,000	3.4	241,000
Entertainment	1,214,000	7.0	1,293,000	8.1	(79,000)
Other Supplies and Services	8,246,000	47.7	6,478,000	40.8	1,768,000
Depreciation	2,757,000	15.9	2,494,000	15.7	263,000
Total	<u>\$17,299,000</u>		<u>\$15,894,000</u>		<u>\$1,405,000</u>

Personal Services expenses include both permanent and limited-term employee (LTE) salaries, as well as the associated fringe benefits. These costs declined due to the renewed emphasis on cost containment and the continued use of consultants resulting in offsetting increases in professional services expense reflected in Supplies and Services Expenses.

Advertising expense for FY 2002-03 increased from FY 2001-02 because of the acquisition of the Milwaukee Mile (Racing) operation and its associated costs.

Entertainment costs declined due to the elimination of grandstand shows for the 2002 fair event.

In addition to the use of consultants, as noted above, FY 2002-03 Other Supplies and Services expense increased over FY 2001-02 due to the acquisition of the Milwaukee Mile operation in May 2003.

Capital Assets

Table D includes a comparison of capital assets between FY 2002-03 and FY 2001-02.