

**Arizona Exposition and State Fair  
Report on Audit of Financial Statements  
June 30, 2001**

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

The Board of Directors of the  
Arizona Exposition and State Fair

We have audited the accompanying financial statements of the Arizona Exposition and State Fair as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the Arizona Exposition and State Fair's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Arizona Exposition and State Fair's Enterprise Fund, and are not intended to present fairly the financial position of the Proprietary Fund Types—Enterprise Funds of the State of Arizona, and the results of their operations and cash flows in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arizona Exposition and State Fair as of June 30, 2001, and the results of its operations and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Debbie Davenport  
Auditor General

April 12, 2002

**Arizona Exposition and State Fair  
Balance Sheet—Enterprise Fund  
June 30, 2001**

Assets	
Current assets:	
Cash in bank and on hand	\$ 20,500
Cash on deposit with State Treasurer	143,303
Investments	3,824,198
Receivables:	
Accounts	226,854
Accrued interest	124,168
Prepaid expenses	<u>3,315</u>
Total current assets	<u>4,342,338</u>
Restricted assets:	
Cash on deposit with State Treasurer	255,050
Investments	<u>1,895,541</u>
Total restricted assets	<u>2,150,591</u>
Property, plant, and equipment:	
Land	70,435
Buildings and improvements (net of accumulated depreciation of \$14,229,455)	3,593,693
Improvements other than buildings (net of accumulated depreciation of \$1,088,176)	585,391
Furniture, vehicles, and equipment (net of accumulated depreciation of \$2,769,265)	498,903
Construction in progress	<u>175,364</u>
Net property, plant, and equipment	<u>4,923,786</u>
Total assets	<u>\$ 11,416,715</u>
Liabilities and Fund Equity	
Current liabilities:	
Accounts payable	\$ 2,378
Accrued payroll and employee benefits	73,377
Rental deposits	<u>58,557</u>
Total current liabilities	<u>134,312</u>
Long-term liabilities:	
Accrued compensated absences	<u>143,553</u>
Total liabilities	<u>277,865</u>
Fund equity:	
Retained earnings	<u>11,138,850</u>
Total fund equity	<u>11,138,850</u>
Total liabilities and fund equity	<u>\$ 11,416,715</u>

See accompanying notes to financial statements.

**Arizona Exposition and State Fair  
Statement of Revenues, Expenses, and Changes in  
Fund Equity—Enterprise Fund  
Year Ended June 30, 2001**

Operating revenues:	
Rentals	\$ 1,047,423
Admissions	2,907,540
Carnival	2,252,776
Parking	1,818,642
Commercial space	928,684
Commissions on:	
Food and liquor sales	283,577
Advance ticket sales	96,357
Program and novelty sales	40,603
Other	<u>1,077,019</u>
 Total operating revenues	 <u>10,452,621</u>
 Operating expenses:	
Personal services	3,943,047
Employee-related expenses	592,517
Travel and entertainment	17,995
Entertainers' fees	1,803,170
Professional and outside services	489,060
Advertising, printing, and public relations	1,508,559
Prizes and awards	258,755
Utilities	543,314
Insurance	268,240
Building and equipment rentals	115,755
Repairs, maintenance, and supplies	601,596
Hockey contract	39,833
Depreciation	964,276
Other	<u>358,881</u>
 Total operating expenses	 <u>11,504,998</u>
 Operating loss	 (1,052,377)
 Nonoperating revenues (expenses):	
Pari-mutuel racing and unclaimed property receipts	401,122
Interest on investments	304,503
Loss on disposal of equipment	<u>(1,576)</u>
Net nonoperating revenues	<u>704,049</u>
 Net loss	 (348,328)
 Fund equity, July 1, 2000	 13,487,178
 Residual equity transfer out to State General Fund	 <u>(2,000,000)</u>
 Fund equity, June 30, 2001	 <u>\$ 11,138,850</u>

See accompanying notes to financial statements.

**Arizona Exposition and State Fair  
Statement of Cash Flows—Enterprise Fund  
Year Ended June 30, 2001**

Cash flows from operating activities:	
Operating loss	\$ (1,052,377)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	964,276
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(110,423)
Accrued payroll and employee benefits	23,995
Decrease in:	
Prepaid expenses	9,180
Accounts payable	(122,690)
Rental deposits	(51,825)
Accrued compensated absences	<u>(10,395)</u>
Net cash used for operating activities	<u>(350,259)</u>
Cash flows from noncapital financing activities:	
Cash transfers to State General Fund	<u>(2,000,000)</u>
Net cash used for noncapital financing activities	<u>(2,000,000)</u>
Cash flows from capital and related financing activities:	
Pari-mutuel racing and unclaimed property receipts	401,122
Acquisition of capital assets	<u>(262,366)</u>
Net cash provided by capital and related financing activities	<u>138,756</u>
Cash flows from investing activities:	
Acquisition of investments	(6,647,459)
Proceeds from sales and maturities of investments	6,718,069
Interest received on investments	<u>329,322</u>
Net cash provided by investing activities	<u>399,932</u>
Net decrease in cash and cash equivalents	(1,811,571)
Cash and cash equivalents, July 1, 2000	<u>2,230,424</u>
Cash and cash equivalents, June 30, 2001	<u>\$ 418,853</u>
Noncash investing, capital, and financing activities:	
Disposal of equipment	(62,313)
Loss on disposal of equipment	1,576
Deletion of related accumulated depreciation	60,737

See accompanying notes to financial statements.

**Arizona Exposition and State Fair**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Arizona Exposition and State Fair conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Arizona Exposition and State Fair's more significant accounting policies follows.

**A. Reporting Entity**

The Arizona Exposition and State Fair is accounted for as an enterprise fund of the State of Arizona, under the direction of an executive director appointed by the Board of Directors. However, ultimate fiscal responsibility for the Arizona Exposition and State Fair remains with the State of Arizona. The Arizona Exposition and State Fair provides rental space to a variety of entertainment and promotional lessees, and sponsors the annual State Fair.

**B. Fund Accounting**

The Arizona Exposition and State Fair's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Arizona Exposition and State Fair's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses.

The Arizona Exposition and State Fair's financial transactions are recorded and reported as an enterprise fund since its operations are financed and operated in a manner similar to private business enterprises, in which the intent of the Board of Directors is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The measurement focus of the fund is on the flow of economic resources. With this measurement focus, all assets and liabilities associated with the operation of the Arizona Exposition and State Fair are included on the balance sheet. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Only those applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

**Arizona Exposition and State Fair**  
**Notes to Financial Statements**  
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**C. Basis of Accounting**

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Arizona Exposition and State Fair are presented on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**D. Cash Equivalents**

For purposes of its statement of cash flows, the Arizona Exposition and State Fair considers only those highly liquid investments (including restricted assets) with a maturity of 3 months or less when purchased to be cash equivalents.

**E. Inventory of Supplies**

Purchases of inventory items are recorded at the time of purchase as expenses, and because the amounts on hand at June 30, 2001, were immaterial, they are not included in the balance sheet.

**F. Property, Plant, and Equipment**

Purchased property, plant, and equipment are capitalized at cost. Major outlays for assets or improvements to them are capitalized as projects are constructed. Depreciation of property, plant, and equipment is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	20 to 40 years
Improvements other than buildings	20 years
Furniture, vehicles, and equipment	5 to 10 years

**G. Compensated Absences**

Compensated absences consist of vacation leave earned by employees based on services already rendered.

Employees may accumulate up to 320 hours of vacation leave if salaried, or 240 hours if hourly, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.



**Arizona Exposition and State Fair**  
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Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, employees who have accumulated at least 500 hours of sick leave receive some benefit payments. Benefit payments vary based upon the number of sick hours accumulated, but cannot exceed \$30,000. The Arizona Exposition and State Fair makes contributions each pay period to the State's Retiree Accumulated Sick Leave Fund for each employee, and the State makes benefit payments directly to the retired employees. Consequently, the Arizona Exposition and State Fair has not accrued a liability for these sick leave benefits.

**Note 2 - Cash and Investments**

*Cash in bank and on hand*—At June 30, 2001, cash on hand was \$10,955, the carrying amount of cash in bank was \$9,545, and the bank balance was \$8,757. Arizona Revised Statutes (A.R.S.) stipulate that collateral is required for demand deposits at 102 percent of all deposits not covered by federal depository insurance. The Arizona Exposition and State Fair's bank accounts are included in the Arizona State Treasurer's State Servicing Bank Agreement. Deposits of the State under this agreement in excess of amounts covered by federal depository insurance was collateralized by securities held by the bank's trust division or agent in the State Treasurer's name in book-entry form.

*Cash on deposit with State Treasurer*—The Arizona Exposition and State Fair deposits are pooled and invested with the State Treasurer. Interest earned from investments purchased with such pooled monies is deposited in the State General Fund. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

*Investments*—Investments of the Arizona Exposition and State Fair at June 30, 2001, consist of U.S. Treasury Bills purchased by the bank and held in the bank's name at the Federal Reserve Bank. The Arizona Exposition and State Fair's ownership interest is recorded in the bank's records. These investments are reported at cost, which approximates fair value.

**Note 3 - Restricted Assets**

In accordance with A.R.S. §5-113, monies received by the Arizona Exposition and State Fair from pari-mutuel racing and unclaimed property receipts can be used only for capital improvements.

**Arizona Exposition and State Fair  
Notes to Financial Statements  
June 30, 2001**

**Note 4 - Reserved and Designated Fund Equity**

Retained earnings at June 30, 2001, have been reserved and designated as follows:

Reserved for:	
Capital improvements	\$ 2,150,591
Unreserved:	
Designated for:	
Reinvention of fairgrounds	5,000,000
Fair start-up costs	2,000,000
Undesignated	<u>1,988,259</u>
	<u>\$11,138,850</u>

**Note 5 - Residual Equity Transfer**

Laws 1999, 1<sup>st</sup> Special Session, Chapter 6, §§23 and 25 directed the Arizona Exposition and State Fair to transfer \$4 million to the State General Fund for the purpose of providing support and maintenance for other state agencies. The first transfer of \$2 million was made on June 30, 1999, and the second transfer of \$2 million was made on July 1, 2000.

**Note 6 - Risk Management**

The Arizona Exposition and State Fair is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and others; and natural disasters. The Arizona Exposition and State Fair is a participant in the State's self-insurance program covering property, environmental liability, and workers' compensation losses. In the opinion of the Arizona Exposition and State Fair's management, any unfavorable outcomes from these claims and actions would be covered by the self-insurance program. Accordingly, the Arizona Exposition and State Fair has no risk of loss beyond adjustments to future years' premium payments to the State's self-insurance program. All estimated losses for unsettled claims and actions of the State are determined on an actuarial basis and are included in the *State of Arizona Comprehensive Annual Financial Report*. The Arizona Exposition and State Fair carries additional general liability insurance during the time the State Fair's held and for other specific events. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past 3 fiscal years.

**Arizona Exposition and State Fair**  
**Notes to Financial Statements**  
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**Note 7 - Lease Management Agreements**

*Ray Cammack Shows (RCS)*—The Arizona Exposition and State Fair and RCS entered into a 5-year lease agreement commencing October 2000 through October 2005, whereby RCS will manage the Arizona Exposition and State Fair premises during the Arizona State Fair for the operation of rides, food, attractions, and games. The contract was subsequently amended to provide the Arizona Exposition and State Fair the option to extend the base term of the agreement a maximum of five times. The Arizona Exposition and State Fair will receive “base rent” of \$2 million each year and will receive 50 percent of revenues in excess of \$3.5 million from the sale of midway tickets and pay-one-price tickets. Such revenue is allocated based upon the redemption of midway tickets and the pay-one-price tickets sold. Admission tickets collected at the Arizona Exposition and State Fair entry portals are not included as allocated revenue.

The lease agreement specifies that the Arizona Exposition and State Fair will retain all revenues generated outside the midway during the annual Arizona State Fair and from all fair-wide sponsorships.

**Note 8 - Retirement Plan**

**Plan Description**—The Arizona Exposition and State Fair contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

**Funding Policy**—The Arizona State Legislature establishes and may amend active plan members’ and the Arizona Exposition and State Fair’s contribution rate. For the year ended June 30, 2001, active plan members and the Arizona Exposition and State Fair were each required by statute to contribute at the actuarially determined rate of 2.66 percent (2.17 percent retirement and 0.49 percent long-term disability) of the members’ annual covered payroll. The Arizona Exposition and State Fair’s contributions to the System for the years ended June 30, 2001, 2000, and 1999, were \$57,194, \$56,588, and \$59,942, respectively, which were equal to the required contributions for the year.

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**Note 9 - Subsequent Event**

In fiscal year 2002, the Arizona Exposition and State Fair exercised its option to extend the Arizona Exposition and State Fair lease agreement with RCS through October 2006.