

ARIZONA EXPOSITION AND STATE FAIR
Report on Audit of Financial Statements
June 30, 2000

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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
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, 2000, 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 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 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, 2000, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

Debbie Davenport
Auditor General

April 2, 2001

**ARIZONA EXPOSITION AND STATE FAIR
Balance Sheet—Enterprise Fund
June 30, 2000**

Assets	
Current assets:	
Cash in bank and on hand	\$ 20,500
Cash on deposit with State Treasurer	2,048,224
Investments	3,992,349
Receivables:	
Accounts	116,431
Accrued interest	148,987
Prepaid expenses	<u>12,495</u>
Total current assets	<u>6,338,986</u>
Restricted assets:	
Cash on deposit with State Treasurer	161,700
Investments	<u>1,798,000</u>
Total restricted assets	<u>1,959,700</u>
Property, plant, and equipment:	
Land	70,435
Buildings and improvements (net of accumulated depreciation of \$13,489,281)	4,331,868
Improvements other than buildings (net of accumulated depreciation of \$991,642)	595,437
Furniture, vehicles, and equipment (net of accumulated depreciation of \$2,700,434)	<u>629,532</u>
Net property, plant, and equipment	<u>5,627,272</u>
Total assets	<u>\$13,925,958</u>
Liabilities and Fund Equity	
Current liabilities:	
Accounts payable	\$ 125,068
Accrued payroll and employee benefits	49,382
Rental deposits	<u>110,382</u>
Total current liabilities	<u>284,832</u>
Long-term liabilities:	
Accrued compensated absences	<u>153,948</u>
Total long-term liabilities	<u>153,948</u>
Total liabilities	<u>438,780</u>
Fund equity:	
Retained earnings	<u>13,487,178</u>
Total fund equity	<u>13,487,178</u>
Total liabilities and fund equity	<u>\$13,925,958</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, 2000

Operating revenues:	
Rentals	\$ 877,428
Admissions	3,652,024
Carnival	2,748,768
Parking	1,853,740
Commercial space	864,670
Commissions on:	
Food and liquor sales	260,115
Advance ticket sales	97,605
Programs and novelties sales	36,758
Other	<u>888,105</u>
Total operating revenues	<u>11,279,213</u>
Operating expenses:	
Personal services	3,874,525
Employee-related expenses	581,706
Travel and entertainment	26,161
Entertainers' fees	2,001,701
Professional and outside services	805,142
Advertising, printing, and public relations	1,096,105
Prizes and awards	124,318
Carnival vendor's commissions	45,941
Utilities	555,689
Insurance	264,443
Building and equipment rentals	181,896
Repairs, maintenance, and supplies	566,824
Hockey contract	165,009
Depreciation	995,243
Other	<u>616,589</u>
Total operating expenses	<u>11,901,292</u>
Operating loss	<u>(622,079)</u>
Nonoperating revenues (expenses):	
Pari-mutuel racing receipts	400,000
Interest on investments	<u>347,404</u>
Net nonoperating revenues	<u>747,404</u>
Net income	125,325
Fund equity, July 1, 1999	<u>13,361,853</u>
Fund equity, June 30, 2000	<u>\$13,487,178</u>

See accompanying notes to financial statements.

ARIZONA EXPOSITION AND STATE FAIR
Statement of Cash Flows—Enterprise Fund
Year Ended June 30, 2000

Cash flows from operating activities:	
Operating loss	\$ (622,079)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	995,243
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(26,645)
Rental deposits	71,286
Accrued compensated absences	4,425
Decrease in:	
Accounts payable	(24,243)
Accrued payroll and employee benefits	<u>(77,957)</u>
Net cash provided by operating activities	<u>320,030</u>
Cash flows from capital and related financing activities:	
Pari-mutuel racing receipts	400,000
Acquisition of capital assets	<u>(82,714)</u>
Net cash provided by capital and related financing activities	<u>317,286</u>
Cash flows from investing activities:	
Acquisition of investments	(8,475,772)
Proceeds from sales and maturities of investments	9,390,532
Interest received on investments	<u>338,005</u>
Net cash provided by investing activities	<u>1,252,765</u>
Net increase in cash and cash equivalents	1,890,081
Cash and cash equivalents, July 1, 1999	<u>340,343</u>
Cash and cash equivalents, June 30, 2000	<u>\$2,230,424</u>
Cash and cash equivalents, June 30, 2000, consist of:	
Current cash and cash equivalents:	
Cash in bank and on hand	\$ 20,500
Cash on deposit with State Treasurer	<u>2,048,224</u>
Current cash and cash equivalents	<u>2,068,724</u>
Restricted cash and cash equivalents:	
Cash on deposit with State Treasurer	<u>161,700</u>
Restricted cash and cash equivalents	<u>161,700</u>
Total	<u>\$2,230,424</u>
Noncash investing, capital, and financing activities:	
Disposal of equipment	\$ (92,458)
Deletion of related accumulated depreciation	92,458

See accompanying notes to financial statements.

ARIZONA EXPOSITION AND STATE FAIR
Notes to Financial Statements
June 30, 2000

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
June 30, 2000

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

E. Investments

Investments are stated at fair value.

F. 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, 2000, were immaterial, they are not included in the balance sheet.

G. Property, Plant, and Equipment

Property, plant, and equipment are capitalized at cost. Depreciation of such assets 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	20-40 years
Improvements other than buildings	20 years
Furniture, vehicles, and equipment	5-10 years

H. Compensated Absences

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

ARIZONA EXPOSITION AND STATE FAIR
Notes to Financial Statements
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Employees may accumulate up to 320 hours of vacation 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.

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, up to a maximum of \$30,000. The Arizona Exposition and State Fair makes contributions 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

Arizona Revised Statutes (A.R.S.) authorize the Arizona Exposition and State Fair to invest public monies in the State Treasurer's investment pool. However, the Arizona Exposition and State Fair has invested in U.S. Treasury Bills.

The Arizona Exposition and State Fair's deposits at June 30, 2000, were entirely covered by federal depository insurance.

Cash on deposit with the State Treasurer is pooled and invested. Interest earned from investments purchased with such pooled monies is deposited in the State General Fund.

Investments of the Arizona Exposition and State Fair at June 30, 2000, consisted of U.S. Treasury Bills purchased through and held in the bank's name at the Federal Reserve Bank. However, the bank's investment division does maintain accounting records that identify the portion of U.S. Treasury Bills belonging to the Arizona Exposition and State Fair. Such investments are stated at 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 receipts can be used only for capital improvements.

ARIZONA EXPOSITION AND STATE FAIR
Notes to Financial Statements
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Note 4 - Reserved and Designated Fund Equity

Retained earnings at June 30, 2000, have been reserved and designated as follows:

Reserved for:	
Capital improvements	\$ 2,372,268
Transfer to State General Fund	2,000,000
Unreserved:	
Designated for:	
Reinvention of fairgrounds	7,000,000
Fair start-up costs	2,000,000
Undesignated	114,910
	<u>\$13,487,178</u>

Note 5 - 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 significant losses from these risks would be covered by that self-insurance program. The Arizona Exposition and State Fair's future years' premium payments to the State's self-insurance program are adjusted based on prior year losses. 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*. However, the Arizona Exposition and State Fair does carry additional general liability insurance during the time the State Fair is being held and for other specific events. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Note 6 - Lease Management Agreements

Valley Iceplex Professionals (Valley Iceplex)—On September 1, 1996, the Arizona Exposition and State Fair entered into a five-year lease agreement with Valley Iceplex, a professional management company, whereby Valley Iceplex would manage the Arizona Exposition and State Fair building and events held therein. Valley Iceplex retains all proceeds from events held in the Arizona Exposition and State Fair building. In accordance with the lease agreement, the Arizona Exposition and State Fair received "base rent" payments of \$150,000 each year for the first two years, \$50,000 and \$75,000 for years three and four, respectively, and will receive \$100,000 for year five. In addition to the base rent, the Arizona Exposition and State Fair will receive \$125,000 each year from Valley Iceplex for the right to sell concessions, which shall be adjusted annually by the consumer price index.

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The lease agreement specifies that the Arizona Exposition and State Fair will retain the proceeds of all fair parking revenues. Furthermore, all nonfair parking revenues up to an annual revenue threshold of \$725,000 will be retained by the Arizona Exposition and State Fair. This revenue threshold shall be adjusted annually according to the consumer price index. Once the revenue threshold is met, the Arizona Exposition and State Fair and Valley Iceplex will split equally all nonfair parking revenues. In addition, the Arizona Exposition and State Fair will retain all proceeds from the annual Arizona State Fair and from events not held in the Arizona Exposition and State Fair building.

Ray Cammack Shows (RCS)—On October 5, 1997, the Arizona Exposition and State Fair entered into a three-year lease agreement with RCS, a professional management company, whereby RCS would manage the Arizona Exposition and State Fair premises during the Arizona State Fair for the operation of rides, food, attractions, and games. The Arizona Exposition and State Fair will receive “base rent” of \$2.2 million each year and will receive 50 percent of revenues in excess of \$3.75 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 7 - 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 System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

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Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the Arizona Exposition and State Fair's contribution rates. For the year ended June 30, 2000, 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, 2000, 1999, and 1998 were \$56,588, \$59,942, and \$62,060, respectively, which were equal to the required contributions for the year.

Note 8 - Subsequent Events

On April 19, 1999, the Arizona State Legislature appropriated \$4 million from the Arizona Exposition and State Fair fund equity to be transferred to the State General Fund for the purpose of providing adequate support and maintenance for state agencies. The first installment transfer of \$2 million was made on June 30, 1999, and the second installment of \$2 million was made on July 1, 2000.

On January 31, 2001, the Arizona Exposition and State Fair extended its agreement with RCS for five additional years. 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 for the sale of midway tickets and pay-one-price tickets.