



FINANCIAL STATEMENTS

State Fair of Texas
Years Ended December 31, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

State Fair of Texas

Financial Statements

Years Ended December 31, 2012 and 2011

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Report of Independent Auditors

The Board of Directors
State Fair of Texas

We have audited the accompanying financial statements of State Fair of Texas (the Fair), a not-for-profit Texas corporation, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of State Fair of Texas at December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

April 11, 2013

State Fair of Texas

Statements of Financial Position

	December 31	
	2012	2011
Assets		
Current assets:		
Cash	\$ 542,015	\$ 426,556
Investments <i>(Notes 4 and 8)</i>	29,907,689	29,377,154
Accounts receivable, less allowances for uncollectible accounts of \$25,234 and \$22,984 in 2012 and 2011, respectively	313,519	283,443
Pledges receivable, net <i>(Note 5)</i>	9,775	140,430
Inventories, net	73,020	82,121
Prepaid expenses	308,639	213,172
Total current assets	31,154,657	30,522,876
Property and leasehold improvements, at cost:		
Midway improvements	11,570,291	10,820,489
Amusement rides	7,365,843	7,103,843
Buildings and improvements	14,361,111	13,517,766
Furniture, fixtures, and equipment	7,616,974	7,584,467
Construction in progress	10,248,760	4,088,603
Land	5,058,422	5,389,074
Total property and leasehold improvements	56,221,401	48,504,242
Less accumulated depreciation and amortization	(28,089,167)	(26,081,166)
Property and leasehold improvements, net	28,132,234	22,423,076
Pledges receivable, net <i>(Note 5)</i>	200,882	229,668
Other assets <i>(Note 9)</i>	1,925,118	1,487,682
Total assets	\$ 61,412,891	\$ 54,663,302
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities <i>(Notes 5 and 7)</i>	\$ 11,958,575	\$ 11,692,564
Current capital lease obligations <i>(Note 6)</i>	143,065	135,401
Current advanceable term loan payable <i>(Note 6)</i>	1,011,491	1,011,491
Total current liabilities	13,113,131	12,839,456
Long-term capital lease obligations <i>(Note 6)</i>	151,162	294,227
Long-term advanceable term loan payable <i>(Note 6)</i>	5,141,748	6,153,239
Other long-term pledges <i>(Note 5)</i>	200,882	229,668
Deferred compensation <i>(Note 9)</i>	1,922,726	1,482,152
Total liabilities	20,529,649	20,998,742
Net assets:		
Unrestricted, including \$5.5 million reserve in 2012 and 2011	40,125,877	32,705,817
Temporarily restricted	715,696	917,074
Permanently restricted	41,669	41,669
Total net assets	40,883,242	33,664,560
Total liabilities and net assets	\$ 61,412,891	\$ 54,663,302

See accompanying notes.

State Fair of Texas

Statements of Activities

Years Ended December 31, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Concessions and admissions	\$ 30,927,224	\$ –	\$ –	\$ 30,927,224	\$ 29,873,177	\$ –	\$ –	\$ 29,873,177
Exhibit space and other rentals	4,171,400	–	–	4,171,400	4,259,988	–	–	4,259,988
Contributions	2,317,246	44,497	–	2,361,743	2,180,253	225,987	–	2,406,240
Net casualty insurance proceeds	293,847	–	–	293,847	32,491	–	–	32,491
Interest income and dividends	143,339	–	–	143,339	125,633	–	–	125,633
Other	92,588	–	–	92,588	141,494	–	–	141,494
Net assets released from restriction	245,875	(245,875)	–	–	516,242	(516,242)	–	–
Total revenues	38,191,519	(201,378)	–	37,990,141	37,129,278	(290,255)	–	36,839,023
Expenses:								
Fair-time expenses	13,581,720	–	–	13,581,720	13,324,488	–	–	13,324,488
Maintenance and repairs	2,828,059	–	–	2,828,059	2,524,024	–	–	2,524,024
Non-fair-time events and exhibits	498,954	–	–	498,954	472,225	–	–	472,225
Salaries and wages	7,053,224	–	–	7,053,224	6,905,564	–	–	6,905,564
General and administrative	5,690,646	–	–	5,690,646	5,594,707	–	–	5,594,707
Interest	(205,343)	–	–	(205,343)	585,606	–	–	585,606
Depreciation and amortization	2,242,361	–	–	2,242,361	2,154,261	–	–	2,154,261
Total expenses	31,689,621	–	–	31,689,621	31,560,875	–	–	31,560,875
Excess of revenues over expenses	6,501,898	(201,378)	–	6,300,520	5,568,403	(290,255)	–	5,278,148
Realized and unrealized investment gain	918,162	–	–	918,162	446,324	–	–	446,324
Change in net assets	7,420,060	(201,378)	–	7,218,682	6,014,727	(290,255)	–	5,724,472
Net assets at beginning of year	32,705,817	917,074	41,669	33,664,560	26,691,090	1,207,329	41,669	27,940,088
Net assets at end of year	\$ 40,125,877	\$ 715,696	\$ 41,669	\$ 40,883,242	\$ 32,705,817	\$ 917,074	\$ 41,669	\$ 33,664,560

See accompanying notes.

State Fair of Texas
Statements of Cash Flows

	Year Ended December 31	
	2012	2011
Operating activities		
Change in net assets	\$ 7,218,682	\$ 5,724,472
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized investment gain	(918,162)	(446,324)
Depreciation and amortization	2,242,361	2,154,261
Interest rate swap marked to market	(762,713)	(66,501)
Foreign currency options marked to market	3,140	(5,530)
Changes in assets and liabilities:		
Increase in accounts receivable	(30,076)	(117,081)
Decrease (increase) in pledges receivable	159,441	(370,098)
Decrease (increase) in inventories, net	9,101	(24,248)
Increase in prepaid expenses	(95,467)	(50,761)
Increase in accounts payable and accrued liabilities	1,028,722	2,275,427
Net cash provided by operating activities	8,855,029	9,073,617
Investing activities		
Capital expenditures for property and leasehold improvements	(7,951,519)	(7,574,308)
Net purchases of investments	387,627	(716,841)
Net cash used in investing activities	(7,563,892)	(8,291,149)
Financing activities		
Payments on credit facilities	(1,175,678)	(1,139,639)
Net cash used in financing activities	(1,175,678)	(1,139,639)
Net increase (decrease) in cash	115,459	(357,171)
Cash at beginning of year	426,556	783,727
Cash at end of year	\$ 542,015	\$ 426,556
Cash payments for interest	\$ 575,502	\$ 667,042

See accompanying notes.

State Fair of Texas

Notes to Financial Statements

December 31, 2012

1. Relationship With the City of Dallas

State Fair of Texas (the Fair) is a not-for-profit Texas corporation organized to conduct an annual fair, which is held on the premises owned by the City of Dallas (the City) known as Fair Park. In 2003, the Fair entered into a new agreement with the City, which replaced the existing agreement scheduled to expire on April 27, 2007. The new agreement (the Agreement) with the City, which has an effective date of January 1, 2003, gives possession and occupancy of Fair Park to the Fair for approximately 24 days in September and October for the operation of the annual fair and the University of Texas–University of Oklahoma football game in the Cotton Bowl Stadium (Cotton Bowl) and for a period not to exceed 60 days prior to the annual fair and 30 days after the annual fair for setup and takedown, respectively. The Fair is also responsible for the operation of the midway area of Fair Park throughout the year. The initial term of the Agreement expires on January 1, 2028, with two automatic five-year extended terms unless the City or the Fair elects not to extend the Agreement.

In November 2006, the First Amendment (the Amendment) to the Agreement was executed. The Amendment provides that the Fair will perform or fund a maximum of \$19.5 million in improvements to the Cotton Bowl, including installation of a high-definition scoreboard and sound system, design and engineering, seating replacement, concrete repair and weatherproofing, and cleaning and refurbishment of interior and exterior surfaces. In exchange, the City will provide rent abatements to the Fair totaling \$13.9 million commencing in the fourth quarter of 2006 through the first quarter of 2018. Through December 31, 2007, the Fair incurred and funded to the City the maximum commitment of \$19.5 million per the Amendment.

The Fair receives revenues from parking, admissions, concessions, and exhibit space rental at Fair Park during the annual fair. The Agreement also provides that the Fair may receive revenue from operation of the midway during non-fair periods, although no such operations occurred during 2012 or 2011. Upon expiration of the rent abatements provided by the Amendment, the Agreement provides that the Fair will pay the City an annual rental fee, which the City will place in a special account to be used only for the operation, maintenance, development, and improvement of Fair Park.

The Agreement also provides that the Fair expend its net revenues, as defined, on major maintenance, as defined, and capital expenditures for development and enhancement of Fair Park and the Fair. The Fair incurred expenditures related to this provision of approximately \$2.2 million and \$3.9 million in 2012 and 2011, respectively.

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies

Net Assets

Unrestricted Net Assets – Unrestricted net assets result from the operation of the annual fair, non-fair-time events, and general operations of the Fair, including a reserve fund required by the Agreement with the City. The Agreement requires a reserve fund to be funded and maintained at a minimum of \$4.5 million by the Fair to provide a sound financial basis for the future economic integrity of the Fair. The reserve fund may be used only upon authorization by the Executive Committee of the Board of Directors (Executive Committee) of the Fair to fund the future operation of the annual fair. If the Fair elects to utilize the reserve fund, the fund must be restored to a minimum of \$4.5 million as soon thereafter as reasonably possible. Throughout 2012 and 2011, the reserve fund was maintained at \$5.5 million. Realized and unrealized gains (losses) from reserve fund investments are included in unrestricted realized and unrealized investment gains (losses). Interest and dividends from reserve fund investments are included in unrestricted interest income and dividends.

Temporarily Restricted Net Assets – Temporarily restricted net assets are those net assets whose use has been limited by the donor to a specific time period or purpose. These net assets are transferred to unrestricted net assets when the donor restriction is met. Temporarily restricted net assets comprise contributions received that will be awarded as scholarships in future years.

Permanently Restricted Net Assets – Permanently restricted net assets require that the principal be invested in perpetuity and that only the income be expended for designated purposes. Permanently restricted net assets represent a livestock premium endowment contribution received by the Fair. The interest received from this endowment is restricted by the donor for purposes of livestock auction premiums at the annual youth livestock auction. The Fair has \$41,669 of permanently restricted net assets at December 31, 2012 and 2011.

Net Assets Released From Restrictions – Net assets were released from donor restrictions by making scholarship awards (net of scholarship forfeitures) of \$245,875 and \$237,375 in 2012 and 2011, respectively, and land purchases of \$278,867 in 2011.

Cash and Investments

Cash represents funds on hand for current operations. At December 31, 2012 and 2011, cash equivalents of \$20,473,239 and \$21,123,466, respectively, are included with investments for

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

financial statement presentation. Cash equivalents include investments in highly liquid securities with original maturities of approximately three months or less. Investments are recorded at fair market value (see Note 4).

Accounts Receivable

Accounts receivable represent amounts due from the operation of the annual fair. The Fair maintains an allowance for estimated amounts of accounts receivable that may not be collectible based on historical collections.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the average-cost method. For the years ended December 31, 2012 and 2011, the Fair recorded an inventory valuation reserve of approximately \$63,000 and \$53,000, respectively.

Property and Leasehold Improvements

Property and leasehold improvements are stated at cost. Depreciation and amortization are recorded using the straight-line method using the lesser of the estimated useful lives or the lease term of the respective assets, ranging from 3 to 25 years, and include amortization of assets financed under capital lease obligations. Fixed assets capitalized under capital lease obligations were approximately \$693,000 for both years ended December 31, 2012 and 2011. Accumulated depreciation for these assets was approximately \$485,000 and \$347,000 for the years ended December 31, 2012 and 2011, respectively.

Management regularly considers whether facts or circumstances exist that would indicate the carrying values of the property and leasehold improvements are impaired. The Fair has not recorded an impairment loss in 2012 or 2011 as a result of such consideration.

Contributed Capital

Prior to April 20, 2011, the charter of the Fair, as amended July 14, 1939, authorized 10,519 shares of no par capital stock. On April 20, 2011, the Board of Directors (the Board) approved a recommendation to the stockholders that the Fair convert its corporate form from a nonprofit charitable corporation with stockholders to a nonprofit charitable corporation with no

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

stockholders or members. The stockholders approved the adoption of a Restated Certificate of Formation converting the Fair from a nonprofit charitable corporation with stockholders to a nonprofit charitable corporation with no stockholders or members. No consideration was exchanged as a result of this conversion.

Revenue Recognition

The Fair recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the sales price is fixed and determinable, and (iv) collectibility is reasonably assured. Generally, these criteria are met upon the receipt of cash for admission tickets, games, parking, and concessions. The Fair also receives rental revenues for exhibit space during fair-time, which are recognized ratably as the services are provided.

Expense Categories

Fair-time expenses include all incremental costs associated with setup, operation, and takedown of the annual fair. Salaries and wages consist of payroll and related costs for all full-time and part-time non-fair-time employees. General and administrative expenses consist of general corporate overhead incurred by the Fair for its operations.

Advertising Costs

Advertising costs are expensed as incurred and were approximately \$303,000 and \$263,000 for the years ended December 31, 2012 and 2011, respectively, and are included in general and administrative expense on the statements of activities.

Income Taxes

The Fair is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). The Fair receives certain contributions to partially offset the costs of various events at the annual fair. The Fair believes such contributions are related to its tax-exempt purpose and, accordingly, excludes such amounts from its unrelated business income computation.

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Risk Concentration

Financial instruments that potentially subject the Fair to concentrations of credit risk are primarily marketable securities (including cash equivalents) and accounts receivable. The Fair places its investments in common stocks and bonds issued by publicly traded corporations and fixed income securities issued by federal agencies. The Fair maintains an allowance for losses based upon the expected collectibility of all accounts receivable. Certain deposit amounts exceed current FDIC insurance limitations at December 31, 2012 and 2011.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. Commitments and Contingencies

The Fair is involved in various legal proceedings arising from its operation of the annual fair. In the opinion of management, after consultation with legal counsel, the ultimate liability, if any, from such legal proceedings will not have a material impact on the Fair's financial position or results of operations.

Future minimum lease commitments, including rental escalations and abatements, required under operating leases as of December 31, 2012, are as follows:

2013	\$ 62,896
2014	46,392
2015	10,392
2016	10,392
2017	10,392
Thereafter	16,287,500
	<u>\$ 16,427,964</u>

State Fair of Texas

Notes to Financial Statements (continued)

3. Commitments and Contingencies (continued)

Rent expense of approximately \$723,000 and \$732,000 was incurred during the years ended December 31, 2012 and 2011, respectively.

In January 2011, the Fair entered into an agreement for 6,100,000 Swiss francs with a company for the design and manufacture of a 500-foot tower ride, consisting of a tubular steel tower with a spherical viewing cabin, to be constructed on the midway. During the year, the Fair approved a USD \$1.08 million change order to the agreement for the purchase and installation of LED lighting. Concurrently upon entering the ride agreement, the Fair entered into a series of Swiss franc purchase and sale options as hedges against fluctuation of the U.S. dollar versus the Swiss franc. Under the agreement in 2011, two payments were made in Swiss francs: a down payment of CHF 1,525,000 and the first installment of CHF 915,000. In 2012, continuing under the agreement, additional payments were made towards the completion of the tower in the amounts of CHF 1,510,000 and USD \$2.6 million.

In addition to the design and manufacturing contract, the Fair anticipates incurring approximately USD \$6.5 million for installation and infrastructure and site development associated with the tower ride. Construction of the tower ride is anticipated to require approximately 18 months, with completion prior to the 2013 fair.

4. Investments

The aggregate carrying amount of available-for-sale investments by asset type is as follows:

	2012		2011	
	Cost	FMV	Cost	FMV
Money market accounts	\$ 20,467,515	\$ 20,473,239	\$ 21,118,648	\$ 21,123,466
Domestic corporate bonds	1,500,974	1,588,838	1,420,970	1,519,940
U.S. short-term government bond fund	360,854	359,903	350,854	345,178
Domestic common stocks	4,849,395	7,485,709	4,654,989	6,388,570
	\$ 27,178,738	\$ 29,907,689	\$ 27,575,461	\$ 29,377,154

Net realized gains on investments were \$24,043 and \$87,728 for the years ended December 31, 2012 and 2011, respectively. Net unrealized gains on investments were \$894,119 and \$358,596 as of December 31, 2012 and 2011, respectively.

State Fair of Texas

Notes to Financial Statements (continued)

5. Pledges Receivable

Pledges receivable represent amounts pledged by donors for the construction of a new livestock center in Fair Park for the City estimated to cost \$12.5 million. The facility will be financed by \$4.5 million in City bond funds, \$4.0 million in contributions from Fair donors, and \$4.0 million in Fair matching funds. Construction is currently estimated to commence in 2014 with completion in 2015. As these assets are being raised to benefit the City, there is a corresponding liability for these pledges included in accounts payable and accrued liabilities and other long-term pledges on the statements of financial position. The pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount amounts are computed using treasury yield interest rates applicable to the years in which the pledges are expected to be satisfied, which range from 0.16% to 1.18% at December 31, 2012.

Pledges receivable at December 31, 2012, net of allowance for uncollectible pledges of \$35,831, are as follows:

2013	\$ 93,467
2014	74,768
2015	27,582
2016	8,500
2017	8,500
	<u>212,817</u>
Less amount representing discount	(2,160)
Present value of pledges receivable	<u>\$ 210,657</u>

6. Credit Facilities

In January 2007, the Fair executed a \$15.0 million advanceable term loan transaction (the Loan) with a bank. Proceeds from the Loan were used to finance improvements to the Cotton Bowl as agreed to by the Fair and the City in the Amendment. The Loan term is 12 years with interest at the British Bankers Association one-month floating LIBOR plus 1.0%. Interest only was payable monthly for the first year, with principal and interest payable monthly after the first anniversary of the Loan. The Loan may be repaid in full or in part at any time without any prepayment fee. The Fair pledged certain land and a building as collateral for the Loan. Additionally, the Loan agreement provides for certain restrictive covenants that the Fair must maintain in 2007 and thereafter. These covenants comprise various ratios and restrictions on the Fair's assets and debt,

State Fair of Texas

Notes to Financial Statements (continued)

6. Credit Facilities (continued)

and as of December 31, 2012 and 2011, the Fair was in compliance with these covenants. The balance of the Loan was \$6,153,239 and \$7,164,730 at December 31, 2012 and 2011, respectively.

Concurrent with the Loan closing, the Fair entered into a 6.34% fixed-rate interest swap agreement (the Swap) with the bank effective January 2008, with a termination date of January 2019. The Swap can be canceled by the Fair without penalty beginning six years after the Loan closing date and ending in December 2018. Under the Swap agreement, the Swap cancellation feature was exercised and canceled as of January 3, 2013. The notional amount of the Swap is \$15 million, and changes in its fair market value are being marked to market through interest expense in the statements of activities. The Fair recognized approximately \$762,713 and \$66,000 in income related to the Swap for the years ended December 31, 2012 and 2011, respectively.

In 2012 and 2011, the Fair was party to an agreement with a bank for a \$2 million revolving line of credit to fund seasonal working capital requirements. The line of credit has a maturity date for any borrowings of one year from closing with interest at the one-month floating LIBOR plus 2.00% in 2012 and 2011. Interest is payable monthly, with all unpaid principal and interest payable on the maturity date. The revolving line of credit must maintain a zero balance for a minimum of 30 consecutive days during any 12-month period. The Fair pledged certain cash and investment accounts as security for any borrowings under the revolving line of credit. In 2012 and 2011, no borrowings were made under the line-of-credit arrangement.

In August 2009, the Fair entered into a \$688,300 capital lease transaction with a bank to finance the installation of an additional high-definition scoreboard in the Cotton Bowl. The lease term is five years with an interest rate of 5.58% and may be repaid partially or in full without penalty after the first year of payments. The Fair obtained a landlord waiver from the City to perfect the bank's security interest in the scoreboard. The lease provides that the Fair will purchase the scoreboard and sound system for \$1 at the end of the lease term. Upon the extinguishment of the capital lease and when the Fair obtains title to the scoreboard, the Fair will convey title to the City. Accordingly, the Fair is amortizing the scoreboard over the five-year lease term.

In 2007, the Fair purchased an amusement ride under a \$300,000 capital lease. The lease term is three years with an imputed interest rate of 6.32%. In 2010, the Fair exercised its option under the lease to purchase the ride for \$1 at the end of the lease term.

State Fair of Texas

Notes to Financial Statements (continued)

6. Credit Facilities (continued)

Future minimum lease payments under capital leases and the present value of the net minimum lease payments as of December 31, 2012, are as follows:

2013	\$ 157,520
2014	<u>157,520</u>
	315,040
Less amount representing interest	<u>(20,813)</u>
Present value of net minimum lease payments	<u>\$ 294,227</u>

Future principal repayments under the advanceable term loan as of December 31, 2012, are as follows:

2013	\$ 1,011,491
2014	1,011,491
2015	1,011,491
2016	1,011,491
2017	1,011,491
Thereafter	<u>1,095,784</u>
Total	<u>\$ 6,153,239</u>

7. Related-Party Transactions

The Fair paid approximately \$300,000 in 2012 and 2011 to a member of the Board of Directors for legal services.

Additionally, the Fair conducts business with entities affiliated with members of the Board of Directors. With respect to the Fair and these entities, management believes such transactions are conducted in the normal course of operations.

8. Fair Value Measurements

The FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for that asset or liability. The FASB establishes a

State Fair of Texas

Notes to Financial Statements (continued)

8. Fair Value Measurements (continued)

valuation hierarchy for disclosure of inputs used in measuring fair value. The hierarchy defined is as follows:

Level 1 – Inputs are unadjusted quoted prices that are available in active markets for identical assets or liabilities.

Level 2 – Inputs include quoted prices for similar assets and liabilities in active markets and quoted prices in non-active markets, inputs other than quoted prices that are observable, and inputs that are not directly observable but are corroborated by observable market data.

Level 3 – Inputs that are unobservable and are supported by little or no market activity and reflect the use of significant management judgment.

A financial asset’s or liability’s classification within the hierarchy is determined based on the least reliable level of input that is significant to the fair value measurement. In determining fair value, the Fair utilized valuation techniques that maximized the use of observable inputs and minimized the use of unobservable inputs to the extent possible. The Fair also considered the counterparty and its own nonperformance risk in its assessment of fair value.

The following tables present the fair value of the Fair’s financial assets and liabilities that are required to be measured at fair value on a recurring basis:

Fair Value Measurements as of December 31, 2012				
	Assets (Liabilities)	Level 1	Level 2	Level 3
Available-for-sale securities	\$ 29,907,689	\$ 29,907,689	\$ –	\$ –
Interest rate swap liability	(313,612)	–	(313,612)	–
Foreign currency options	(2,390)	–	(2,390)	–
Fair Value Measurements as of December 31, 2011				
	Assets (Liabilities)	Level 1	Level 2	Level 3
Available-for-sale securities	\$ 29,377,154	\$ 29,377,154	\$ –	\$ –
Interest rate swap liability	(1,076,324)	–	(1,076,324)	–
Foreign currency options	5,530	–	5,530	–

State Fair of Texas

Notes to Financial Statements (continued)

8. Fair Value Measurements (continued)

The interest rate swap liability is included within accounts payable and accrued liabilities and the foreign currency option asset is included within other assets on the statements of financial position.

The Fair held no Level 3 assets or liabilities during 2012 or 2011.

Available-for-Sale Securities – The fair value of the Fair’s available-for-sale securities was estimated by using market quotes as of the last day of the period.

Interest Rate Swap – The fair value of the Fair’s interest rate swap was estimated using a combined income and market-based valuation methodology based upon credit ratings and forward interest rate yield curves obtained from independent pricing services reflecting broker market quotes. The liability for the interest rate swap is recorded in accounts payable and accrued liabilities on the statements of financial position.

Foreign Currency Options – The fair value of the Fair’s foreign currency options was estimated by calculating the expected future cash flows using forward rates, generating a discount curve, determining the appropriate current market comparable sector bond spread to add to the risk-free discount curve, determining the appropriate entity-specific credit adjustment to add or subtract from the discount curve, and then discounting the expected future cash flows.

9. Retirement Plans

401(k) Retirement Plan

The Fair adopted the State Fair of Texas Employees’ 401(k) Retirement Plan (the 401(k) Plan) on behalf of its employees effective January 1, 1999. Employees may contribute a percentage of annual compensation to the 401(k) Plan, subject to statutory maximums. The Fair provides a contribution of 4% of each participant’s annual salary. In addition, the Fair matches 50% of the first 4% of employee deferrals under the 401(k) Plan. For the years ended December 31, 2012 and 2011, the Fair’s matching contribution and plan administration expense totaled approximately \$177,000 and \$176,000, respectively.

State Fair of Texas

Notes to Financial Statements (continued)

9. Retirement Plans (continued)

Executive Deferred Compensation Plans

Effective January 1, 2007, the Fair established the State Fair of Texas 457(b) Executive Deferred Compensation Plan (457(b) Plan) for all eligible employees to defer a portion of their salary and incentive payment, if any. Eligible employees include any officer of the Fair with a title of vice president or above. Eligible employees are given the option to defer up to 50% of salary and up to 100% of incentive payment. The Fair matches 100% of the employee's deferral up to 6% of the employee's base salary. Under Internal Revenue Code Section 457(b), annual employee deferrals and employer matching contributions combined are limited to \$17,000 and \$16,500 in 2012 and 2011, respectively. Employee deferrals under the 457(b) Plan are vested immediately, while the Fair's portion vests at 20% increments over a five-year period. For the years ended December 31, 2012 and 2011, the Fair made matching contributions to the 457(b) Plan of approximately \$58,000 and \$52,000, respectively. Employee and employer contributions are invested at the direction of the employee. The fair market value of the deferred compensation funds is included in other assets, with an offsetting deferred compensation liability.

In 2007, the Fair adopted a nonqualified deferred compensation plan under IRC Section 457(f) and entered into deferred compensation agreements with two executives. The agreements provide that the Fair will set aside certain funds annually in a rabbi trust, which will vest in 5 to 10 years. For the years ended December 31, 2012 and 2011, the Fair's contribution to the nonqualified plan for services performed by the executives was \$130,000 and \$180,000, respectively. The fair value of the deferred compensation funds is included in other assets, with an offsetting deferred compensation liability.

10. Subsequent Event

In May 2013, the Fair will begin operating Summer Adventures in Fair Park (SAFP). SAFP is a Pay-One-Price admission event with rides, shows, and educational attractions for the entire family. A capital expenditure budget of \$8.1 million was approved by the executive committee in November 2012 for the setup of SAFP. As of December 31, 2012, the Fair entered into several agreements for SAFP capital expenditure projects, which include the following: Flow Rider amusement ride for \$615,000, geyser/water feature for \$150,000, animatronic music band for \$21,000, and Pinwheels for \$32,000. The SAFP event will end in August 2013 in anticipation for setup of the 2013 Fair.

The Fair evaluated all material events occurring subsequent to the date of the financial statements up to April 11, 2013, the date the financial statements were available to be issued.

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