

STATE FAIR OF TEXAS

FINANCE/AUDIT COMMITTEE CHARTER

Adopted: April 15, 2009

Objectives

The primary objectives of the Finance/Audit Committee of State Fair of Texas (“SFT”) are to provide general oversight of the financial reporting practices of SFT and to periodically review internal controls relating to financial transactions. The Finance/Audit Committee accomplishes these objectives by receiving periodic reports from management and SFT’s external auditors and advising such persons and the Executive Committee of the Board of Directors on matters within the scope of the Finance/Audit Committee’s responsibilities as set forth herein. Notwithstanding the foregoing, the responsibilities of the Finance/Audit Committee set forth herein shall not be construed to expand the Finance/Audit Committee’s duties and responsibilities with respect to the financial controls and reporting practices of SFT beyond those duties and responsibilities applicable to directors of nonprofit corporations under Texas law.

Composition

The Finance/Audit Committee shall be composed of a chair and such number of additional members appointed annually by the Chairman of the Board as the Chairman of the Board deems advisable. Each voting Finance/Audit Committee member shall be independent, and at least a majority of the voting Finance/Audit Committee members shall be then-serving members of the Board of Directors. A Finance/Audit Committee member will be considered to be independent¹ if the member has no material business relationship² with SFT or the executive officers of SFT or any subsidiaries or affiliates (either directly, or as a partner, shareholder, director or officer of an organization that has a relationship with SFT). A Finance/Audit Committee member will not be considered to be independent if a family member of the Finance/Audit Committee member has a material business relationship with SFT. A “family member” includes a spouse, brothers, sisters, ancestors, children, brothers, sisters, and ancestors, mothers- and fathers-in-law, the spouses of brothers, sisters, children, grandchildren and great-grandchildren and anyone (other than domestic employees) who shares the Finance/Audit Committee member’s home. A Finance/Audit Committee member will not be considered independent if he or she is an employee of SFT. The Chief Financial Officer/Senior Vice President of Finance and the General Counsel shall serve as ex-officio, nonvoting members of the Finance/Audit Committee. The Finance/Audit Committee chair shall determine in such chair’s discretion when it is necessary or

¹ There is no established legal definition of “independent” in this context.

² There is no established definition of “material business relationship.” In evaluating whether a material business relationship exists, the intermediate sanctions rules in Section 4958 of the Internal Revenue Code provide in pertinent part that an entity in which “disqualified persons” own at least 35% of the voting power, profits interest or beneficial interest is itself a disqualified person. Thus, while the circumstances of each case must be examined closely, in the absence of information to the contrary, it may generally be assumed that a Finance/Audit Committee member’s ownership of substantially less than 35% of an entity which has a business relationship with SFT does not, alone, adversely affect the Finance/Audit Committee member’s independence. The Board of Directors of SFT shall determine whether a material business relationship exists.

advisable for the Finance/Audit Committee to meet in executive session in the absence of these ex-officio members.

At least one member of the Finance/Audit Committee should be considered a “financial expert.” For purposes of this Charter, a “financial expert” is a person who has at least one of the following attributes: (a) an understanding of generally accepted accounting principles (GAAP) and financial statements, (b) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those that can reasonably be expected to be raised by SFT’s financial statements (or experience actively supervising a person who engages in those activities) or (c) an understanding of Finance/Audit Committee functions. These attributes may be acquired through (a) education and experience as a principal financial or accounting officer, controller, public accountant or position performing similar functions, (b) experience actively supervising a person described in (a), (c) experience overseeing or assessing the performance of organizations or accountants with respect to the preparation, auditing or evaluation of financial statements, or (d) service on similar boards or committees of nonprofit organizations comparable to SFT in size, nature of activities or some other respect. Members other than “financial experts” should possess financial literacy skills sufficient to review and understand SFT’s books and records.

Responsibilities

The Finance/Audit Committee will endeavor to carry out the following responsibilities:

A. Financial Reporting Process

- Review significant accounting and financial reporting policies as reported in writing to the Finance/Audit Committee by management or the external auditors, and review written reports from management and the external auditors of recent professional and regulatory pronouncements, and consider (with the assistance of management and the external auditors) such pronouncements’ impact on the financial statements.
- Review the annual audited financial statements and footnotes including:
 - Critical accounting policies used in the financial statements.
 - The external auditors’ written opinion on the financial statements.
 - Any significant changes recommended in writing by the external auditors with respect to their audit.
 - Significant estimates and judgments underlying the financial statements as reported in writing to the Finance/Audit Committee by management or the external auditors, including the rationale behind those estimates, as well as the details on material accruals and reserves.
 - Insider and related party transactions and potential conflicts of interest disclosed in the financial statements, if any.

- o Any other matters related to the conduct of the audit which are communicated in writing to the Finance/Audit Committee.
- o Any legal matters actually known to the committee members that may have a material impact on the financial statements and any material reports or inquiries received from regulators or governmental agencies and reported to the Finance/Audit Committee. Whether these discussions are to include management and legal counsel shall be determined by the Finance/Audit Committee in its discretion.
- o Any material errors and any instances of fraud or illegal acts, to the extent they come to the attention of the auditors, in the performance of the audit.
- o Any disagreement with management or other serious difficulties in the performance of the audit.
- o Independent of SFT staff and management, any significant issues, difficulties or recommendations as presented by the external auditors.

B. System of Internal Controls

- Review with management the process for assessing significant risks or exposures of risks and the steps management has taken to minimize them.
- Review with management the written opinion of the external auditors as to the effectiveness of or weaknesses in internal controls, including management information systems and security, the overall control environment and accounting and financial controls.
- Review with management any significant written findings and recommendations of the external auditors, including timetable for procedures to correct weaknesses noted.
- Review the written opinion and recommendations of the external auditors with respect to internal processes for determining and managing key financial statement risks.
- Retain outside consultants/auditors to perform audits of the internal controls, as necessary.

C. External Audit

- Select the external auditors to audit the financial statements of SFT, and replace the external auditors, if necessary.
- Review the terms of the auditor's engagement at least every 5 years and recommend appropriate time limits for external partner rotation.

- Review the compensation of the external auditors and make any modifications to such compensation.
- Review and evaluate the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and SFT, including non-audit services, and discussing the relationships disclosed to the Finance/Audit Committee with the auditors.
- Review annually with the external auditors their process for identifying and responding to the key audit and internal control risks, and the scope and approach of audit, and at the conclusion thereof, review the results of such audit, including any written recommendations of the external auditors.
- Serve as a channel of communication between the external auditors and the Executive Committee of the Board of Directors, the Board of Directors and/or SFT management.
- Retain the external auditors for any non-audit services and establish the fee for such services, only after concluding that any such non-audit services do not adversely affect the independence of the external auditors.

D. Other Responsibilities

- Regularly report to the Executive Committee of the Board of Directors about Finance/Audit Committee activities, issues and related recommendations.
- Perform other activities related to this charter as requested by the Executive Committee of the Board of Directors.
- Institute and oversee special investigations in response to any matter brought to the Finance/Audit Committee's attention, as needed, with the power to retain outside counsel if in the Finance/Audit Committee's judgment that is appropriate.
- Meet in executive session with external auditors periodically to provide an open avenue of communication. The Finance/Audit Committee shall determine on a case-by-case basis whether the President and/or the CFO shall be included in any executive session with the external auditors.
- Meet semi-annually, or more frequently, if needed, with minutes recorded. The Finance/Audit Committee chair shall determine in the chair's discretion whether any invited guests shall attend the meetings.
- Recommend to the Executive Committee of the Board of Directors any additional anti-fraud and whistleblower policies as a result of special studies or investigations.
- Review the Finance/Audit Committee Charter annually, reassess the adequacy of the charter and recommend to the Executive Committee of the Board of Directors any proposed changes considered necessary as a result of new laws or regulations.

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The undersigned, being the duly elected and qualifying Secretary of SFT, hereby certifies that the foregoing Finance/Audit Committee Charter was duly adopted by the Board of Directors of SFT at a meeting held on April 15, 2009, at which a quorum was present and voting throughout.



Robert B. Smith
Secretary
State Fair of Texas