

FINANCIAL STATEMENTS

State Fair of Texas
Years Ended December 31, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP



State Fair of Texas

Financial Statements

Years Ended December 31, 2016 and 2015

Contents

Report of Independent Auditors..... 1

Financial Statements

Statements of Financial Position..... 3

Statements of Activities 4

Statements of Cash Flows..... 5

Notes to Financial Statements..... 6



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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, a not-for-profit Texas corporation, which comprise the statements of financial position as of December 31, 2016 and 2015, 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, 2016 and 2015, and the results of its changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 18, 2017

State Fair of Texas

Statements of Financial Position

	December 31	
	2016	2015
Assets		
Current assets:		
Cash	\$ 344,299	\$ 1,146,635
Investments	49,267,357	37,883,473
Accounts receivable, less allowances for uncollectible accounts of \$24,427 in 2016 and 2015	330,345	556,645
Pledges receivable, net	850	850
Inventories, net	289,263	307,971
Prepaid expenses	329,336	323,159
Total current assets	50,561,450	40,218,733
Property and leasehold improvements, at cost:		
Midway improvements	13,978,714	13,911,823
Amusement rides	21,697,034	21,565,499
Buildings and improvements	18,675,336	17,906,523
Furniture, fixtures, and equipment	9,068,649	8,839,910
Construction-in-progress	49,379	-
Land	5,058,422	5,058,422
Total property and leasehold improvements	68,527,534	67,282,177
Less accumulated depreciation and amortization	(41,761,657)	(38,078,071)
Property and leasehold improvements, net	26,765,877	29,204,106
Pledges receivable, net	14,315	16,624
Other assets	1,146,151	963,689
Total assets	\$ 78,487,793	\$ 70,403,152
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,814,827	\$ 6,460,720
Accrued major maintenance projects	2,177,626	-
Current advanceable term loan payable	1,011,491	1,011,491
Total current liabilities	11,003,944	7,472,211
Long-term advanceable term loan payable	1,095,783	2,107,274
Other long-term pledges	14,315	16,624
Deferred rent liability	7,936,890	7,241,010
Deferred compensation	1,146,151	963,689
Total liabilities	21,197,083	17,800,808
Net assets:		
Unrestricted, including \$9.5 and \$5.5 million of Board-designated funds in 2016 and 2015, respectively	56,136,436	51,381,963
Temporarily restricted	1,112,605	1,178,712
Permanently restricted	41,669	41,669
Total net assets	57,290,710	52,602,344
Total liabilities and net assets	\$ 78,487,793	\$ 70,403,152

See accompanying notes.

State Fair of Texas

Statements of Activities

Years Ended December 31, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Concessions and admissions	\$ 46,699,473	\$ —	\$ —	\$ 46,699,473	\$ 45,351,463	\$ —	\$ —	\$ 45,351,463
Exhibit space and other rentals	5,066,219	—	—	5,066,219	4,902,648	—	—	4,902,648
Contributions	2,508,915	478,705	—	2,987,620	2,507,274	552,200	—	3,059,474
Interest income and dividends	111,925	—	—	111,925	108,509	—	—	108,509
Other	48,809	—	—	48,809	28,630	—	—	28,630
Net assets released from restrictions	544,812	(544,812)	—	—	382,563	(382,563)	—	—
Total revenues	54,980,153	(66,107)	—	54,914,046	53,281,087	169,637	—	53,450,724
Expenses:								
Fair-time expenses	19,448,629	—	—	19,448,629	17,306,320	—	—	17,306,320
Maintenance and repairs	10,109,930	—	—	10,109,930	9,950,336	—	—	9,950,336
Non-fair-time events and exhibits	679,764	—	—	679,764	504,883	—	—	504,883
Salaries and wages	8,220,191	—	—	8,220,191	7,878,356	—	—	7,878,356
General and administrative	8,969,061	—	—	8,969,061	7,619,980	—	—	7,619,980
Interest	38,581	—	—	38,581	43,097	—	—	43,097
Depreciation and amortization	3,687,739	—	—	3,687,739	3,943,589	—	—	3,943,589
Total expenses	51,153,895	—	—	51,153,895	47,246,561	—	—	47,246,561
Excess of revenues over expenses	3,826,258	(66,107)	—	3,760,151	6,034,526	169,637	—	6,204,163
Realized and unrealized investment gain (loss)	928,215	—	—	928,215	(45,752)	—	—	(45,752)
Change in net assets	4,754,473	(66,107)	—	4,688,366	5,988,774	169,637	—	6,158,411
Net assets at beginning of year	51,381,963	1,178,712	41,669	52,602,344	45,393,189	1,009,075	41,669	46,443,933
Net assets at end of year	\$ 56,136,436	\$ 1,112,605	\$ 41,669	\$ 57,290,710	\$ 51,381,963	\$ 1,178,712	\$ 41,669	\$ 52,602,344

See accompanying notes.

State Fair of Texas

Statements of Cash Flows

	Year Ended December 31	
	2016	2015
Operating activities		
Change in net assets	\$ 4,688,366	\$ 6,158,411
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized investment (gains) losses	(928,215)	45,752
Depreciation and amortization	3,687,739	3,943,589
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	226,300	(341,619)
Decrease in pledges receivable, net	—	69,418
Decrease (increase) in inventories, net	18,708	(56,968)
Increase in prepaid expenses	(6,177)	(30,342)
Increase (decrease) in accounts payable, accrued liabilities, and deferred rent	4,227,613	(1,500,949)
Net cash provided by operating activities	<u>11,914,334</u>	<u>8,287,292</u>
Investing activities		
Capital expenditures for property and leasehold improvements	(1,249,510)	(1,017,196)
Purchase of investments	(10,466,051)	(5,457,544)
Sales and maturities of investments	10,382	224,412
Net cash used in investing activities	<u>(11,705,179)</u>	<u>(6,250,328)</u>
Financing activities		
Payments on credit facilities	(1,011,491)	(1,011,491)
Net cash used in financing activities	<u>(1,011,491)</u>	<u>(1,011,491)</u>
Net (decrease) increase in cash	(802,336)	1,025,473
Cash at beginning of year	1,146,635	121,162
Cash at end of year	<u>\$ 344,299</u>	<u>\$ 1,146,635</u>
Cash payments for interest	\$ 38,581	\$ 43,097

See accompanying notes.

State Fair of Texas

Notes to Financial Statements

December 31, 2016

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. 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.

State Fair of Texas

Notes to Financial Statements (continued)

1. Relationship With the City of Dallas (continued)

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 \$8.1 million and \$11.9 million in 2016 and 2015, respectively. In 2016, of the \$8.1 million of expenditures incurred, approximately \$6.8 million are major maintenance projects, and approximately \$1.3 million are capital expenditures. The \$6.8 million in major maintenance projects are recognized as an expense in the Maintenance and Repairs category on the Statement of Activities. The \$1.3 million in capital expenditures are recognized as assets on the Statement of Financial Position. Of the \$6.8 million in major maintenance, approximately \$2.2 million was accrued and classified as a current liability on the Statement of Financial Position to reflect several major maintenance projects that were not yet completed at year-end 2016. In 2015, all projects were completed and no accrual was needed.

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 2016 and 2015, the reserve fund was maintained at \$9.5 and \$5.5 million, respectively. Realized and unrealized gains from reserve fund investments are included in realized and unrealized investment gains. Interest and dividends from reserve fund investments are included in 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.

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

Net Assets Released From Restrictions – Net assets were released from donor restrictions by making scholarship payments (net of scholarship forfeitures) of \$544,812 and \$382,563 in 2016 and 2015, respectively.

Cash and Investments

Cash represents funds on hand for current operations. At December 31, 2016 and 2015, cash equivalents of \$36,778,636 and \$30,935,667, respectively, are included with investments for 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 value (see Note 4 and Note 8).

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, 2016 and 2015, the Fair recorded an inventory valuation reserve of \$24,099 and \$24,816, respectively.

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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. Management regularly considers whether facts or circumstances exist that would indicate that the carrying values of the property and leasehold improvements are impaired. The Fair has not recorded an impairment loss in 2016 or 2015 as a result of such consideration.

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.

Non-profit Financial Statement Presentation

In August 2016, the FASB issued ASU No. 2016-14, Not-for-profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Among other requirements, the ASU will require non-profits to present two classes of net assets, those with and those without donor restrictions, it will require information about expenses to be reported in one location that disaggregates functional expense classifications by their natural classification, and the non-profit will be required to provide qualitative and quantitative information about how they manage their liquidity and quantitative information about the availability of financial assets at the balance sheet date to meet cash needs for general expenditures within one year of that date. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017.

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue From Contracts With Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued a new revenue accounting standard, together with subsequent amendments, updates, and extension of the effective date (collectively, the New Revenue Standard), which supersedes most existing revenue guidance. The New Revenue Standard provides for a single comprehensive principles-based standard for revenue recognition through the application of the following five-step process:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

This five-step process will require significant management judgment in addition to changing the way many companies recognize revenue in their financial statements. Additionally, and among other provisions, the New Revenue Standard requires expanded quantitative and qualitative disclosures, including disclosure about the nature, amount, timing and uncertainty of revenue.

The provisions of the New Revenue Standard are effective for annual periods beginning after December 15, 2018, including interim periods within those years by applying either the full retrospective method or the cumulative catch-up transition method. The full retrospective method requires application of the provisions of the New Revenue Standard for all periods presented, while the cumulative catch-up transition method requires the application of the provisions of the New Revenue Standard as of the date of adoption with the cumulative effect of the retrospective application of the provisions as an adjustment through retained earnings. Early adoption is permitted starting with annual periods beginning after December 31, 2016. Currently, the Fair is assessing the effects of adopting the New Revenue Standard. The Fair does not plan to early adopt.

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 employees. General and administrative expenses consist of general corporate overhead incurred by the Fair for its operations. Maintenance and repair expenses consist of the general maintenance and repairs associated with the operation of the annual fair, as well as, the expenses associated with major maintenance projects the Fair will undertake for the year. Major maintenance projects are improvements to City-owned Fair Park real property and are classified as an expense on the Statement of Activities. In 2016 and 2015, the Fair incurred approximately \$6.8 million and \$10.7 million, respectively, in Fair Park major maintenance projects as required in the Agreement for the development and enhancement of Fair Park and the Fair.

Advertising Costs

Advertising costs are expensed as incurred and were \$1.7 million and \$1.1 million for the years ended December 31, 2016 and 2015, 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 (IRC) 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.

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 Federal Deposit Insurance Corporation insurance limitations at December 31, 2016 and 2015.

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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, 2016, are as follows:

2017	\$ 102,938
2018	1,423,237
2019	1,624,676
2020	1,624,676
2021	1,612,230
Thereafter	10,300,000
	<u>\$ 16,687,757</u>

Rent expense of approximately \$696,000 and \$724,000 was incurred during the years ended December 31, 2016 and 2015, respectively.

State Fair of Texas

Notes to Financial Statements (continued)

4. Investments

The aggregate carrying amount of available-for-sale investments by asset type is as follows at December 31:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Money market accounts	\$ 36,764,467	\$ 36,778,636	\$ 30,929,958	\$ 30,935,667
Domestic corporate bonds	1,507,880	1,511,960	1,615,992	1,620,648
U.S. short-term government bond fund	372,469	369,955	492,385	487,462
Domestic common stocks	7,775,154	10,606,806	2,745,684	4,839,696
	<u>\$ 46,419,970</u>	<u>\$ 49,267,357</u>	<u>\$ 35,784,019</u>	<u>\$ 37,883,473</u>

Net realized gains on investments were \$180,281 and \$234,806 for the years ended December 31, 2016 and 2015, respectively. Net unrealized gains (losses) on investments were \$747,934 and \$(280,558) for the years ended December 31, 2016 and 2015, respectively. Investment income is recorded net of investment expenses of \$111,925 and \$108,509 for the years ended December 31, 2016 and 2015, respectively, and is recorded in interest income and dividends revenue in the accompanying statements of activities.

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 \$14.0 million. The facility will be financed by \$4.5 million in City bond funds, \$4.0 million in contributions from Fair donors, and \$5.5 million in Fair matching funds. Phase I of construction commenced in 2015 and Phase II in 2016. 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 0.85% to 1.20% at December 31, 2016.

State Fair of Texas

Notes to Financial Statements (continued)

5. Pledges Receivable (continued)

Pledges receivable at December 31, 2016, net of allowance for uncollectible pledges of \$2,700, are as follows:

2016	\$ 850
2017	13,600
2018	850
	<hr/>
	15,300
Less amount representing discount	(135)
Present value of pledges receivable	<hr/> <u>\$ 15,165</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 London Interbank Offered Rate (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. The Fair was in compliance with these covenants as of December 31, 2016. The balance of the loan was \$2,107,274 and \$3,118,765 at December 31, 2016 and 2015, respectively.

The Fair was party to an agreement with a bank for a \$3 million revolving line of credit to fund seasonal working capital requirements in 2016 and 2015. 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% in 2016 and 2015. 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 2016 and 2015, no borrowings were made under the line-of-credit arrangement.

State Fair of Texas

Notes to Financial Statements (continued)

6. Credit Facilities (continued)

Future principal repayments under the advanceable term loan as of December 31, 2016, are as follows:

2017	\$ 1,011,491
2018	1,011,491
2019	<u>84,292</u>
Total	<u>\$ 2,107,274</u>

7. Related-Party Transactions

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 business and in conformance with the Fair’s Conflicts of Interest and Ethics Policy.

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

State Fair of Texas

Notes to Financial Statements (continued)

8. Fair Value Measurements (continued)

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 used 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 assets and liabilities that are required to be measured at fair value on a recurring basis:

	Fair Value Measurements as of December 31, 2016			
	Assets	Level 1	Level 2	Level 3
Available-for-sale securities	\$ 49,267,357	\$ 49,267,357	\$ —	\$ —

	Fair Value Measurements as of December 31, 2015			
	Assets	Level 1	Level 2	Level 3
Available-for-sale securities	\$ 37,883,473	\$ 37,883,473	\$ —	\$ —

The Fair held no Level 3 assets or liabilities during 2016 or 2015.

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.

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, 2016 and 2015, the Fair's contribution and plan administration expense totaled approximately \$209,000 and \$207,000, 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 (the 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 IRC Section 457(b), annual employee deferrals and employer matching contributions combined are limited to \$17,500 in 2016 and 2015. 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, 2016 and 2015, the Fair made matching contributions to the 457(b) Plan of approximately \$66,000 and \$41,000, 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.

10. Subsequent Event

In January 2017, the Fair repaid the \$15.0 million advanceable term loan (the Loan) in full effective January 3, 2017. Principal applied to the payoff of the loan was \$2,107,273 and interest of \$2,953. The loan has no outstanding balance, and all collateral associated with the loan has been released.

The Fair evaluated all material events occurring subsequent to the date of the financial statements up to April 18, 2017, the date the financial statements were available to be issued.

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