

FINANCIAL STATEMENTS

State Fair of Texas  
Years Ended December 31, 2014 and 2013  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

State Fair of Texas

Financial Statements

Years Ended December 31, 2014 and 2013

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Ernst & Young LLP  
One Victory Park  
Suite 2000  
2323 Victory Avenue  
Dallas, TX 75219

Tel: +1 214 969 8000  
Fax: +1 214 969 8587  
ey.com

## 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, 2014 and 2013, 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, 2014 and 2013, 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 10, 2015

State Fair of Texas

Statements of Financial Position

	December 31	
	2014	2013
<b>Assets</b>		
Current assets:		
Cash	\$ 121,162	\$ 117,423
Investments	32,696,093	21,006,297
Accounts receivable, less allowances for uncollectible accounts of \$24,427 and \$25,984 in 2014 and 2013, respectively	215,026	391,303
Pledges receivable, net	70,268	91,539
Inventories, net	251,003	174,047
Prepaid expenses	292,817	500,996
Total current assets	<u>33,646,369</u>	<u>22,281,605</u>
Property and leasehold improvements, at cost:		
Midway improvements	13,893,618	13,830,736
Amusement rides	21,174,835	20,282,721
Buildings and improvements	17,333,934	17,116,319
Furniture, fixtures, and equipment	8,669,144	8,723,405
Construction in progress	172,963	938,438
Land	5,058,422	5,058,422
Total property and leasehold improvements	<u>66,302,916</u>	<u>65,950,041</u>
Less accumulated depreciation and amortization	<u>(34,172,417)</u>	<u>(31,018,456)</u>
Property and leasehold improvements, net	32,130,499	34,931,585
Pledges receivable, net	16,784	43,335
Other assets	993,420	2,076,885
Total assets	<u>\$ 66,787,072</u>	<u>\$ 59,333,410</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 15,202,679	\$ 13,617,602
Current capital lease obligations	-	151,162
Current advanceable term loan payable	1,011,491	1,011,491
Total current liabilities	<u>16,214,170</u>	<u>14,780,255</u>
Long-term advanceable term loan payable	3,118,765	4,130,257
Other long-term pledges	16,784	43,335
Deferred compensation	993,420	2,076,885
Total liabilities	<u>20,343,139</u>	<u>21,030,732</u>
Net assets:		
Unrestricted, including \$5.5 million reserve in 2014 and 2013	45,393,189	37,477,763
Temporarily restricted	1,009,075	783,246
Permanently restricted	41,669	41,669
Total net assets	<u>46,443,933</u>	<u>38,302,678</u>
Total liabilities and net assets	<u>\$ 66,787,072</u>	<u>\$ 59,333,410</u>

See accompanying notes.

# State Fair of Texas

## Statements of Activities

Years Ended December 31, 2014 and 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Concessions and admissions	\$ 35,848,744	\$ –	\$ –	\$ 35,848,744	\$ 33,476,600	\$ –	\$ –	\$ 33,476,600
Exhibit space and other rentals	4,754,503	–	–	4,754,503	4,546,633	–	–	4,546,633
Contributions	2,108,219	522,204	–	2,630,423	2,444,649	333,050	–	2,777,699
Interest income and dividends	89,184	–	–	89,184	108,603	–	–	108,603
Other	85,322	–	–	85,322	126,682	–	–	126,682
Net assets released from restriction	296,375	(296,375)	–	–	265,500	(265,500)	–	–
<b>Total revenues</b>	<b>43,182,347</b>	<b>225,829</b>	<b>–</b>	<b>43,408,176</b>	<b>40,968,667</b>	<b>67,550</b>	<b>–</b>	<b>41,036,217</b>
Expenses:								
Fair-time expenses	14,914,679	–	–	14,914,679	22,232,985	–	–	22,232,985
Maintenance and repairs	2,431,844	–	–	2,431,844	6,042,662	–	–	6,042,662
Non-fair-time events and exhibits	498,033	–	–	498,033	701,587	–	–	701,587
Salaries and wages	7,576,583	–	–	7,576,583	6,719,472	–	–	6,719,472
General and administrative	6,120,596	–	–	6,120,596	7,036,018	–	–	7,036,018
Interest	56,065	–	–	56,065	(218,224)	–	–	(218,224)
Depreciation and amortization	3,905,154	–	–	3,905,154	3,054,339	–	–	3,054,339
<b>Total expenses</b>	<b>35,502,954</b>	<b>–</b>	<b>–</b>	<b>35,502,954</b>	<b>45,568,839</b>	<b>–</b>	<b>–</b>	<b>45,568,839</b>
Excess (deficit) of revenues over expenses	7,679,393	225,829	–	7,905,222	(4,600,172)	67,550	–	(4,532,622)
Realized and unrealized investment gain	236,033	–	–	236,033	1,952,058	–	–	1,952,058
Change in net assets	7,915,426	225,829	–	8,141,255	(2,648,114)	67,550	–	(2,580,564)
Net assets at beginning of year	37,477,763	783,246	41,669	38,302,678	40,125,877	715,696	41,669	40,883,242
<b>Net assets at end of year</b>	<b>\$ 45,393,189</b>	<b>\$ 1,009,075</b>	<b>\$ 41,669</b>	<b>\$ 46,443,933</b>	<b>\$ 37,477,763</b>	<b>\$ 783,246</b>	<b>\$ 41,669</b>	<b>\$ 38,302,678</b>

See accompanying notes.

State Fair of Texas

Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>Operating activities</b>		
Change in net assets	\$ 8,141,255	\$ (2,580,564)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized investment gain	(236,033)	(1,952,058)
Depreciation and amortization	3,905,154	3,054,339
Foreign currency options marked to market	14,776	(12,386)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	176,277	(77,784)
Decrease in pledges receivable	47,822	75,783
Increase in inventories, net	(76,956)	(101,027)
Decrease (increase) in prepaid expenses	1,291,645	(344,124)
Increase in accounts payable and other liabilities	475,060	1,668,025
Net cash provided by (used in) operating activities	<u>13,739,000</u>	<u>(269,796)</u>
<b>Investing activities</b>		
Capital expenditures for property and leasehold improvements	(1,104,069)	(9,853,690)
Net sales of investments	(11,468,538)	10,853,450
Net cash (used in) provided by investing activities	<u>(12,572,607)</u>	<u>999,760</u>
<b>Financing activities</b>		
Payments on credit facilities	(1,162,654)	(1,154,556)
Net cash used in financing activities	<u>(1,162,654)</u>	<u>(1,154,556)</u>
Net increase (decrease) in cash	3,739	(424,592)
Cash at beginning of year	117,423	542,015
Cash at end of year	<u>\$ 121,162</u>	<u>\$ 117,423</u>
Cash payments for interest	\$ 61,339	\$ 109,933

*See accompanying notes.*

# State Fair of Texas

## Notes to Financial Statements

December 31, 2014

### **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 nonfair periods, in which operation of the midway in the form of Summer Adventures in Fair Park (SAFP) occurred during 2013. No such event occurred in 2014. 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 \$2.0 million and \$22.1 million in 2014 and 2013, 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 2014 and 2013, the reserve fund was maintained at \$5.5 million. Realized and unrealized gains from reserve fund investments are included in unrestricted realized and unrealized investment gains. 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, 2014 and 2013.

*Net Assets Released From Restrictions* – Net assets were released from donor restrictions by making scholarship awards (net of scholarship forfeitures) of \$296,375 and \$265,500 in 2014 and 2013, respectively.

#### Cash and Investments

Cash represents funds on hand for current operations. At December 31, 2014 and 2013, cash equivalents of \$16,444,350 and \$14,349,529, 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 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, 2014 and 2013, the Fair recorded an inventory valuation reserve of approximately \$25,995.

#### **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. There were no new fixed assets capitalized under capital leases for the year ended December 31, 2014. Fixed assets capitalized under capital lease obligations were approximately \$693,000 for the year ended December 31, 2013. Approximately \$70,000 of depreciation was recorded in 2014 for these assets. Accumulated depreciation for these assets was approximately \$693,000 and \$623,000 for the years ended December 31, 2014 and 2013, respectively. 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 2014 or 2013 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

## State Fair of Texas

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

charitable corporation with stockholders to a nonprofit charitable corporation with no 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 \$424,000 and \$1,254,000 for the years ended December 31, 2014 and 2013, 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.

# 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 collectability of all accounts receivable. Certain deposit amounts exceed current FDIC insurance limitations at December 31, 2014 and 2013.

#### 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, 2014, are as follows:

2015	\$ 36,916
2016	13,824
2017	11,460
2018	1,343,230
2019	1,550,000
Thereafter	13,400,000
	<u>\$ 16,355,430</u>

## State Fair of Texas

### Notes to Financial Statements (continued)

#### 3. Commitments and Contingencies (continued)

Rent expense of approximately \$724,000 and \$726,000 was incurred during the years ended December 31, 2014 and 2013, 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 2014, the Fair approved a US\$1.08 million modification 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 2012, two payments were made in Swiss francs: a down payment of CHF 1,525,000 and the first installment of CHF 915,000. In 2013, continuing under the agreement, additional payments of US\$2.3 million were incurred for completion of the ride. In 2014, continuing under the agreement, additional payments of US\$813,000 were incurred for completion of the ride and installation of the LED lighting associated with the tower ride.

#### 4. Investments

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

	2014		2013	
	Cost	Fair Market Value	Cost	Fair Market Value
Money market accounts	\$ 16,439,180	\$ 16,444,350	\$ 14,344,622	\$ 14,349,529
Domestic corporate bonds	1,566,735	1,593,030	1,531,727	1,572,368
U.S. short-term government bond fund	9,869,853	9,863,280	360,855	358,457
Domestic common stocks	2,440,314	4,795,433	2,437,168	4,725,943
	<b>\$ 30,316,082</b>	<b>\$ 32,696,093</b>	<b>\$ 18,674,372</b>	<b>\$ 21,006,297</b>

Net realized gains on investments were \$202,723 and \$2,336,698 for the years ended December 31, 2014 and 2013, respectively. Net unrealized gains (losses) on investments were \$33,310 and \$(384,640) as of December 31, 2014 and 2013, respectively. Investment income is recorded net of investment expenses of approximately \$39,000 and \$54,000 for the years ended December 31, 2014 and 2013, respectively, and is recorded in interest income and dividends revenue, in the accompanying Statements of Activities.

## 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 \$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. Construction is currently estimated to commence in 2015, with completion 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 .25% to 1.07% at December 31, 2014.

Pledges receivable at December 31, 2014, net of allowance for uncollectible pledges of \$15,405 are as follows:

2014	\$ 43,350
2015	26,945
2016	8,500
2017	8,500
	<hr/>
	87,295
Less amount representing discount	(243)
Present value of pledges receivable	<hr/> <u>\$ 87,052</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)**

The Fair's provision for covenant 7.6 – Capital Expenditures in the agreement was noncompliant due to capital expenditures exceeding the net revenues minus debt service in 2013. The bank issued a waiver for any noncompliance by the Fair in regards to the covenant breach as of December 31, 2013. The Fair was in compliance with these covenants as of December 31, 2014. The balance of the loan was \$4,130,256 and \$5,141,748 at December 31, 2014 and 2013, respectively.

Concurrent with the Loan closing, the Fair entered into a 6.34% fixed-rate interest rate swap agreement (the Swap) with the bank effective January 2008, with a termination date of January 2019 and a notional amount of \$15 million. The Swap can be canceled by the Fair without penalty beginning six years after the Loan closing date and ending in December 2018. The Swap cancellation feature was exercised and the Swap was canceled on January 3, 2013, resulting in the recognition of a \$313,612 gain. The changes in its fair market value were marked to market through interest expense in the statements of activities in 2013. No such activity occurred in 2014.

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 2014 and 2013. 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 2014 and 2013. 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 July 2013, the Fair borrowed \$1.5 million under the line of credit, which was repaid in full with interest in October 2013. In 2014, 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 2014, the title was conveyed to the City per the agreement with the City.

## 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, 2014, are as follows:

2015	\$ 1,011,491
2016	1,011,491
2017	1,011,491
2018	1,011,491
2019	84,292
Total	<u>\$ 4,130,256</u>

#### 7. Related-Party Transactions

The Fair paid approximately \$310,000 in 2014 and 2013 to a member of the Board for legal services.

Additionally, the Fair conducts business with entities affiliated with members of the Board. 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 Financial Accounting Standards Board (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 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 nonactive 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 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:

	<b>Fair Value Measurements as of December 31, 2014</b>			
	<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Available-for-sale securities	\$ 32,696,093	\$ 32,696,093	\$ –	\$ –
Foreign currency options	14,776	–	14,776	–

  

	<b>Fair Value Measurements as of December 31, 2013</b>			
	<b>Assets (Liabilities)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Available-for-sale securities	\$ 21,006,297	\$ 21,006,297	\$ –	\$ –
Foreign currency options	(12,386)	–	(12,386)	–

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 2014 or 2013.

*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.

*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.

## State Fair of Texas

### Notes to Financial Statements (continued)

#### **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, 2014 and 2013, the Fair's matching contribution and plan administration expense totaled approximately \$201,000 and \$206,000, respectively.

##### **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 2014 and 2013. 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, 2014 and 2013, the Fair made matching contributions to the 457(b) Plan of approximately \$49,000 and \$54,000, 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 five to ten years. In 2012, one of the executives retired and forfeited his deferred compensation in the 457(f) plan. For the year ended December 31, 2014, no amounts were contributed by the Fair. For the year ended December 31, 2013, the Fair's contribution to the nonqualified plan for services performed by the executive was \$130,000. In 2014, the only remaining executive in the 457(f) plan retired and was fully vested in his deferred compensation. Accordingly, the balance of the 457(f) plan account was zero for the year ended December 31, 2014.

State Fair of Texas

Notes to Financial Statements (continued)

**10. Subsequent Event**

The Fair evaluated all material events occurring subsequent to the date of the financial statements up to April 10, 2015, the date the financial statements were available to be issued.

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