

FINANCIAL STATEMENTS

State Fair of Texas
Year Ended December 31, 2018
With Report of Independent Auditors

Ernst & Young LLP



State Fair of Texas

Financial Statements

Year Ended December 31, 2018

Contents

Report of Independent Auditors.....	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities.....	4
Statement of Cash Flows	5
Statement of Functional Expenses	6
Notes to Financial Statements.....	7

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 statement of financial position as of December 31, 2018, and the related statements of activities, and cash flows for the year 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 audit. We conducted our audit 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, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 17, 2019

State Fair of Texas

Statement of Financial Position

December 31, 2018

Assets

Current assets:

Cash	\$ 721,764
Restricted cash for Fair Park major maintenance projects	9,466,605
Investments	41,013,739
Accounts receivable, less allowance for uncollectible accounts of \$18,800	457,303
Inventories, net	322,396
Prepaid expenses	331,607
Total current assets	<u>52,313,414</u>

Property and leasehold improvements, at cost:

Midway improvements	14,921,930
Amusement rides	21,897,407
Building improvements	23,121,393
Furniture, fixtures, and equipment	10,245,155
Construction in progress	7,326
Land	4,754,089
Total property and leasehold improvements	<u>74,947,300</u>
Less – accumulated depreciation and amortization	<u>(48,465,972)</u>
Net leasehold improvements and equipment	26,481,328
Deferred compensation	1,475,120
Total assets	<u><u>\$ 80,269,862</u></u>

Liabilities and net assets

Current liabilities:

Accounts payable and accrued liabilities	\$ 6,591,585
Accrued Fair Park major maintenance projects	9,680,876
Total current liabilities	<u>16,272,461</u>

Deferred rent liability	7,991,150
Deferred compensation	1,475,120
Total liabilities	<u>25,738,731</u>

Net assets

Without donor restrictions:

Undesignated	36,838,187
Board-designated operating reserve	11,701,965
Board-designated future Fair Park projects	3,012,982
Board-designated scholarship fund reserve	2,374,295
Total net assets without donor restrictions	<u>53,927,429</u>
With donor restrictions	603,702
Total net assets	<u>54,531,131</u>
Total liabilities and net assets	<u><u>\$ 80,269,862</u></u>

See accompanying notes.

State Fair of Texas

Statement of Activities

Year Ended December 31, 2018

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues			
Concessions and admissions	\$ 38,348,828	\$ —	\$ 38,348,828
Exhibit space and other rental	4,887,603	—	4,887,603
Interest income	619,537	—	619,537
Other	23,072	—	23,072
Contributions	3,319,937	1,947,013	5,266,950
Net assets released from restrictions	2,382,530	(2,382,530)	—
Total revenues	49,581,507	(435,517)	49,145,990
Expenses			
Fair time experience	29,453,734	—	29,453,734
Agriculture	3,972,096	—	3,972,096
Education	2,677,392	—	2,677,392
Community involvement	6,709,180	—	6,709,180
Management and general	5,174,160	—	5,174,160
Fundraising	4,358,472	—	4,358,472
Total expenses	52,345,034	—	52,345,034
Excess of expenses over revenues	(2,763,527)	(435,517)	(3,199,044)
Realized and unrealized investment losses	(195,747)	—	(195,747)
Change in net assets	(2,959,274)	(435,517)	(3,394,791)
Net assets at beginning of year	56,886,703	1,039,219	57,925,922
Net assets at end of year	\$ 53,927,429	\$ 603,702	\$ 54,531,131

See accompanying notes.

State Fair of Texas

Statement of Cash Flows

Year Ended December 31, 2018

Operating activities

Change in net assets	\$ (3,394,791)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized/unrealized losses on investments	195,747
Loss from donation of land	331,133
Depreciation and amortization	3,605,691
Increase in accounts receivable	(211,137)
Increase in inventories	(43,461)
Increase in prepaid expenses and other assets	(79,478)
Increase in accounts payable and other liabilities	2,102,802
Net cash provided by operating activities	<u>2,506,506</u>

Investing activities

Capital expenditures for property and leasehold improvements	(4,158,451)
Sales and maturities of investments	23,423,264
Purchases of investments	<u>(21,188,596)</u>
Net cash used in investing activities	<u>(1,923,783)</u>

Net increase in cash	582,723
Cash at beginning of year	<u>139,041</u>
Cash at end of year	<u>\$ 721,764</u>

See accompanying notes.

State Fair of Texas

Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services					Management and General	Fundraising	Total
	Fair Time Experience	Agriculture	Education	Community Involvement				
Advertising and promotion	\$ 64,425	\$ 68,915	\$ 36,527	\$ 3,657	\$ 12,606	\$ 2,616,290	\$ 2,802,420	
Contract services	7,342,865	435,101	37,147	19,840	34,145	17,308	7,886,406	
Depreciation and amortization	2,995,641	51,981	11,046	62,783	455,728	28,512	3,605,691	
Fair operational costs	6,651,961	701,736	595,405	39,802	5,710	4,239	7,998,853	
Fair Park improvements	—	—	—	4,774,779	—	—	4,774,779	
Grants and other assistance	—	1,599,819	63,215	1,166,536	—	—	2,829,570	
Insurance	786,025	13,640	2,898	16,474	119,578	7,481	946,096	
Occupancy	2,285,993	138,888	72,946	76,283	426,008	117,816	3,117,934	
Other	153,103	20,644	21,234	15,516	191,627	402,703	804,827	
Professional fees	144,970	—	—	7,581	1,194,363	93,359	1,440,273	
Repairs and maintenance	719,469	98,873	3,184	32,861	45,207	3,467	903,061	
Salaries, wages, benefits, taxes	7,356,004	703,166	728,715	480,490	2,630,950	1,023,071	12,922,396	
Scholarships	—	—	1,064,429	—	—	—	1,064,429	
Supplies	953,278	139,333	40,646	12,578	58,238	44,226	1,248,299	
Total expenses	\$ 29,453,734	\$ 3,972,096	\$ 2,677,392	\$ 6,709,180	\$ 5,174,160	\$ 4,358,472	\$ 52,345,034	

See accompanying notes.

State Fair of Texas

Notes to Financial Statements

December 31, 2018

1. Nature of Operations

State Fair of Texas (the Fair) is a not-for-profit Texas corporation organized to conduct an annual fair. The Fair's mission is to celebrate all things Texan by promoting agriculture, education, and community involvement through quality entertainment in a family-friendly environment.

2. Summary of Significant Accounting Policies

A summary of significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements under U.S. generally accepted accounting principles (GAAP) is as follows:

Net Assets

Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions which result from the operation of the annual fair, non-fair time events, and general operations of the organization. In 2018, this category of net assets includes a board-designated reserve fund required by an agreement with the City of Dallas (see Note 3), maintained at \$11,701,965; a board-designated fund intended for future scholarship recipients, maintained at \$2,374,295; and a board-designated fund intended for future Fair Park investments, maintained at \$3,012,982.

With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met either by satisfying the purpose restriction or the passage of time. Items that affect this net asset category are gifts that will be awarded as scholarships or youth livestock premiums in future years. When the donor-imposed restriction is met, the Fair reports these as net assets released from restrictions. Also included in this category is a gift subject to a donor-imposed restriction that the corpus be held in perpetuity 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 and youth livestock auction premium payments of \$2,382,530 in 2018.

Cash and Investments

Cash represents funds on hand for current operations. At December 31, 2018, cash equivalents of \$25,659,355 are included with investments for financial statement presentation. Restricted cash at December 31, 2018 represents cash set aside for the Fair Park Improvement Fund (see Note 3). Cash equivalents include investments in highly liquid securities with original maturities of approximately three months or less. Investments are recorded at fair value (see Notes 5 and 8).

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 year ended December 31, 2018, the Fair recorded an inventory valuation reserve of \$21,275.

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 20 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 2018 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 recognizes revenue for concessions, net of commissions paid to operators, in accordance with Accounting Standards Codification (ASC) 605-45, *Revenue Recognition – Principal Agent Considerations*. Commissions paid to operators were \$30 million for the year ended December 31, 2018. The Fair also receives rental revenues for exhibit space during fair time, which are recognized ratably as the services are provided.

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Nonprofit Financial Statement Presentation

During 2018, the Fair adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Among other requirements, the ASU requires nonprofits to present two classes of net assets, those with and those without donor restrictions. It also requires information about expenses to be reported in one location that disaggregates functional expense classifications by their natural classification, and nonprofits are 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.

Revenue From Contracts With Customers

In May 2014, the Financial Accounting Standards Board (the 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.

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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, 2017. Currently, the Fair is assessing the effects of adopting the New Revenue Standard. The Fair does not plan to early adopt.

Leases

In February 2016, the FASB issued ASU 2016-02, codifying ASC 842, *Leases*. This requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Leases will be recognized as finance or operating, with recognition affecting the pattern and classification of expense recognition in the statement of activities. The provisions of the ASU are effective for annual periods beginning after December 15, 2019; early adoption is permitted starting with annual periods beginning after December 31, 2016. Currently, the Fair is assessing the effects of adopting the Standard. The Fair does not plan to early adopt.

Advertising Costs

Advertising costs, which are expensed as incurred, were \$1.8 million for the year ended December 31, 2018, and are included as part of advertising and promotion expense on the statement of functional expenses.

Income Taxes

The Fair is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and, except for unrelated business income, is exempt from federal income tax. In 2018, section 274 of the IRC was amended by the Tax Cuts and Jobs Act, requiring tax-exempt entities providing parking as a qualified transportation fringe benefit to their employees to recognize unrelated business income equal to their parking expenses. The Fair included a provision for income taxes due as a result of this amendment as part of accrued liabilities on the statement of financial position.

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 holds 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, 2018.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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. Relationship With the City of Dallas

Fair Park Agreement

The annual fair is held on the premises owned by the City of Dallas (the City) known as Fair Park.

In 2003, the Fair entered into the Fair Park Agreement (the Agreement) with the City, which 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.

In 2017, the Fair and the City clarified terms of the Agreement in a memorandum of understanding (the MOU) with a commencement date of June 28, 2017. The MOU confirms both parties understanding and application of certain provisions and terms of the Fair Park contract between the City and the State Fair of Texas and does not modify, alter, or amend the original Fair Park contract.

State Fair of Texas

Notes to Financial Statements (continued)

3. Relationship With the City of Dallas (continued)

In 2018, the Fair and the City executed an amendment to the 2003 Agreement, which extends the initial term of the Agreement to expire on December 31, 2038. The extension is effective on January 1, 2019.

Contractual Payments

In exchange for use of Fair Park during the period of the fair, the Fair pays the City an annual escalating rental fee, which the City is required to place in a special account to be used only for the operation, maintenance, development, and improvement of Fair Park. Additionally, in accordance with the Agreement, the Fair pays an annual \$50,000 marketing fee to the City and is required to spend at least \$150,000 annually on community outreach programs and cultural facilities within Fair Park. In 2018, the Fair spent \$223,000 on payments directly to Fair Park cultural facilities. The marketing fee and cultural facility payments are reflected as an expense in the grants and other assistance category on the statement of functional expenses.

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. Through December 31, 2007, the Fair incurred and funded to the City the maximum commitment of \$19.5 million per the Amendment. In exchange, the City provided rent abatements to the Fair totaling \$13.9 million, commencing in the fourth quarter of 2006 through the first quarter of 2018.

Major Maintenance and Capital Expenditures

The Agreement provides that the Fair applies the excess of its revenues, less its expenses and after all reasonable and prudent reserves are funded, to major maintenance, and capital expenditures for development and enhancement of Fair Park and the Fair. Major maintenance projects are improvements to City-owned Fair Park real property and are classified as Fair Park improvements expense on the statement of functional expenses. Per the Agreement, the net revenues, as defined, allocated by the Fair and the City for major maintenance projects are deposited into a Fair-restricted account known as the Fair Park Improvement Fund.

State Fair of Texas

Notes to Financial Statements (continued)

3. Relationship With the City of Dallas (continued)

In accordance with the Agreement, the Fair funds and maintains a minimum of \$4.5 million as part of its reasonable and prudent reserves in order to provide a sound financial basis for the future economic integrity of the Fair. As stated within the MOU, the reserve fund is subject to adjustment by the Fair's Board of Directors in accordance with best practices for nonprofit organizations. Currently, the reserve fund is calculated as approximately 25% of the average total expense for the five preceding years as stated within the audited financial statements and is noted as Board-designated operating reserve on the statement of financial position.

The reserve fund may be used only upon authorization by the Board of Directors 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. The reserve fund is classified as a Board-designated fund within net assets without donor restrictions on the statement of financial position (see Note 2).

In 2018, the Fair spent approximately \$8.9 million on the development and enhancement of Fair Park, comprising approximately \$4.1 million on capital expenditures and \$4.8 million on major maintenance projects. The capital expenditures are recognized as assets on the statement of financial position, and the major maintenance projects are recognized as an expense noted as Fair Park improvements on the statement of functional expenses.

At December 31, 2018, approximately \$9.7 million of the major maintenance expense 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 by the City at December 31, 2018. The \$9.7 million accrual comprises approximately \$0.2 million for 2016 projects, \$6.1 million for 2017 projects, and \$3.4 million for 2018 projects. In accordance with the MOU, \$9.5 million is deposited in the Fair Park Improvement Fund and is reflected as restricted cash for the 2018 Fair Park major maintenance projects on the statement of financial position.

4. 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.

State Fair of Texas

Notes to Financial Statements (continued)

4. Commitments and Contingencies (continued)

Future minimum lease commitments, including rental escalations and abatements, required under operating leases as of December 31, 2018, are as follows:

2019	\$ 1,636,394
2020	1,633,814
2021	1,621,368
2022	1,559,138
2023	1,754,595
Thereafter	30,250,000
	<u>\$ 38,455,309</u>

Rent expense of approximately \$696,000 was incurred during the year ended December 31, 2018.

5. Investments

The aggregate carrying amount of available-for-sale investments by asset type is as follows at December 31, 2018:

	<u>Cost</u>	<u>Fair Value</u>
Money market accounts	\$ 24,819,800	\$ 24,894,735
Certificates of deposit	764,620	764,620
Domestic corporate bonds	14,083,459	14,111,701
U.S. short-term government bond fund	374,549	369,516
Domestic common stocks	6,821,259	10,339,772
	<u>\$ 46,863,687</u>	<u>\$ 50,480,344</u>

Net realized gains on investments were \$398,103 for the year ended December 31, 2018. Net unrealized losses on investments were \$(593,850) for the year ended December 31, 2018. The Fair recognized investment income of \$619,537, net of investment expenses of \$121,225 for the year ended December 31, 2018. This is recorded in interest income on the statement of activities.

State Fair of Texas

Notes to Financial Statements (continued)

6. Financial Assets and Liquidity Resources

As of December 31, 2018, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses and capital expenditures, were as follows:

	December 31, 2018
Financial assets:	
Cash and cash equivalents	\$ 721,764
Investments	<u>23,924,497</u>
Total financial assets available within one year	24,646,261
Liquidity resources:	
Bank line of credit	<u>3,000,000</u>
Total financial assets and liquidity resources available within one year:	<u><u>\$ 27,646,261</u></u>

The Fair's cash flows have seasonal variations during the year attributable to vendor billing, setup and execution of the annual 24 day fair, and contributions received during the year. As part of the Fair's management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Fair invests cash in excess of daily requirements in short-term investments. To help manage unanticipated expenses, the Fair is party to an agreement with a bank for a \$3 million revolving line of credit to fund seasonal working capital requirements in 2018. 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 2018. 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 2018, no borrowings were made under the line-of-credit arrangement.

7. Related-Party Transactions

The Fair may occasionally conduct business with entities affiliated with members of the Board of Directors. With respect to the Fair and these entities, such transactions are conducted in the normal course of business and in conformance with the Fair's Conflicts of Interest and Ethics Policy.

State Fair of Texas

Notes to Financial Statements (continued)

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.

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 Fair measures its assets and liabilities at fair value on a recurring basis as required; 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. The Fair classified investments in corporate bonds totaling \$14,111,701 as Level 2 securities, as they are not always actively traded, and all other investments totaling \$36,368,643 are classified as Level 1 assets for the year ended December 31, 2018.

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.

State Fair of Texas

Notes to Financial Statements (continued)

9. Retirement Plans (continued)

For the year ended December 31, 2018, the Fair's contribution and plan administration expense totaled approximately \$265,000.

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 \$18,500 in 2018. All contributions under the 457(b) Plan are vested immediately. For the year ended December 31, 2018, the Fair made matching contributions to the 457(b) Plan of approximately \$59,000. Employee and employer contributions are invested at the direction of the employee. The fair market value of the deferred compensation funds is included as an asset on the statement of financial position, with an offsetting deferred compensation liability.

10. Subsequent Events

The Fair evaluated all material events occurring subsequent to the date of the financial statements up to April 17, 2019, the date the financial statements were available to be issued.

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