

FINANCIAL STATEMENTS

State Fair of Texas
Years Ended December 31, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP



State Fair of Texas

Financial Statements

Years Ended December 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

April 7, 2021

State Fair of Texas

Statements of Financial Position

| | December 31 | |
|--|---------------|---------------|
| | 2020 | 2019 |
| Assets | | |
| Current assets: | | |
| Cash | \$ 209,896 | \$ 258,151 |
| Restricted investment for Fair Park Improvements | 11,692,053 | 9,216,605 |
| Restricted investment for Cotton Bowl Improvements | 359,131 | 269,703 |
| Investments | 34,269,541 | 53,791,044 |
| Accounts receivable | 109,659 | 467,615 |
| Inventories, net | 245,370 | 340,323 |
| Prepaid expenses | 466,915 | 491,761 |
| Total current assets | 47,352,565 | 64,835,202 |
| Property and leasehold improvements, at cost: | | |
| Midway improvements | 14,996,763 | 14,996,763 |
| Amusement rides | 21,897,407 | 21,897,407 |
| Building improvements | 24,429,315 | 24,088,519 |
| Furniture, fixtures, and equipment | 10,580,198 | 10,455,498 |
| Construction in progress | 321,000 | 7,326 |
| Land | 4,754,089 | 4,754,089 |
| Total property and leasehold improvements | 76,978,772 | 76,199,602 |
| Less – accumulated depreciation and amortization | (55,708,567) | (52,121,850) |
| Net property and leasehold improvements | 21,270,205 | 24,077,752 |
| Deferred compensation | 1,921,349 | 1,660,605 |
| Total assets | \$ 70,544,119 | \$ 90,573,559 |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 4,963,726 | \$ 8,781,935 |
| Accrued Fair Park Improvements | 11,607,524 | 9,430,876 |
| Total current liabilities | 16,571,250 | 18,212,811 |
| Deferred rent liability | 7,062,678 | 7,137,030 |
| Deferred compensation | 1,921,349 | 1,660,605 |
| Total liabilities | 25,555,277 | 27,010,446 |
| Net assets | | |
| Without donor restrictions: | | |
| Undesignated | 27,512,705 | 46,358,313 |
| Board-designated operating reserve | 13,193,383 | 12,040,775 |
| Board-designated future Fair Park projects | 1,655,810 | 2,102,189 |
| Board-designated scholarship fund reserve | 2,626,944 | 2,889,580 |
| Total net assets without donor restrictions | 44,988,842 | 63,390,857 |
| With donor restrictions | – | 172,256 |
| Total net assets | 44,988,842 | 63,563,113 |
| Total liabilities and net assets | \$ 70,544,119 | \$ 90,573,559 |

See accompanying notes.

State Fair of Texas

Statements of Activities

| | Year Ended December 31 | | | | | |
|---|--|--|----------------------|--|--|----------------------|
| | 2020 | | | 2019 | | |
| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total |
| Revenues | | | | | | |
| Concessions and admissions | \$ 1,275,188 | \$ - | \$ 1,275,188 | \$ 53,091,817 | \$ - | \$ 53,091,817 |
| Exhibit space and other rental | 278,237 | - | 278,237 | 4,907,390 | - | 4,907,390 |
| Interest income | 658,861 | - | 658,861 | 890,590 | - | 890,590 |
| Other | 30,232 | - | 30,232 | 482,561 | - | 482,561 |
| Contributions | 414,957 | 1,782,336 | 2,197,293 | 3,393,868 | 1,932,519 | 5,326,387 |
| Net assets released from restrictions | 1,954,592 | (1,954,592) | - | 2,363,965 | (2,363,965) | - |
| Total revenues | 4,612,067 | (172,256) | 4,439,811 | 65,130,191 | (431,446) | 64,698,745 |
| Expenses | | | | | | |
| Fair time experience | 9,199,719 | - | 9,199,719 | 34,331,520 | - | 34,331,520 |
| Agriculture | 2,828,342 | - | 2,828,342 | 5,095,544 | - | 5,095,544 |
| Education | 2,160,995 | - | 2,160,995 | 3,167,638 | - | 3,167,638 |
| Community involvement | 4,633,092 | - | 4,633,092 | 6,334,233 | - | 6,334,233 |
| Management and general | 4,264,694 | - | 4,264,694 | 5,334,720 | - | 5,334,720 |
| Fundraising | 1,751,155 | - | 1,751,155 | 4,291,474 | - | 4,291,474 |
| Total expenses | 24,837,997 | - | 24,837,997 | 58,555,129 | - | 58,555,129 |
| Excess/(deficit) of revenues over expenses | (20,225,930) | (172,256) | (20,398,186) | 6,575,062 | (431,446) | 6,143,616 |
| Realized and unrealized investment gains | 1,823,915 | - | 1,823,915 | 2,888,366 | - | 2,888,366 |
| Change in net assets | (18,402,015) | (172,256) | (18,574,271) | 9,463,428 | (431,446) | 9,031,982 |
| Net assets at beginning of year | 63,390,857 | 172,256 | 63,563,113 | 53,927,429 | 603,702 | 54,531,131 |
| Net assets at end of year | \$ 44,988,842 | \$ - | \$ 44,988,842 | \$ 63,390,857 | \$ 172,256 | \$ 63,563,113 |

See accompanying notes.

State Fair of Texas
Statements of Cash Flows

| | Year Ended December 31 | |
|--|-------------------------------|---------------|
| | 2020 | 2019 |
| Operating activities | | |
| Change in net assets | \$ (18,574,271) | \$ 9,031,982 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Net realized/unrealized gains on investments | (1,823,915) | (2,888,366) |
| Investment interest/dividend income | (658,861) | (890,590) |
| Depreciation and amortization | 3,624,631 | 3,737,334 |
| Decrease/(increase) in accounts receivable | 357,956 | (10,312) |
| Decrease/(increase) in inventories | 94,953 | (17,927) |
| Decrease/(increase) in prepaid expenses | 24,846 | (160,154) |
| Increase/(decrease) in accounts payable and other liabilities | (1,715,913) | 1,086,230 |
| Net cash (used in) provided by operating activities | (18,670,574) | 9,888,197 |
| Investing activities | | |
| Capital expenditures for property and leasehold improvements | (817,085) | (1,333,758) |
| Sales and maturities of investments | 1,871,322 | 3,708,182 |
| Purchases of investments | (5,589,688) | (269,702) |
| Net cash (used in)/provided by investing activities | (4,535,451) | 2,104,722 |
| Net change in cash, cash equivalents and restricted cash | (23,206,025) | 11,992,919 |
| Cash, cash equivalents and restricted cash at beginning of year | 37,609,418 | 25,616,499 |
| Cash, cash equivalents and restricted cash at end of year | \$ 14,403,393 | \$ 37,609,418 |

See accompanying notes.

State Fair of Texas

Statement of Functional Expenses

Year Ended December 31, 2020

| | Program Services | | | | | | Total |
|----------------------------------|----------------------|--------------|--------------|-----------------------|------------------------|--------------|---------------|
| | Fair Time Experience | Agriculture | Education | Community Involvement | Management and General | Fundraising | |
| Advertising and promotion | \$ 20,423 | \$ 30,500 | \$ 9,334 | \$ 275 | \$ 1,382 | \$ 519,966 | \$ 581,880 |
| Contract services | 271,709 | 278,758 | 7,415 | 11,362 | 31,572 | 6,961 | 607,777 |
| Depreciation and amortization | 2,944,268 | 134,749 | 67,399 | 138,791 | 324,497 | 14,927 | 3,624,631 |
| Fair operational costs | 897,971 | 76,696 | 57,208 | 141,824 | 527 | 2,874 | 1,177,100 |
| Fair Park improvements | — | — | — | 2,539,598 | — | — | 2,539,598 |
| Grants and other assistance | — | 1,270,772 | 44,889 | 713,487 | — | — | 2,029,148 |
| Insurance | 645,791 | 29,556 | 14,783 | 30,442 | 71,175 | 3,274 | 795,021 |
| Occupancy | 1,525,207 | 181,283 | 185,873 | 228,988 | 499,057 | 166,351 | 2,786,759 |
| Other | 81,515 | 56,466 | 32,344 | 15,680 | 121,692 | 385,900 | 693,597 |
| Professional fees | 48,941 | 4,148 | 19,830 | 26,330 | 914,469 | 32,589 | 1,046,307 |
| Repairs and maintenance | 102,980 | 22,800 | 2,926 | 29,889 | 9,015 | 734 | 168,344 |
| Salaries, wages, benefits, taxes | 2,490,556 | 713,391 | 683,991 | 654,915 | 2,257,350 | 578,554 | 7,378,757 |
| Scholarships | — | — | 1,024,250 | — | — | — | 1,024,250 |
| Supplies | 170,358 | 29,223 | 10,753 | 101,511 | 33,958 | 39,025 | 384,828 |
| Total expenses | \$ 9,199,719 | \$ 2,828,342 | \$ 2,160,995 | \$ 4,633,092 | \$ 4,264,694 | \$ 1,751,155 | \$ 24,837,997 |

See accompanying notes.

State Fair of Texas

Statement of Functional Expenses

Year Ended December 31, 2019

| | Program Services | | | | | | Total |
|----------------------------------|----------------------|--------------|--------------|-----------------------|------------------------|--------------|---------------|
| | Fair Time Experience | Agriculture | Education | Community Involvement | Management and General | Fundraising | |
| Advertising and promotion | \$ 48,039 | \$ 82,501 | \$ 40,145 | \$ 1,329 | \$ 14,444 | \$ 2,618,040 | \$ 2,804,498 |
| Contract services | 10,078,580 | 547,551 | 30,067 | 22,076 | 25,784 | 12,247 | 10,716,305 |
| Depreciation and amortization | 2,874,357 | 111,381 | 83,184 | 188,398 | 466,820 | 13,194 | 3,737,334 |
| Fair operational costs | 7,294,599 | 811,560 | 716,961 | 35,953 | 3,626 | 5,264 | 8,867,963 |
| Fair Park improvements | — | — | — | 3,921,185 | — | — | 3,921,185 |
| Grants and other assistance | — | 1,536,985 | 90,471 | 914,424 | — | — | 2,541,880 |
| Insurance | 734,781 | 28,473 | 21,265 | 48,161 | 119,335 | 3,373 | 955,388 |
| Occupancy | 2,717,768 | 272,039 | 220,747 | 257,908 | 643,136 | 182,563 | 4,294,161 |
| Other | 240,150 | 118,038 | 69,292 | 36,527 | 177,178 | 344,320 | 985,505 |
| Professional fees | 120,630 | 499 | 2,519 | 12,616 | 975,244 | 116,199 | 1,227,707 |
| Repairs and maintenance | 743,838 | 143,191 | 17,374 | 70,731 | 46,301 | 1,489 | 1,022,924 |
| Salaries, wages, benefits, taxes | 8,185,043 | 1,263,130 | 1,036,901 | 809,199 | 2,802,306 | 895,546 | 14,992,125 |
| Scholarships | — | — | 798,075 | — | — | — | 798,075 |
| Supplies | 1,293,735 | 180,196 | 40,637 | 15,726 | 60,546 | 99,239 | 1,690,079 |
| Total expenses | \$ 34,331,520 | \$ 5,095,544 | \$ 3,167,638 | \$ 6,334,233 | \$ 5,334,720 | \$ 4,291,474 | \$ 58,555,129 |

See accompanying notes.

State Fair of Texas

Notes to Financial Statements

December 31, 2020

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.

In 2020, the Fair was forced to cancel its annual fair due to public health concerns stemming from the COVID-19 global pandemic. While the Fair engaged in alternate activities, including a drive-through Fair food event, virtual creative arts programming, and modified livestock activities, the operations of the Fair were substantially different in 2020. Consequently, comparability to prior years will be significantly impacted throughout the Fair's financial statements and accompanying notes.

2. Summary of Significant Accounting Policies

A summary of significant accounting policies consistently applied in the preparation of the accompanying 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 2020, this category of net assets includes a board-designated operating reserve fund required by an agreement with the City of Dallas (see Note 3), maintained at \$13,193,383 and \$12,040,775 at December 31, 2020 and 2019, respectively; a board-designated fund intended for future scholarship recipients, maintained at \$2,626,944 and \$2,889,580 at December 31, 2020 and 2019, respectively; and a board-designated fund intended for future Fair Park projects, maintained at \$1,655,810 and \$2,102,189 at December 31, 2020 and 2019, respectively.

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.

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Net Assets Released From Restrictions – Net assets were released from donor restrictions by making scholarship and youth livestock auction premium payments of \$1,954,592 and \$2,363,965 in 2020 and 2019, respectively. While the Fair spent \$2,303,772 in 2020 on scholarship and youth livestock auction premiums, the excess amount spent on scholarship and youth livestock auction premiums of \$349,180 was supplied from net assets without donor restrictions.

Cash and Investments

Cash represents funds on hand for current operations. Cash equivalents include investments in highly liquid securities with original maturities of approximately three months or less. At December 31, 2020 and 2019, cash equivalents of \$14,193,499 and \$37,351,267, respectively, are included with investments for financial statement presentation. Restricted investments at December 31, 2020 and 2019 represent funds set aside for the Fair Park Improvement Fund (see Note 3). In September 2019, the Fair entered into an agreement with a concessionaire, requiring portions of concessions sales from the 2019 and 2020 fairs to be deposited into a fund intended for purchases and projects at the Cotton Bowl as mutually agreed by the Fair and the concessionaire. The deposits from the 2019 fair and the 2020 event are reflected as part of restricted investments for Cotton Bowl Improvements on the statement of financial position. Investments are recorded at fair value (see Notes 5 and 8).

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statements of financial position that sums to the total of such amounts shown in the statements of cash flows:

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| Cash and cash equivalents | \$ 209,896 | \$ 258,151 |
| Restricted investment for Fair Park Improvements | 3,547,454 | 4,147,120 |
| Restricted investment for Cotton Bowl Improvements | 102,887 | 269,703 |
| Investments | 10,543,156 | 32,934,444 |
| Total cash, cash equivalents and restricted cash | <u>\$ 14,403,393</u> | <u>\$ 37,609,418</u> |

Accounts Receivable

Accounts receivable consist of amounts due from the operation of the annual fair, accrued pledges receivable for donor-restricted contributions, sponsorships, and refunds from vendors.

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the average-cost method. For the years ended December 31, 2020 and 2019, the Fair required no inventory valuation reserve.

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 2020 or 2019 as a result of such consideration.

Revenue Recognition

The Fair recognizes revenue when all five of the following revenue recognition criteria have been satisfied:

- Contract(s) with customers have been identified;
- Performance obligations have been identified;
- Transaction prices have been determined;
- Transaction prices have been allocated to the performance obligations; and
- The performance obligations have been fulfilled by transferring control over the promised goods or services to the customer.

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 Update (ASU) 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations*. Commissions paid to operators were \$1.3 million for the drive through Fair food event and \$40 million for traditional Fair operations for the years ended December 31, 2020 and 2019, respectively. 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)

New and Pending Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For not-for-profit entities, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018. The Fair has adopted the standard as of January 1, 2019, using the modified retrospective transition method. Because substantially all of the Fair's revenue is earned immediately during its annual 24-day event, no material differences in revenue recognition were identified upon the adoption of ASU 2014-09 as compared to the Fair's historical revenue recognition; accordingly, there was no adjustment to the opening retained earnings balance at January 1, 2019.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash* (ASU 2016-18), which applies to all entities that have restricted cash and are required to present a statement of cash flows under Topic 230. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Fair adopted ASU 2016-18 for the year ended December 31, 2020, using a modified retrospective approach. The effect of the new standard was to increase the amounts included in cash, cash equivalents, and restricted cash on the statements of cash flows by \$14,193,499, \$37,351,267 and \$24,894,735 as of December 31, 2020, December 31, 2019, and January 1, 2019, respectively.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, with the stated purpose of providing guidance in evaluating whether transactions should be accounted for as contributions or exchanges. In addition, the update introduces the concept of barriers in providing additional guidance on identifying conditions that would preclude the recognition of a contribution as revenue. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018. The Fair has adopted the standard as of January 1, 2019; the adoption of the new standard had no impact on the Fair's financial statements.

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU 2016-02, codifying Accounting Standards Codification (ASC) 840, *Leases*. This update 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 statements of activities. Per an amendment issued by the FASB in June 2020, the provisions of the ASU are effective for annual periods beginning after December 15, 2021; early adoption continues to be permitted. 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 approximately \$600 thousand and \$1.8 million for the years ended December 31, 2020 and 2019, respectively, and are included as part of advertising and promotion expense on the statements of functional expenses.

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 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 collectability of all accounts receivable. Certain deposit amounts exceed current Federal Deposit Insurance Corporation insurance limitations at December 31, 2020 and 2019.

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. 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 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 Fair and does not modify, alter, or amend the original Fair Park contract.

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 became effective on January 1, 2019.

State Fair of Texas

Notes to Financial Statements (continued)

3. Relationship With the City of Dallas (continued)

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 thousand marketing fee to the City and is required to spend at least \$150 thousand annually on community outreach programs and cultural facilities within Fair Park. In 2020 and 2019, the Fair spent \$657 thousand and \$815 thousand, respectively, on community outreach programs and 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 statements of functional expenses.

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 statements 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. As of December 31, 2020 and 2019, the Fair Park Improvement Fund was invested in approximately \$3.5 million and \$4.1 million, respectively, of short-term bonds classified as cash equivalents (see Note 2) and approximately \$8.2 million and \$5.1 million, respectively, of liquid and publicly traded securities.

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 statements of financial position.

State Fair of Texas

Notes to Financial Statements (continued)

3. Relationship With the City of Dallas (continued)

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 statements of financial position (see Note 2).

In 2020 and 2019, the Fair spent approximately \$3.3 million and \$5.2 million, respectively, on the development and enhancement of Fair Park, comprising approximately \$800 thousand and \$1.3 million, respectively, on capital expenditures and \$2.5 million and \$3.9 million, respectively, on major maintenance projects. The capital expenditures are recognized as assets on the statements of financial position, and the major maintenance projects are recognized as an expense noted as Fair Park improvements on the statements of functional expenses.

At December 31, 2020, approximately \$11.6 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, 2020. The \$11.6 million accrual comprises approximately \$0.2 million for 2016 projects, \$5.9 million for 2017 projects, \$3.1 million for 2018 projects, \$0.2 million for 2019 projects, and \$2.2 million for 2020 projects. In accordance with the MOU, \$11.7 million is deposited in the Fair Park Improvement Fund and is reflected as restricted investment for the 2020 Fair Park major maintenance projects on the statement of financial position.

At December 31, 2019, approximately \$9.4 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, 2019. The \$9.4 million accrual comprises approximately \$0.2 million for 2016 projects, \$5.9 million for 2017 projects, \$3.1 million for 2018 projects, and \$0.2 million for 2019 projects. In accordance with the MOU, \$9.2 million is deposited in the Fair Park Improvement Fund and is reflected as restricted investment for the 2019 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)

As discussed in Note 1, the COVID-19 global pandemic caused unprecedented and significant disruptions to Fair operations in 2020, and the Fair continues to evaluate the impacts of the COVID-19 global pandemic on its future operations. While the Fair currently expects to celebrate its 2021 fair, the extent to which COVID-19 may continue to impact the Fair's activities will depend upon future developments, including the duration and spread of the outbreak, government-imposed restrictions, and the impact of the COVID-19 pandemic on the Fair's participants, guests, and vendors, all of which are highly uncertain and cannot be predicted.

Future minimum lease commitments, including rental escalations, required under operating leases as of December 31, 2020, are as follows:

| | |
|------------|----------------------|
| 2021 | \$ 1,695,806 |
| 2022 | 1,666,805 |
| 2023 | 1,754,595 |
| 2024 | 1,750,000 |
| 2025 | 1,750,000 |
| Thereafter | <u>26,750,000</u> |
| | <u>\$ 35,367,206</u> |

Rent expense of approximately \$1.5 million was incurred during each of the years ended December 31, 2020 and 2019.

State Fair of Texas

Notes to Financial Statements (continued)

5. Investments

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

| | 2020 | | 2019 | |
|---|----------------------|----------------------|----------------------|----------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Money market accounts | \$ 13,360,162 | \$ 13,398,601 | \$ 36,517,754 | \$ 36,572,131 |
| Certificates of deposit | 1,598,774 | 1,598,774 | 1,563,112 | 1,563,112 |
| Domestic corporate bonds | 18,569,597 | 18,679,696 | 11,907,859 | 12,036,809 |
| U.S. short-term government bond fund | 1,949,999 | 1,956,207 | 777,716 | 791,019 |
| Domestic common stocks | 5,402,222 | 10,687,447 | 6,446,438 | 12,314,281 |
| | \$ 40,880,754 | \$ 46,320,725 | \$ 57,212,879 | \$ 63,277,352 |

Net realized gains on investments were approximately \$2.4 million and \$.4 million for the years ended December 31, 2020 and 2019, respectively. Net unrealized (losses)/gains on investments were approximately (\$.6 million) and \$2.4 million for the years ended December 31, 2020 and 2019, respectively. The Fair recognized investment income of approximately \$659 thousand and \$891 thousand, net of investment expenses of approximately \$121 thousand and \$126 thousand for the years ended December 31, 2020 and 2019, respectively. Such amounts are recorded in interest income on the statements of activities.

State Fair of Texas

Notes to Financial Statements (continued)

6. Financial Assets and Liquidity Resources

As of December 31, 2020 and 2019, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses and capital expenditures, were as follows:

| | December 31 | |
|--|-----------------------------|----------------------|
| | 2020 | 2019 |
| Financial assets: | | |
| Cash and cash equivalents | \$ 209,896 | \$ 258,151 |
| Investments | 17,152,534 | 36,758,500 |
| Total financial assets available within one year | <u>17,362,430</u> | <u>37,016,651</u> |
| Liquidity resources: | | |
| Bank line of credit | <u>3,000,000</u> | 3,000,000 |
| Total financial assets and liquidity resources available within one year | <u><u>\$ 20,362,430</u></u> | <u>\$ 40,016,651</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 \$3.0 million revolving line of credit to fund seasonal working capital requirements in 2020 and 2019. 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 2020 and 2019. 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 2020 and 2019, 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

ASC 820, *Fair Value Measurement*, 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 lowest level of input that is significant to the fair value measurement. In determining fair value, the Fair used valuation techniques that maximize the use of observable inputs and minimize 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 \$18,679,696 and \$12,036,809 as Level 2 securities, as they are not always actively traded, and all other investments totaling \$27,641,029 and \$51,240,543 are classified as Level 1 assets as of December 31, 2020 and 2019, respectively.

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, 2020 and 2019, the Fair's contribution and plan administration expense totaled approximately \$291 thousand and \$369 thousand, 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 \$19.5 thousand and \$19.0 thousand in 2020 and 2019, respectively. All contributions under the 457(b) Plan are vested immediately. For the years ended December 31, 2020 and 2019, the Fair made matching contributions to the 457(b) Plan of approximately \$82.0 thousand and \$84.0 thousand, respectively. 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 statements 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 7, 2021, the date the financial statements were available to be issued.

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