

FINANCIAL STATEMENTS

State Fair of Texas
Years Ended December 31, 2021 and 2020
With Report of Independent Auditors

Ernst & Young LLP



State Fair of Texas

Financial Statements

Years Ended December 31, 2021 and 2020

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Report of Independent Auditors

The Board of Directors
State Fair of Texas

We have audited the financial statements of State Fair of Texas (the Fair), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, statement of functional expenses and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fair at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fair and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fair’s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fair's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fair's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young LLP

April 13, 2022

State Fair of Texas
Statements of Financial Position

	December 31	
	2021	2020
Assets		
Current assets:		
Cash	\$ 367,432	\$ 209,896
Restricted investment for Fair Park improvements	11,283,419	11,692,053
Restricted investment for Cotton Bowl improvements	359,131	359,131
Investments	70,904,730	34,269,541
Accounts receivable	962,122	109,659
Inventories, net	193,637	245,370
Prepaid expenses	321,254	466,915
Total current assets	84,391,725	47,352,565
Property and leasehold improvements, at cost:		
Midway improvements	14,996,763	14,996,763
Amusement rides	21,897,407	21,897,407
Building improvements	23,690,131	24,429,315
Furniture, fixtures, and equipment	10,398,142	10,580,198
Construction in progress	10,467	321,000
Land	4,754,089	4,754,089
Total property and leasehold improvements	75,746,999	76,978,772
Less – accumulated depreciation and amortization	(57,576,439)	(55,708,567)
Net property and leasehold improvements	18,170,560	21,270,205
Deferred compensation	2,287,938	1,921,349
Total assets	\$ 104,850,223	\$ 70,544,119
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,772,812	\$ 4,963,726
Accrued Fair Park improvements	11,497,690	11,607,524
Total current liabilities	20,270,502	16,571,250
Deferred rent liability	6,988,330	7,062,678
Deferred compensation	2,287,938	1,921,349
Total liabilities	29,546,770	25,555,277
Net assets		
Without donor restrictions:		
Undesignated	55,677,964	27,512,705
Board-designated operating reserve	13,758,812	13,193,383
Board-designated future Fair Park projects	2,657,633	1,655,810
Board-designated scholarship fund reserve	3,167,375	2,626,944
Total net assets without donor restrictions	75,261,784	44,988,842
With donor restrictions	41,669	–
Total net assets	75,303,453	44,988,842
Total liabilities and net assets	\$ 104,850,223	\$ 70,544,119

See accompanying notes.

State Fair of Texas
Statements of Activities

	Year Ended December 31					
	2021			2020		
	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	\$ 64,348,007	\$ -	\$ 64,348,007	\$ 1,275,188	\$ -	\$ 1,275,188
Exhibit space and other rental	4,749,586	-	4,749,586	278,237	-	278,237
Interest and dividend income	313,004	-	313,004	658,861	-	658,861
Other	690,709	-	690,709	30,232	-	30,232
Contributions	3,604,846	2,160,646	5,765,492	414,957	1,782,336	2,197,293
Net assets released from restrictions	2,118,977	(2,118,977)	-	1,954,592	(1,954,592)	-
Total revenues	<u>75,825,129</u>	<u>41,669</u>	<u>75,866,798</u>	<u>4,612,067</u>	<u>(172,256)</u>	<u>4,439,811</u>
Expenses						
Fair time experience	35,805,859	-	35,805,859	9,199,719	-	9,199,719
Agriculture	5,477,805	-	5,477,805	2,828,342	-	2,828,342
Education	2,512,068	-	2,512,068	2,160,995	-	2,160,995
Community involvement	1,367,541	-	1,367,541	4,633,092	-	4,633,092
Management and general	5,067,188	-	5,067,188	4,264,694	-	4,264,694
Fundraising	3,551,123	-	3,551,123	1,751,155	-	1,751,155
Total expenses	<u>53,781,584</u>	<u>-</u>	<u>53,781,584</u>	<u>24,837,997</u>	<u>-</u>	<u>24,837,997</u>
Excess(deficit) of revenues over expenses	22,043,545	41,669	22,085,214	(20,225,930)	(172,256)	(20,398,186)
Realized and unrealized investment gains	2,170,552	-	2,170,552	1,823,915	-	1,823,915
Gain on loan (PPP) extinguishment	6,058,845	-	6,058,845	-	-	-
Change in net assets	<u>30,272,942</u>	<u>41,669</u>	<u>30,314,611</u>	<u>(18,402,015)</u>	<u>(172,256)</u>	<u>(18,574,271)</u>
Net assets at beginning of year	44,988,842	-	44,988,842	63,390,857	172,256	63,563,113
Net assets at end of year	<u>\$ 75,261,784</u>	<u>\$ 41,669</u>	<u>\$ 75,303,453</u>	<u>\$ 44,988,842</u>	<u>\$ -</u>	<u>\$ 44,988,842</u>

See accompanying notes.

State Fair of Texas
Statements of Cash Flows

	Year Ended December 31	
	2021	2020
Operating activities		
Change in net assets	\$ 30,314,611	\$ (18,574,271)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized/unrealized gains on investments	(2,170,552)	(1,823,915)
Investment interest/dividend income	(313,004)	(658,861)
Depreciation and amortization	3,244,327	3,624,631
Gain on loan (PPP) extinguishment	(6,058,845)	–
(Increase) decrease in accounts receivable	(852,463)	357,956
Decrease in inventories	51,733	94,953
Decrease in prepaid expenses	145,661	24,846
Increase (decrease) in accounts payable and other liabilities	3,624,904	(1,715,913)
Net cash provided by (used in) operating activities	27,986,372	(18,670,574)
Investing activities		
Purchases of property and leasehold improvements	(144,683)	(817,085)
Sales and maturities of investments	2,270,192	1,871,322
Purchases of investments	–	(5,589,688)
Net cash provided by (used in) investing activities	2,125,509	(4,535,451)
Financing activities		
Proceeds from PPP Loan	6,058,845	–
Net cash provided by financing activities	6,058,845	–
Net change in cash and cash equivalents	36,170,726	(23,206,025)
Cash and cash equivalents at beginning of year	14,403,393	37,609,418
Cash and cash equivalents at end of year	\$ 50,574,119	\$ 14,403,393

See accompanying notes.

State Fair of Texas

Statement of Functional Expenses

Year Ended December 31, 2021

	Program Services				Supporting Services		Total
	Fair Time Experience	Agriculture	Education	Community Involvement	Management and General	Fundraising	
Advertising and promotion	\$ 100,008	\$ 71,044	\$ 300	\$ 372	\$ 2,778	\$ 2,075,492	\$ 2,249,994
Contract services	12,332,823	754,501	22,607	3,083	28,674	31,932	13,173,620
Depreciation and amortization	2,913,876	137,819	28,756	43,118	111,510	9,248	3,244,327
Fair operational costs	7,384,070	837,109	288,616	23,145	3,704	3,072	8,539,716
Fair Park improvements	—	—	—	19,401	—	—	19,401
Grants and other assistance	—	1,748,724	18,980	542,163	—	—	2,309,867
Insurance	1,105,431	52,284	10,909	16,357	42,303	3,509	1,230,793
Occupancy	3,019,600	281,519	183,661	130,907	540,952	179,836	4,336,475
Other	363,592	62,317	46,520	3,523	140,880	310,352	927,184
Professional fees	177,228	4,081	4,003	4,827	928,584	—	1,118,723
Repairs and maintenance	639,241	116,201	4,762	23,004	15,661	1,281	800,150
Salaries, wages, benefits, taxes	6,796,477	1,175,885	1,079,964	552,684	3,206,981	893,092	13,705,083
Scholarships	—	—	802,000	—	—	—	802,000
Supplies	973,513	236,321	20,990	4,957	45,161	43,309	1,324,251
Total expenses	\$ 35,805,859	\$ 5,477,805	\$ 2,512,068	\$ 1,367,541	\$ 5,067,188	\$ 3,551,123	\$ 53,781,584

See accompanying notes.

State Fair of Texas

Statement of Functional Expenses

Year Ended December 31, 2020

	Program Services				Supporting 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

Notes to Financial Statements

December 31, 2021

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 the current year 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 2021, 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 \$13,758,812 and \$13,193,383 at December 31, 2021 and 2020, respectively; a board-designated fund intended for future scholarship recipients, maintained at \$3,167,375 and \$2,626,944 at December 31, 2021 and 2020, respectively; and a board-designated fund intended for future Fair Park projects, maintained at \$2,657,633 and \$1,655,810 at December 31, 2021 and 2020, 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 \$2,118,977 and \$1,954,592 in 2021 and 2020, respectively. While the Fair spent \$2,559,080 and \$2,303,772 in 2021 and 2020, respectively, on scholarship and youth livestock auction premiums, the excess amount spent on scholarship and youth livestock auction premiums of \$440,103 in 2021 and \$349,180 in 2020 was supplied from net assets without donor restrictions.

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.

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, 2021 and 2020, 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 2021 or 2020 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;

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

- 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 \$47.0 million for traditional Fair operations and \$1.3 million for the drive through Fair food event for the years ended December 31, 2021 and 2020, respectively. The Fair also receives rental revenues for exhibit space during fair time, which are recognized ratably as the services are provided. The Fair recognizes revenue for contributions in accordance with Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

New and Pending Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (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. The Fair adopted ASU 2016-02 on January 1, 2022 and does not expect the adoption of the Standard to have a material impact on its financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958)*, which requires enhanced presentation and disclosures for not-for-profit entities that receive contributed nonfinancial assets. The provisions of the ASU are effective for annual periods beginning after June 15, 2022; early adoption is permitted. Currently, the Fair is assessing the effects of adopting the Standard. The Fair does not plan to early adopt.

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Advertising Costs

Advertising costs, which are expensed as incurred, were approximately \$1.4 million and \$600 thousand for the years ended December 31, 2021 and 2020, 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, 2021 and 2020.

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.

State Fair of Texas

Notes to Financial Statements (continued)

3. Relationship With the City of Dallas (continued)

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.

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 2021 and 2020, the Fair spent \$486 thousand and \$657 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,

State Fair of Texas

Notes to Financial Statements (continued)

3. Relationship With the City of Dallas (continued)

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, 2021 and 2020, the Fair Park Improvement Fund is invested in approximately \$3.6 million and \$3.5 million, respectively, of short-term bonds classified as cash equivalents (see Note 5) and approximately \$7.7 million and \$8.2 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. 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 2021 and 2020, the Fair spent approximately \$485 thousand and \$3.3 million, respectively, on the development and enhancement of Fair Park, comprising approximately \$465 thousand and \$800 thousand, respectively, on capital expenditures and \$20 thousand and \$2.5 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, 2021, approximately \$11.5 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, 2021. The \$11.5 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 \$2.1 million for 2020. Because of the \$20.4 million deficit of revenues over expenses that the Fair experienced in 2020, there were no funds accrued in 2021. In accordance with the MOU, \$11.3 million is deposited in the Fair Park Improvement Fund and is reflected as restricted investment for the 2021 Fair Park major maintenance projects on the statement of financial position.

State Fair of Texas

Notes to Financial Statements (continued)

3. Relationship With the City of Dallas (continued)

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.

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.

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 2022 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, 2021, are as follows:

2022	\$ 1,666,805
2023	1,754,595
2024	1,750,000
2025	1,750,000
2026	1,750,000
Thereafter	<u>25,000,000</u>
	<u>\$ 33,671,400</u>

Rent expense of approximately \$1.5 million was incurred during each of the years ended December 31, 2021 and 2020.

State Fair of Texas

Notes to Financial Statements (continued)

5. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

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, 2021 and 2020, cash equivalents of \$50,206,687 and \$14,193,499, respectively, are included within the balance of the Investments, Restricted investment for Fair Park improvements, and Restricted investment for Cotton Bowl improvements line items on the Statement of Financial Position.

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

December 31, 2021	Cash /Cash Equivalents	Securities	Total
Cash	\$ 367,432	\$ –	\$ 367,432
Restricted investment for Fair Park improvements	3,617,413	7,666,006	11,283,419
Restricted investment for Cotton Bowl improvements	359,131	–	359,131
Investments	46,230,143	24,674,587	70,904,730
Total	\$ 50,574,119	\$ 32,340,593	\$ 82,914,712

December 31, 2020	Cash /Cash Equivalents	Securities	Total
Cash	\$ 209,896	\$ –	\$ 209,896
Restricted investment for Fair Park improvements	3,547,454	8,144,599	11,692,053
Restricted investment for Cotton Bowl improvements	102,887	256,244	359,131
Investments	10,543,156	23,726,385	34,269,541
Total	\$ 14,403,393	\$ 32,127,228	\$ 46,530,621

State Fair of Texas

Notes to Financial Statements (continued)

5. Cash, Cash Equivalents, and Investments (continued)

Investments and Restricted Investments

In September 2019, the Fair entered into an agreement with a concessionaire, requiring portions of concessions sales from the 2019 fair and 2020 event 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. Additional restricted investments at December 31, 2021 and 2020 represent funds set aside for the Fair Park Improvement Fund (see Note 3). Investments are recorded at fair value.

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

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Money market accounts	\$ 50,170,474	\$ 50,206,687	\$ 13,360,162	\$ 13,398,601
Certificates of deposit	–	–	1,598,774	1,598,774
Domestic corporate bonds	19,207,307	19,075,607	18,569,597	18,679,696
U.S. short-term government bond fund	1,949,999	1,947,208	1,949,999	1,956,207
Domestic common stocks	4,916,144	11,317,778	5,402,222	10,687,447
	<u>\$ 76,243,924</u>	<u>\$ 82,547,280</u>	<u>\$ 40,880,754</u>	<u>\$ 46,320,725</u>

Net realized gains on investments were approximately \$1.3 million and \$2.4 million for the years ended December 31, 2021 and 2020, respectively. Net unrealized gains (losses) on investments were approximately \$0.9 million and (\$0.6 million) for the years ended December 31, 2021 and 2020, respectively. The Fair recognized investment income of approximately \$313 thousand and \$659 thousand, net of investment expenses of approximately \$128 thousand and \$121 thousand for the years ended December 31, 2021 and 2020, respectively. Such amounts are recorded in interest and dividend income on the statements of activities.

State Fair of Texas

Notes to Financial Statements (continued)

6. 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 \$19,075,603 and \$18,679,696 as Level 2 securities, as they are not always actively traded, and all other investments totaling \$63,471,677 and \$27,641,029 are classified as Level 1 assets as of December 31, 2021 and 2020, respectively.

State Fair of Texas

Notes to Financial Statements (continued)

7. Financial Assets and Liquidity Resources

As of December 31, 2021 and 2020, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses and capital expenditures, were as follows:

	December 31	
	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 367,432	\$ 209,896
Investments	51,320,909	17,152,534
Total financial assets available within one year	51,688,341	17,362,430
Liquidity resources:		
Bank line of credit	3,000,000	3,000,000
Total financial assets and liquidity resources available within one year	\$ 54,688,341	\$ 20,362,430

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 2021 and 2020. 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 2021 and 2020. 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 2021 and 2020, no borrowings were made under the line-of-credit arrangement.

8. 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)

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, 2021 and 2020, the Fair's contribution and plan administration expense totaled approximately \$377 thousand and \$291 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 in both 2021 and 2020. All contributions under the 457(b) Plan are vested immediately. For each of the years ended December 31, 2021 and 2020, the Fair made matching contributions to the 457(b) Plan of approximately \$82.0 thousand. 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. Paycheck Protection Program Loan and Forgiveness

In 2020, the Fair was forced to cancel its annual fair due to public health concerns stemming from the COVID-19 global pandemic, resulting in a \$20.4 million deficit of revenues over expenses. In April 2021, the Fair received a \$6.1 million loan through the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA) as part of the federal Coronavirus Aid, Relief and Economic Security (CARES) Act. PPP loans are forgivable by the SBA if at least 60% of loan proceeds are spent on payroll costs, including benefits, and other items such as rent, utilities, and worker protection costs related to COVID-19. Of the \$6.1 million loan, the Fair spent

State Fair of Texas

Notes to Financial Statements (continued)

10. Paycheck Protection Program Loan and Forgiveness (continued)

98% of the proceeds on payroll costs, directly supporting 1,758 employees. The remaining proceeds were spent on rent, utilities, and worker protection costs. The Fair was notified in December 2021 that the loan was fully forgiven by the SBA. The \$6.1 million forgiveness is reflected as gain on loan (PPP) extinguishment on the statement of activities.

11. Subsequent Events

The Fair evaluated all material events occurring subsequent to the date of the financial statements up to April 13, 2022, the date the financial statements were available to be issued.

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