

FINANCIAL STATEMENTS

State Fair of Texas  
Years Ended December 31, 2022 and 2021  
With Report of Independent Auditors

Ernst & Young LLP



State Fair of Texas

Financial Statements

Years Ended December 31, 2022 and 2021

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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, 2022 and 2021, and the related statements of activities, 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, 2022 and 2021, 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.

### **Emphasis of Matter**

As discussed in Note 2 to the financial statements, the Fair changed its method of accounting for leases as a result of the adoption of the amendments to the Financial Accounting Standards Board Accounting Standards Codification (ASC) resulting from Accounting Standards Update 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

### **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, 2023

State Fair of Texas  
Statements of Financial Position

	December 31	
	2022	2021
<b>Assets</b>		
Current assets:		
Cash	\$ 309,557	\$ 367,432
Restricted investment for Fair Park improvements	11,775,175	11,283,419
Restricted investment for Cotton Bowl improvements	359,131	359,131
Investments	82,792,172	70,904,730
Accounts receivable	755,545	962,122
Inventories, net	200,507	193,637
Prepaid expenses	258,617	321,254
Total current assets	<u>96,450,704</u>	<u>84,391,725</u>
Property and leasehold improvements, at cost:		
Midway improvements	15,036,044	14,996,763
Amusement rides	21,897,407	21,897,407
Building improvements	26,104,724	23,690,131
Furniture, fixtures, and equipment	11,187,866	10,398,142
Construction in progress	396,960	10,467
Land	4,754,089	4,754,089
Total property and leasehold improvements	<u>79,377,090</u>	<u>75,746,999</u>
Less – accumulated depreciation and amortization	<u>(60,525,932)</u>	<u>(57,576,439)</u>
Net property and leasehold improvements	18,851,158	18,170,560
Deferred compensation	2,124,754	2,287,938
Finance lease right-of-use assets, net	1,313,060	–
Operating lease right-of-use assets	16,340,400	–
Total assets	<u>\$ 135,080,076</u>	<u>\$ 104,850,223</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,240,819	\$ 8,772,812
Accrued Fair Park improvements	11,815,845	11,497,690
Finance lease right-of-use liabilities	311,416	–
Operating lease right-of-use liabilities	980,514	–
Total current liabilities	<u>19,348,594</u>	<u>20,270,502</u>
Deferred rent liability	–	6,988,330
Deferred compensation	2,124,754	2,287,938
Finance lease right-of-use liabilities	1,034,633	–
Operating lease right-of-use liabilities	23,749,510	–
Total liabilities	<u>46,257,491</u>	<u>29,546,770</u>
<b>Net assets</b>		
Without donor restrictions:		
Undesignated	61,675,901	55,677,964
Board-designated operating reserve	19,446,274	13,758,812
Board-designated future Fair Park projects	4,937,422	2,657,633
Board-designated scholarship fund reserve	2,721,319	3,167,375
Total net assets without donor restrictions	<u>88,780,916</u>	<u>75,261,784</u>
With donor restrictions	41,669	41,669
Total net assets	<u>88,822,585</u>	<u>75,303,453</u>
Total liabilities and net assets	<u>\$ 135,080,076</u>	<u>\$ 104,850,223</u>

See accompanying notes.

# State Fair of Texas

## Statements of Activities

	Year Ended December 31					
	2022			2021		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
<b>Revenues</b>						
Concessions and admissions	\$ 75,464,097	\$ —	\$ 75,464,097	\$ 64,348,007	\$ —	\$ 64,348,007
Exhibit space and other rental	4,838,600	—	4,838,600	4,749,586	—	4,749,586
Interest and dividend income	855,711	—	855,711	313,004	—	313,004
Other	845,537	—	845,537	690,709	—	690,709
Contributions	2,685,953	2,588,984	5,274,937	2,403,493	2,160,646	4,564,139
Donated goods and services	1,136,014	—	1,136,014	1,201,353	—	1,201,353
Net assets released from restrictions	2,588,984	(2,588,984)	—	2,118,977	(2,118,977)	—
<b>Total revenues</b>	<b>88,414,896</b>	<b>—</b>	<b>88,414,896</b>	<b>75,825,129</b>	<b>41,669</b>	<b>75,866,798</b>
<b>Expenses</b>						
Fair time experience	41,514,532	—	41,514,532	35,805,859	—	35,805,859
Agriculture	6,549,438	—	6,549,438	5,477,805	—	5,477,805
Education	3,061,981	—	3,061,981	2,512,068	—	2,512,068
Community involvement	11,544,230	—	11,544,230	1,367,541	—	1,367,541
Management and general	6,044,463	—	6,044,463	5,067,188	—	5,067,188
Fundraising	4,304,261	—	4,304,261	3,551,123	—	3,551,123
<b>Total expenses</b>	<b>73,018,905</b>	<b>—</b>	<b>73,018,905</b>	<b>53,781,584</b>	<b>—</b>	<b>53,781,584</b>
Excess of revenues over expenses	15,395,991	—	15,395,991	22,043,545	41,669	22,085,214
Realized and unrealized investment (losses) gains	(2,168,512)	—	(2,168,512)	2,170,552	—	2,170,552
Tax credit	291,653	—	291,653	—	—	—
Gain on loan (PPP) extinguishment	—	—	—	6,058,845	—	6,058,845
<b>Change in net assets</b>	<b>13,519,132</b>	<b>—</b>	<b>13,519,132</b>	<b>30,272,942</b>	<b>41,669</b>	<b>30,314,611</b>
Net assets at beginning of year	75,261,784	41,669	75,303,453	44,988,842	—	44,988,842
<b>Net assets at end of year</b>	<b>\$ 88,780,916</b>	<b>\$ 41,669</b>	<b>\$ 88,822,585</b>	<b>\$ 75,261,784</b>	<b>\$ 41,669</b>	<b>\$ 75,303,453</b>

*See accompanying notes.*

State Fair of Texas  
Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
<b>Operating activities</b>		
Change in net assets	\$ 13,519,132	\$ 30,314,611
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized/unrealized losses (gains) on investments	2,168,512	(2,170,552)
Investment interest/dividend income	(855,711)	(313,004)
Depreciation	3,064,039	3,244,327
Amortization of right-of-use assets – finance leases	328,265	–
Interest on lease liabilities – finance leases	44,724	–
Operating lease cost	1,401,294	–
Gain on loan (PPP) extinguishment	–	(6,058,845)
Decrease (increase) in accounts receivable	206,577	(852,463)
(Increase) decrease in inventories	(6,870)	51,733
Decrease in prepaid expenses	62,637	145,661
Decrease (increase) in accounts payable and other liabilities	(2,213,838)	3,624,904
Net cash provided by operating activities	17,718,761	27,986,372
<b>Investing activities</b>		
Purchases of property and leasehold improvements	(3,788,556)	(144,683)
Disposals of property and leasehold improvements	43,920	
Sales and maturities of investments	9,399,854	2,270,192
Purchases of investments	(17,190,000)	–
Net cash (used in) provided by investing activities	(11,534,782)	2,125,509
<b>Financing activities</b>		
Finance lease costs	(340,000)	–
Proceeds from PPP Loan	–	6,058,845
Net cash (used in) provided by financing activities	(340,000)	6,058,845
Net change in cash and cash equivalents	5,843,979	36,170,726
Cash and cash equivalents at beginning of year	50,574,119	14,403,393
Cash and cash equivalents at end of year	\$ 56,418,098	\$ 50,574,119

*See accompanying notes.*

State Fair of Texas

Statement of Functional Expenses

Year Ended December 31, 2022

	Program Services				Supporting Services		Total
	Fair Time Experience	Agriculture	Education	Community Involvement	Management and General	Fundraising	
Advertising and promotion	\$ 102,623	\$ 113,730	\$ 20,599	\$ 1,584	\$ 4,156	\$ 2,513,632	\$ 2,756,324
Contract services	13,499,705	1,289,319	44,842	34,661	125,410	34,097	15,028,034
Depreciation and amortization	3,041,895	139,844	32,563	42,469	127,459	8,074	3,392,304
Fair operational costs	9,384,574	923,244	346,698	199	6,916	13,761	10,675,392
Fair Park improvements	—	—	—	9,566,889	—	—	9,566,889
Grants and other assistance	—	1,834,469	38,535	829,738	2,239	—	2,704,981
Insurance	1,222,941	63,023	14,675	19,139	57,442	3,639	1,380,859
Occupancy	3,375,531	311,288	196,740	162,854	642,447	191,362	4,880,222
Other	271,497	96,860	49,929	10,922	321,885	377,480	1,128,573
Professional fees	182,922	7,839	93	—	988,001	43,625	1,222,480
Repairs and maintenance	836,754	124,661	10,442	30,313	20,121	1,286	1,023,577
Salaries, wages, benefits, taxes	8,284,191	1,479,256	1,361,095	839,211	3,681,795	1,042,270	16,687,818
Scholarships	—	—	917,250	—	—	—	917,250
Supplies	1,311,899	165,905	28,520	6,251	66,592	75,035	1,654,202
<b>Total expenses</b>	<b>\$ 41,514,532</b>	<b>\$ 6,549,438</b>	<b>\$ 3,061,981</b>	<b>\$ 11,544,230</b>	<b>\$ 6,044,463</b>	<b>\$ 4,304,261</b>	<b>\$ 73,018,905</b>

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
<b>Total expenses</b>	<b>\$ 35,805,859</b>	<b>\$ 5,477,805</b>	<b>\$ 2,512,068</b>	<b>\$ 1,367,541</b>	<b>\$ 5,067,188</b>	<b>\$ 3,551,123</b>	<b>\$ 53,781,584</b>

*See accompanying notes.*

# State Fair of Texas

## Notes to Financial Statements

December 31, 2022

### 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 financial statements under U.S. generally accepted accounting principles (U.S. 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 2022, 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 \$19,446,274 and \$13,758,812 at December 31, 2022 and 2021, respectively; a board-designated fund intended for future scholarship recipients, maintained at \$2,721,319 and \$3,167,375 at December 31, 2022 and 2021, respectively; and a board-designated fund intended for future Fair Park projects, maintained at \$4,937,422 and \$2,657,633 at December 31, 2022 and 2021, 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.

*Net Assets Released From Restrictions* – Net assets were released from donor restrictions by making scholarship and youth livestock auction premium payments of \$2,588,984 and \$2,118,977 in 2022 and 2021, respectively. While the Fair spent \$2,760,593 and \$2,559,080 in 2022 and 2021, respectively, on scholarship and youth livestock auction premiums, the excess amount spent on scholarship and youth livestock auction premiums of \$171,609 in 2022 and \$440,103 in 2021 was supplied from net assets without donor restrictions.

## State Fair of Texas

### Notes to Financial Statements (continued)

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

##### **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, 2022 and 2021, 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 2022 or 2021 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.

## State Fair of Texas

### Notes to Financial Statements (continued)

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

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 \$59 million and \$47 million for the years ended December 31, 2022 and 2021, 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 ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

#### **Adoption of New Accounting Pronouncements**

On January 1, 2022, the Fair adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 842, *Leases (ASC 842)*. Under the new guidance, the Fair recognized right-of-use (ROU) assets and lease liabilities for leases with terms greater than 12 months. Lessees are now required to classify leases as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease.

The Fair has elected to utilize the following practical expedients:

- The Fair did not reassess whether any expired or existing contracts are or contain leases upon adoption;
- The Fair retained the classification of leases (e.g., operating or finance lease) existing as of the date of adoption;
- The Fair did not reassess initial direct costs for any existing leases upon adoption;
- The Fair utilized hindsight in determining the lease term, that is, when considering lessee options to extend or terminate the lease and to purchase the underlying asset and in assessing impairment of the Fair's ROU assets;
- The Fair did not evaluate whether existing land easements not previously accounted for as leases contain a lease under ASC 842;

## State Fair of Texas

### Notes to Financial Statements (continued)

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

- The Fair has chosen to account for each separate lease component of a contract and its associated nonlease components as a single lease component;
- The Fair has elected to exclude leases with terms less than 12 months, including any probable renewal options, from statement of financial position recognition.
- For leases that the implicit borrowing rate is not known, the Fair has elected to utilize the risk-free rate for the following asset classes:
  - Fairtime equipment
  - Facilities

The Fair adopted ASC 842 using the modified retrospective method and, accordingly, the new guidance was applied retrospectively to leases that existed as of January 1, 2022 (the date of initial application). As a result of adoption, the Fair recognized the following impact to the statement of financial position:

ROU assets – operating	\$ 17,079,879
Lease liability – current	(848,158)
Lease liability – net of current portion	(24,695,697)
Deferred rent	8,463,976
Liabilities	<u>(17,079,879)</u>
Cumulative effect	<u>\$ —</u>

The adoption of ASC 842 did not have an impact on the Fair’s results of operations or cash flows.

During 2022, the Fair adopted FASB ASU 2020-07, *Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the financial statements, with the exception of increased disclosure.

## State Fair of Texas

### Notes to Financial Statements (continued)

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

##### **Donated Goods and Services**

The Fair receives various forms of donated goods and services, including advertising and promotion, fair time equipment, and other smaller miscellaneous items. Donated goods and services are reported as contributions at their estimated fair value on the date of receipt and reported as expense when utilized. These values are based upon estimates of fair market or wholesale values that would be received for selling the goods in their principal market considering their condition and utility for use at the time the goods are contributed by the donor. The Fair did not monetize any contributed nonfinancial assets and, unless otherwise noted, contributed nonfinancial assets did not have donor restrictions.

##### **Advertising Costs**

Advertising costs, which are expensed as incurred, were approximately \$1.9 million and \$1.4 million for the years ended December 31, 2022 and 2021, respectively, and are included as part of advertising and promotion expenses 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, 2022 and 2021.

## 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 2022 and 2021, the Fair spent \$752 thousand and \$486 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 expenses 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, 2022 and 2021, the Fair Park Improvement Fund is invested in approximately \$2.4 million and \$3.6 million, respectively, of short-term bonds classified as cash equivalents (see Note 6) and approximately \$9.3 million and \$7.7 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 35% 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).



## State Fair of Texas

### Notes to Financial Statements (continued)

#### **3. Relationship With the City of Dallas (continued)**

In 2022 and 2021, the Fair spent approximately \$13.4 million and \$485 thousand, respectively, on the development and enhancement of Fair Park, comprising approximately \$3.8 million and \$465 thousand, respectively, on capital expenditures and \$9.6 million and \$20 thousand, 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, 2022, approximately \$11.8 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, 2022. The \$11.8 million accrual comprises approximately \$40 thousand for 2016 projects, \$1.6 million for 2017 projects, \$0.5 million for 2018 projects, \$0.1 million for 2019 projects, \$0.8 million for 2020 projects, and \$8.7 million for 2022 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 2022 Fair Park major maintenance projects on the statement of financial position.

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.

#### **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)

The Fair recognizes ROU assets and lease liabilities for leases with terms greater than 12 months or leases that contain a purchase option that is reasonably certain to be exercised. Leases are classified as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease.

The Fair's ROU assets and lease liabilities primarily relate to facilities and equipment. Currently, none of the Fair's facility and equipment leases include options to renew. The exercise of lease renewal options is at the Fair's discretion. Renewal periods are included in the expected lease term if they are reasonably certain of being exercised by the Fair. Certain leases also include options to purchase the leased property. None of the Fair's lease agreements contain material residual value guarantees or material restrictions or covenants.

Long-term leases (leases with terms greater than 12 months) are recorded as liabilities at the present value of the minimum lease payments not yet paid. The Fair uses the risk-free rate to determine the present value of the lease when the rate implicit in the lease is not readily determinable. Certain lease contracts contain nonlease components, such as services. The Fair recognizes both the lease component and nonlease components as a single lease component for all of its ROU assets. From time to time, certain service or purchase contracts may contain an embedded lease.

Short-term leases (leases with an initial term of 12 months or less or leases that are cancelable by the lessee and lessor without significant penalties) are not capitalized but are expensed on a straight-line basis over the lease term. The majority of the Fair's short-term leases relate to fair-time equipment. These leases are entered into at periodic rental rates for an unspecified duration and typically have a termination for convenience provision.

Lease expense consisted of the following for the year ended December 31, 2022:

Operating lease cost	\$ 1,586,606
Finance lease cost:	
Amortization of ROU assets	328,265
Interest on lease liabilities	44,724
Total finance lease cost	<u>372,989</u>
Total lease cost	<u>\$ 1,959,595</u>

State Fair of Texas

Notes to Financial Statements (continued)

**4. Commitments and Contingencies (continued)**

The Fair's ROU assets and lease liabilities consisted of the following at December 31, 2022:

<b>Operating leases</b>	
ROU assets – operating leases	\$ 17,012,486
Accumulated amortization	<u>(672,086)</u>
Net ROU assets – operating leases	<u>\$16,340,400</u>
Lease liability – operating leases – current	\$ (980,514)
Lease liability – operating leases – net of current portion	<u>(23,749,510)</u>
Total lease liability – operating leases	<u>\$(24,730,024)</u>
<b>Finance leases</b>	
ROU assets – finance leases	\$ 1,641,325
Accumulated amortization	<u>(328,265)</u>
Net ROU assets – finance leases	<u>\$ 1,313,060</u>
Lease liability – finance leases – current	\$ (311,416)
Lease liability – finance leases – net of current portion	<u>(1,034,633)</u>
Total lease liability – finance leases	<u>\$ (1,346,049)</u>

The remaining lease payments, including rental escalations, required under the Fair's operating and finance leases consist of the following for the years ending December 31:

	<u>Operating</u>	<u>Finance</u>
2023	\$ 1,760,032	\$ 346,800
2024	1,760,032	353,736
2025	1,760,032	360,809
2026	1,755,852	368,023
2027	1,750,000	–
Thereafter	<u>23,250,000</u>	<u>–</u>
Total future undiscounted lease payments	32,035,948	1,429,368
Less: interest	<u>(7,305,924)</u>	<u>(83,319)</u>
Present value of lease liabilities	<u>\$ 24,730,024</u>	<u>\$ 1,346,049</u>

## State Fair of Texas

### Notes to Financial Statements (continued)

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

Rent expense of approximately \$1.5 million was incurred during each of the years ended December 31, 2022 and 2021.

Supplemental information related to the Fair's leases for the year ended December 31, 2022 is as follows:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 1,660,958
Operating cash flows from finance leases	44,724
Financing cash flows from finance leases	295,276
Weighted-average remaining lease term – operating leases	16
Weighted-average remaining lease term – finance leases	4
Weighted-average discount rate – operating leases	3.25%
Weighted-average discount rate – finance leases	2.94%

#### 5. Donated Goods and Services

##### Advertising and Promotion

The Fair receives free advertising and promotion through billboard, magazine and print advertisements that serve as platforms to market and brand its mission. These donated advertisements are recognized as In-kind contributions at fair value, with a corresponding expense allocated to the programs benefited, as they are delivered to the public. The valuation of these advertisements and promotions are provided by the service provider, who estimates the fair value based on the date, time, and market in which each service is displayed.

##### Fair Time Equipment

The Fair receives donated equipment, including vehicles and tractors, which are used to defray program costs. These items are recognized as in-kind contributions at fair value when the item is donated, with a corresponding expense, as they are used. The fair value of these items is at fair value on the date received.

## State Fair of Texas

### Notes to Financial Statements (continued)

#### 5. Donated Goods and Services (continued)

##### Other

Other in-kind contributions consist primarily of uniforms, cell phones, and professional services which are used to defray program costs, or as part of fundraising events. These items are recognized as in-kind contributions at fair value, with a corresponding expense, as they are used. The Fair values these items at either face value or fair value on the date received, depending on the nature of the item.

Donated goods and services for the fiscal years ended December 31, 2022 and 2021, included in the financial statements, were as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Advertising and promotion	\$ 859,345	\$ 817,165
Fair time equipment	233,839	334,678
Other	42,830	49,510
Total donated goods and services	<u>\$ 1,136,014</u>	<u>\$ 1,201,353</u>

#### 6. 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, 2022 and 2021, cash equivalents of \$56.1 million and \$50.2 million, 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 statements of financial position.

State Fair of Texas

Notes to Financial Statements (continued)

**6. Cash, Cash Equivalents, and Investments (continued)**

The following tables provide 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:

	<b>Cash/Cash Equivalents</b>	<b>Securities</b>	<b>Total</b>
<b>December 31, 2022</b>			
Cash	\$ 309,557	\$ –	\$ 309,557
Restricted investment for Fair Park improvements	2,404,995	9,370,180	11,775,175
Restricted investment for Cotton Bowl improvements	359,131	–	359,131
Investments	53,344,415	29,447,757	82,792,172
Total	<u>\$ 56,418,098</u>	<u>\$ 38,817,937</u>	<u>\$ 95,236,035</u>

	<b>Cash/Cash Equivalents</b>	<b>Securities</b>	<b>Total</b>
<b>December 31, 2021</b>			
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	<u>\$ 50,574,119</u>	<u>\$ 32,340,593</u>	<u>\$ 82,914,712</u>

**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 statements of financial position. Additional restricted investments at December 31, 2022 and 2021 represent funds set aside for the Fair Park Improvement Fund (see Note 3). Investments are recorded at fair value.

## State Fair of Texas

### Notes to Financial Statements (continued)

#### 6. Cash, Cash Equivalents, and Investments (continued)

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

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Money market accounts	\$ 56,022,411	\$ 56,108,540	\$ 50,170,474	\$ 50,206,687
Certificates of deposit			–	–
Domestic corporate bonds	24,638,895	24,133,055	19,207,307	19,075,607
U.S. short-term government bond fund	2,096,019	2,105,733	1,949,999	1,947,208
Domestic common stocks	8,211,415	12,579,150	4,916,144	11,317,778
	<u>\$ 90,968,740</u>	<u>\$ 94,926,478</u>	<u>\$ 76,243,924</u>	<u>\$ 82,547,280</u>

Net realized gains on investments were approximately \$0.2 million and \$1.3 million for the years ended December 31, 2022 and 2021, respectively. Net unrealized (losses) gains on investments were approximately (\$2.3 million) and \$0.9 million for the years ended December 31, 2022 and 2021, respectively. The Fair recognized investment income of approximately \$856 thousand and \$313 thousand, net of investment expenses of approximately \$92 thousand and \$128 thousand for the years ended December 31, 2022 and 2021, respectively. Such amounts are recorded in interest and dividend income on the statements of activities.

#### 7. 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.

## State Fair of Texas

### Notes to Financial Statements (continued)

#### 7. Fair Value Measurements (continued)

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 \$24,133,055 and \$19,075,607 as Level 2 securities, as they are not always actively traded, and all other investments totaling \$70,793,423 and \$63,471,673 are classified as Level 1 assets as of December 31, 2022 and 2021, respectively.

#### 8. Financial Assets and Liquidity Resources

As of December 31, 2022 and 2021, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses and capital expenditures, were as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Financial assets:		
Cash and cash equivalents	\$ 309,557	\$ 367,432
Investments	<b>55,687,157</b>	51,320,909
Total financial assets available within one year	<b>55,996,714</b>	51,688,341
Liquidity resources:		
Bank line of credit	<b>3,000,000</b>	3,000,000
Total financial assets and liquidity resources available within one year	<b>\$ 58,996,714</b>	\$ 54,688,341



## State Fair of Texas

### Notes to Financial Statements (continued)

#### **8. Financial Assets and Liquidity Resources (continued)**

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 2022 and 2021. 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 2022 and 2021. 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 2022 and 2021, no borrowings were made under the line-of-credit arrangement.

#### **9. 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.

#### **10. 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, 2022 and 2021, the Fair's contribution and plan administration expense totaled approximately \$401 thousand and \$377 thousand, respectively.

## State Fair of Texas

### Notes to Financial Statements (continued)

#### **10. Retirement Plans (continued)**

##### **Executive Deferred Compensation Plans**

Effective January 1, 2007, the Fair established the State Fair of Texas 457(b) Executive Deferred Compensation Plan (the 457(b) Plan) for all eligible employees to defer a portion of their salary and incentive payment, if any. Eligible employees include any officer of the Fair with a title of vice president or above. Eligible employees are given the option to defer up to 50% of salary and up to 100% of incentive payment. The Fair matches 100% of the employee's deferral up to 6% of the employee's base salary. Under IRC Section 457(b), annual employee deferrals and employer matching contributions combined are limited to \$20.5 thousand and \$19.5 thousand in 2022 and 2021, respectively. All contributions under the 457(b) Plan are vested immediately. For the years ended December 31, 2022 and 2021, the Fair made matching contributions to the 457(b) Plan of approximately \$89 thousand and \$82 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.

#### **11. 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 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.

## State Fair of Texas

### Notes to Financial Statements (continued)

#### **12. Tax Credit**

The CARES Act provides an employee retention credit (ERC), which is a refundable tax credit against certain employment taxes. The ERC is based on qualified wages, which include certain health plan expenses. For 2020, the ERC is equal to 50% of up to \$10 thousand in qualified wages paid to an employee from March 13, 2020 through December 31, 2020. For 2021, the ERC is equal to 70% of up to \$10 thousand in qualified wages per employee per calendar quarter. As a result, the maximum ERC per employee is \$5 thousand in 2020 and \$21 thousand in 2021. Generally, to be eligible for the ERC for a calendar quarter, an employer must carry on a trade or business and experience either a partial suspension of operations due to a COVID-19-related governmental order or a significant decline in gross receipts. The Fair qualifies for the tax credit under the CARES Act and under the additional relief provisions for qualified wages through December 31, 2021. During the fiscal year ended December 31, 2022, the Fair received \$291.7 thousand related to the ERC.

#### **13. Subsequent Events**

The Fair evaluated all material events occurring subsequent to the date of the financial statements up to April 13, 2023, the date the financial statements were available to be issued.

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