

FINANCIAL STATEMENTS

State Fair of Texas
Years Ended December 31, 2023 and 2022
With Report of Independent Auditors

Ernst & Young LLP



State Fair of Texas

Financial Statements

Years Ended December 31, 2023 and 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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 10, 2024

State Fair of Texas

Statements of Financial Position

	December 31	
	2023	2022
Assets		
Cash and cash equivalents	\$ 52,984,861	\$ 47,612,119
Investments	8,682,838	8,384,595
Investments with board-designations for:		
Operating reserve	20,737,904	19,446,274
Scholarship fund reserve	3,127,579	2,721,319
Future Fair Park projects	10,388,577	4,937,422
Investments with contractual restrictions for:		
Fair Park improvements	8,335,260	11,775,175
Cotton Bowl improvements	359,131	359,131
Accounts receivable	829,611	755,545
Inventories, net	198,389	200,507
Prepaid expenses	146,592	258,617
Property and leasehold improvements, net	19,160,399	18,851,158
Deferred compensation	2,641,130	2,124,754
Finance lease right-of-use assets, net	984,795	1,313,060
Operating lease right-of-use assets, net	15,634,237	16,340,400
Total assets	\$ 144,211,303	\$ 135,080,076
Liabilities and net assets		
Accounts payable and accrued liabilities	\$ 5,886,473	\$ 6,240,819
Accrued Fair Park improvements	8,375,931	11,815,845
Deferred compensation	2,641,130	2,124,754
Finance lease right-of-use liabilities	1,034,633	1,346,049
Operating lease right-of-use liabilities	23,749,510	24,730,024
Total liabilities	41,687,677	46,257,491
Net assets		
Without donor restrictions, including board-designated:		
Undesignated	68,207,897	61,675,901
Board-designated operating reserve	20,737,904	19,446,274
Board-designated future Fair Park projects	10,388,577	4,937,422
Board-designated scholarship fund reserve	3,127,579	2,721,319
Total net assets without donor restrictions	102,461,957	88,780,916
With donor restrictions	61,669	41,669
Total net assets	102,523,626	88,822,585
Total liabilities and net assets	\$ 144,211,303	\$ 135,080,076

See accompanying notes.

State Fair of Texas

Statements of Activities

	Year Ended December 31					
	2023			2022		
	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	\$ 64,373,782	\$ –	\$ 64,373,782	\$ 75,464,097	\$ –	\$ 75,464,097
Exhibit space and other rental	5,120,318	–	5,120,318	4,838,600	–	4,838,600
Interest and dividend income	2,990,368	–	2,990,368	855,711	–	855,711
Other	813,455	–	813,455	845,537	–	845,537
Contributions	2,588,662	2,810,327	5,398,989	2,685,953	2,588,984	5,274,937
Donated goods and services	1,522,952	–	1,522,952	1,136,014	–	1,136,014
Net assets released from restrictions	2,790,327	(2,790,327)	–	2,588,984	(2,588,984)	–
Total revenues	80,199,864	20,000	80,219,864	88,414,896	–	88,414,896
Expenses						
Fair time experience	40,002,077	–	40,002,077	41,514,532	–	41,514,532
Agriculture	7,653,711	–	7,653,711	6,549,438	–	6,549,438
Education	3,321,322	–	3,321,322	3,061,981	–	3,061,981
Community involvement	7,516,213	–	7,516,213	11,544,230	–	11,544,230
Management and general	7,193,093	–	7,193,093	6,044,463	–	6,044,463
Fundraising	4,875,565	–	4,875,565	4,304,261	–	4,304,261
Total expenses	70,561,981	–	70,561,981	73,018,905	–	73,018,905
Excess of revenues over expenses	9,637,883	20,000	9,657,883	15,395,991	–	15,395,991
Realized and unrealized investment gains (losses)	3,156,489	–	3,156,489	(2,168,512)	–	(2,168,512)
Tax credit	886,669	–	886,669	291,653	–	291,653
Change in net assets	13,681,041	20,000	13,701,041	13,519,132	–	13,519,132
Net assets at beginning of year	88,780,916	41,669	88,822,585	75,261,784	41,669	75,303,453
Net assets at end of year	\$ 102,461,957	\$ 61,669	\$ 102,523,626	\$ 88,780,916	\$ 41,669	\$ 88,822,585

See accompanying notes.

State Fair of Texas

Statements of Cash Flows

	Year Ended December 31	
	2023	2022
Operating activities		
Change in net assets	\$ 13,701,041	\$ 13,519,132
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized/unrealized (gains) losses on investments	(3,156,489)	2,168,512
Investment interest/dividend income	(2,990,368)	(855,711)
Depreciation	3,165,710	3,064,039
Amortization of right-of-use assets – finance leases	328,265	328,265
Interest on lease liabilities – finance leases	35,384	44,724
(Decrease) increase in operating lease assets and liabilities	(274,351)	1,401,294
(Increase) decrease in accounts receivable	(74,066)	206,577
Decrease (increase) in inventories	2,118	(6,870)
Decrease in prepaid expenses	112,025	62,637
Decrease in accounts payable and accrued liabilities	(354,346)	(2,531,993)
(Increase) decrease in accrued Fair Park improvements	(3,439,914)	318,155
Net cash provided by operating activities	<u>7,055,009</u>	<u>17,718,761</u>
Investing activities		
Purchases of property and leasehold improvements	(3,474,951)	(3,788,556)
Disposals of property and leasehold improvements	–	43,920
Sales and maturities of investments	12,791,484	6,333,095
Purchases of investments	(10,652,000)	(17,190,000)
Net cash used in investing activities	<u>(1,335,467)</u>	<u>(14,601,541)</u>
Financing activities		
Finance lease costs	(346,800)	(340,000)
Net cash used in financing activities	<u>(346,800)</u>	<u>(340,000)</u>
Net change in cash and cash equivalents	5,372,742	2,777,220
Cash and cash equivalents at beginning of year	47,612,119	44,834,899
Cash and cash equivalents at end of year	<u>\$ 52,984,861</u>	<u>\$ 47,612,119</u>

See accompanying notes.

State Fair of Texas

Statement of Functional Expenses

Year Ended December 31, 2023

	Program				Supporting Services		Total
	Fair Time Experience	Agriculture	Education	Community Involvement	Management and General	Fundraising	
Advertising and promotion	\$ 195,515	\$ 104,660	\$ 34,267	\$ 1,010	\$ 27,178	\$ 2,983,933	\$ 3,346,563
Contract services	10,008,044	1,582,954	19,734	902	36,479	33,526	11,681,639
Depreciation and amortization	2,966,172	175,598	58,282	26,000	264,004	3,919	3,493,975
Fair operational costs	9,171,675	878,992	310,216	12,772	3,965	1,378	10,378,998
Fair Park improvements	-	-	-	5,817,152	-	-	5,817,152
Grants and other assistance	-	2,248,652	45,264	988,504	-	-	3,282,420
Insurance	1,264,488	84,173	27,938	12,463	126,551	1,879	1,517,492
Occupancy	3,141,303	428,975	208,321	91,244	665,904	174,217	4,709,964
Other	316,452	62,175	52,995	6,734	644,930	417,269	1,500,555
Professional fees	302,357	3,040	-	10,007	1,188,007	45,500	1,548,911
Repairs and maintenance	1,353,068	92,997	27,220	37,688	80,672	1,924	1,593,569
Salaries, wages, benefits, taxes	9,937,945	1,816,912	1,451,544	496,789	3,994,850	1,134,340	18,832,380
Scholarships	-	-	1,048,851	-	-	-	1,048,851
Supplies	1,345,058	174,583	36,690	14,948	160,553	77,680	1,809,512
Total expenses	\$ 40,002,077	\$ 7,653,711	\$ 3,321,322	\$ 7,516,213	\$ 7,193,093	\$ 4,875,565	\$ 70,561,981

See accompanying notes.

State Fair of Texas

Statement of Functional Expenses

Year Ended December 31, 2022

	Program				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
Total expenses	\$ 41,514,532	\$ 6,549,438	\$ 3,061,981	\$ 11,544,230	\$ 6,044,463	\$ 4,304,261	\$ 73,018,905

See accompanying notes.

State Fair of Texas

Notes to Financial Statements

December 31, 2023

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 accounting principles generally accepted in the United States of America (U.S. GAAP) is as follows:

Net Assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified 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. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors.

Net assets without donor restrictions have been designated for the purposes noted on the statements of financial position. See Note 4 for additional information on Board-designated funds.

Net assets 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 and youth livestock premiums or gifts intended to support the Fair's community outreach programs in future years. When the donor-imposed restriction is met, the Fair reports these net assets 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 with donor restrictions consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Beginning balances	\$ 41,669	\$ 41,669
Additions	2,810,327	2,588,984
Released from restrictions	(2,790,327)	(2,588,984)
Ending balances	<u>\$ 61,669</u>	<u>\$ 41,669</u>

While the Fair spent \$3,302,083 and \$2,760,593 in 2023 and 2022, respectively, on scholarship and youth livestock auction premiums, the excess amount spent on scholarship and youth livestock auction premiums of \$511,757 in 2023 and \$171,609 in 2022 were supplied from net assets without donor restrictions.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with a maturity of three months or less when purchased. 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 that is available to use for current operations.

Investments

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 Financial Accounting Standards Board (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)

2. Summary of Significant Accounting Policies (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.

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, 2023 and 2022, 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 2023 or 2022 as a result of such consideration.

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

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

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

Generally, these criteria are met upon the receipt of cash for admission tickets, games, parking, and concessions. The Fair recognizes revenue for concessions, net of commissions paid to operators, in accordance with Accounting Standards Update (ASU) 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations*. Commissions paid to operators were \$61 million and \$59 million for the years ended December 31, 2023 and 2022, 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 FASB ASC 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.

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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;
- 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

State Fair of Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 that 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.

Reclassifications

Certain reclassifications have been made to the 2022 investment balances to conform to the 2023 presentation, whereby investment balances are further segregated to reflect various board and contractual designations.

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 \$2 million and \$1.9 million for the years ended December 31, 2023 and 2022, 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 as 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, 2023 and 2022.

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, the Grambling University vs. Prairie View A&M football game in the Cotton Bowl Stadium (Cotton Bowl), and the University of Texas-University of Oklahoma football game in the 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 codified the provisions within the MOU and extended the initial term of the Agreement to expire on December 31, 2038. The extension became effective on January 1, 2019.

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.

State Fair of Texas

Notes to Financial Statements (continued)

3. Relationship With the City of Dallas (continued)

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 assets and net assets without donor restrictions on the statements of financial position (see Notes 2 and 4).

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.

At December 31, major maintenance and capital expenditures consisted of:

	<u>2023</u>	<u>2022</u>
Capital expenditures	\$ 3,350,300	\$ 3,391,596
Construction in progress at year-end	174,878	396,960
Major maintenance projects allocated to the City	4,360,000	8,640,000
Major maintenance projects completed by the Fair	1,457,152	926,889
Total major maintenance and capital expenditures	<u>\$ 9,342,330</u>	<u>\$ 13,355,445</u>

State Fair of Texas

Notes to Financial Statements (continued)

3. Relationship With the City of Dallas (continued)

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.

Major maintenance expense accrued and classified as a liability on the statements of financial position to reflect several major maintenance projects that were not yet completed by the City at December 31 consisted of:

	<u>2023</u>	<u>2022</u>
2016 projects	\$ 40,670	\$ 40,670
2017 projects	1,629,869	1,629,869
2018 projects	546,558	546,558
2019 projects	—	108,486
2020 projects	786,955	786,955
2022 projects	5,069,577	8,703,307
2023 projects	302,302	—
Total liability	<u>\$ 8,375,931</u>	<u>\$ 11,815,845</u>

See Note 4 for additional information on the Fair Park Improvement Fund.

Contractual Payments

In addition to the provisions of the Agreement noted above, 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, 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. The rent fee is reflected as an expense in the occupancy category, and 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.

State Fair of Texas

Notes to Financial Statements (continued)

3. Relationship With the City of Dallas (continued)

Contractual payments made by the Fair in accordance with the terms of the Agreement at December 31 consisted of:

	2023	2022
Community outreach and Fair Park cultural facilities contributions	\$ 912,000	\$ 752,000
Annual rent	1,750,000	1,550,000
Marketing fee	50,000	50,000
Major maintenance allocations to the City	4,360,000	8,640,000
Total payments per the Agreement	\$ 7,072,000	\$ 10,992,000

4. Investments

Investments are recorded at fair value. In addition to investments used for operations, the Fair has investment accounts that are restricted from use in current operations. These investment accounts are labeled on the statements of financial position, and their purposes are as follows:

Investments with board-designations for operating reserve – the account designated by the Board of Directors, restricted for use for the Fair’s reasonable and prudent reserves in accordance with the Agreement (see Note 3).

Investments with board-designations for scholarship fund reserve – the account designated by the Board of Directors restricted for use to ensure full contingency funding of remaining commitments to all scholarship recipients.

Investments with Board-designations for future Fair Park projects – the account designated by the Board of Directors restricted for use to ensure funding for future strategic initiatives and capital projects, as directed by the Board.

Investments with contractual restrictions for Fair Park improvements – the account designated for net revenues allocated by the Fair and the City to be used for major maintenance projects, as defined by the Agreement (see Note 3).

State Fair of Texas

Notes to Financial Statements (continued)

4. Investments (continued)

Investments with contractual restrictions for Cotton Bowl improvements – the account designated by a 2019 agreement between the Fair and 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 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 following table sets forth by level, within the fair value hierarchy, the Fair’s investments at fair value as of December 31:

	2023				
	Level 1			Level 2	
	Money Market Accounts	U.S. Short-term Government Bond Fund	Domestic Common Stocks	Domestic Corporate Bonds	Total
Investments	\$ –	\$ –	\$ –	\$ 8,682,838	\$ 8,682,838
Board-designated:					
Operating reserve	–	–	19,127,254	1,610,650	20,737,904
Scholarship fund reserve	93,844	98,134	2,652,074	283,527	3,127,579
Future Fair Park projects	10,388,577	–	–	–	10,388,577
Contractual restrictions:					
Fair Park improvements	58,589	–	–	8,276,671	8,335,260
Cotton Bowl improvements	359,131	–	–	–	359,131
	\$ 10,900,141	\$ 98,134	\$ 21,779,328	\$ 18,853,686	\$ 51,631,289

State Fair of Texas

Notes to Financial Statements (continued)

4. Investments (continued)

	2022					Total
	Level 1			Level 2		
	Money Market Accounts	U.S. Short-term		Domestic Common Stocks	Domestic Corporate Bonds	
		Government Bond Fund				
Investments	\$ -	\$ -	\$ -	\$ 8,384,595	\$ 8,384,595	
Board-designated:						
Operating reserve	2,585,026	-	10,462,470	6,398,778	19,446,274	
Scholarship fund reserve	340,280	264,360	2,116,679	-	2,721,319	
Future Fair Park projects	3,096,049	1,841,373	-	-	4,937,422	
Contractual restrictions:						
Fair Park improvements	2,425,493	-	-	9,349,682	11,775,175	
Cotton Bowl improvements	359,131	-	-	-	359,131	
	<u>\$ 8,805,979</u>	<u>\$ 2,105,733</u>	<u>\$ 12,579,149</u>	<u>\$ 24,133,055</u>	<u>\$ 47,623,916</u>	

Investment return activity for the years ended December 31 consists of the following:

	2023	2022
Investment income:	\$ 3,147,368	\$ 947,579
Less: investment expenses	<u>(157,000)</u>	<u>(91,868)</u>
Interest and dividend income	<u>\$ 2,990,368</u>	<u>\$ 855,711</u>
Realized (losses) gains on investments, net	\$ (111,984)	\$ 177,106
Unrealized gains (losses) on investments, net	<u>3,268,473</u>	<u>(2,345,618)</u>
Realized and unrealized investment gains (losses)	<u>\$ 3,156,489</u>	<u>\$ (2,168,512)</u>

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State Fair of Texas

Notes to Financial Statements (continued)

5. Line of Credit

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 2023 and 2022. The line of credit has a maturity date for any borrowings of one year from closing with interest at the BSBY daily floating rate plus 2% in 2023 and 2022. 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 2023 and 2022, no borrowings were made under the line-of-credit arrangement.

6. Financial Assets and Liquidity Resources

As of December 31, financial assets and liquidity resources available within one year are as follows:

	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 52,984,861	\$ 47,612,119
Investments	8,682,838	8,384,595
Total financial assets available within one year	61,667,699	55,996,714
Liquidity resources:		
Bank line of credit	3,000,000	3,000,000
Total financial assets and liquidity resources available within one year	\$ 64,667,699	\$ 58,996,714

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. Financial assets available within one year are used for general expenditures, such as operating expenses, Fair Park improvements and capital expenditures, in addition to allocations to the Fair Park Improvement Fund (see Notes 3 and 4) and to the Board-designated operating reserve (see Notes 3 and 4).

State Fair of Texas

Notes to Financial Statements (continued)

7. Property and Leasehold Improvements

Property and leasehold improvements as of December 31 consists of:

	<u>2023</u>	<u>2022</u>
Midway Improvements	\$ 15,729,613	\$ 15,036,044
Amusement rides	22,365,795	21,897,407
Building improvements	27,906,080	26,104,724
Furniture, fixtures, and equipment	11,900,756	11,187,866
Construction in progress	174,878	396,960
Land	4,754,089	4,754,089
	<u>82,831,211</u>	<u>79,377,090</u>
Less: accumulated depreciation	<u>(63,670,812)</u>	<u>(60,525,932)</u>
Property and leasehold improvements, net	<u>\$ 19,160,399</u>	<u>\$ 18,851,158</u>

Depreciation expense totaled \$3,165,710 and \$3,064,039 for the years ended December 31, 2023 and 2022, respectively.

8. 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.

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.

State Fair of Texas

Notes to Financial Statements (continued)

8. Commitments and Contingencies (continued)

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 a 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 years ended December 31:

	2023	2022
Operating lease cost	\$ 1,592,458	\$ 1,586,606
Finance lease cost:		
Amortization of ROU assets	328,265	328,265
Interest on lease liabilities	35,384	44,724
Total finance lease cost	363,649	372,989
Total lease cost	\$ 1,956,107	\$ 1,959,595

State Fair of Texas

Notes to Financial Statements (continued)

8. Commitments and Contingencies (continued)

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

	<u>2023</u>	<u>2022</u>
Operating leases		
ROU assets – operating leases	\$ 17,012,486	\$ 17,012,486
Accumulated amortization	(1,378,249)	(672,086)
Net ROU assets – operating leases	<u>\$ 15,634,237</u>	<u>\$ 16,340,400</u>
Lease liability – operating leases – current	\$ (1,012,803)	\$ (980,514)
Lease liability – operating leases – net of current portion	(22,736,707)	(23,749,510)
Total lease liability – operating leases	<u>\$ (23,749,510)</u>	<u>\$ (24,730,024)</u>
	<u>2023</u>	<u>2022</u>
Finance leases		
ROU assets – finance leases	\$ 1,641,325	\$ 1,641,325
Accumulated amortization	(656,530)	(328,265)
Net ROU assets – finance leases	<u>\$ 984,795</u>	<u>\$ 1,313,060</u>
Lease liability – finance leases – current	\$ (327,726)	\$ (311,416)
Lease liability – finance leases – net of current portion	(706,907)	(1,034,633)
Total lease liability – finance leases	<u>\$ (1,034,633)</u>	<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>
2024	\$ 1,760,032	\$ 353,736
2025	1,760,032	360,809
2026	1,755,852	368,023
2027	1,750,000	–
2028	1,950,000	–
Thereafter	21,300,000	–
Total future undiscounted lease payments	30,275,916	1,082,568
Less: interest	(6,526,406)	(47,935)
Present value of lease liabilities	<u>\$ 23,749,510</u>	<u>\$ 1,034,633</u>

State Fair of Texas

Notes to Financial Statements (continued)

8. Commitments and Contingencies (continued)

Rent expense, which is calculated on a straight-line basis per U.S. GAAP, of approximately \$1.5 million was incurred during each of the years ended December 31, 2023 and 2022.

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

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 1,866,810	\$ 1,660,958
Operating cash flows from finance leases	35,384	44,724
Financing cash flows from finance leases	311,416	295,276
Weighted-average remaining lease term – operating leases	15	16
Weighted-average remaining lease term – finance leases	3	4
Weighted-average discount rate – operating leases	3.25%	3.25%
Weighted-average discount rate – finance leases	2.94%	2.94%

9. 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)

9. 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 years ended December 31, included in the financial statements, are as follows:

	<u>2023</u>	<u>2022</u>
Advertising and promotion	\$ 1,265,989	\$ 859,345
Fair time equipment	92,327	233,839
Other	164,636	42,830
Total donated goods and services	<u>\$ 1,522,952</u>	<u>\$ 1,136,014</u>

10. 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.

11. 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, 2023 and 2022, the Fair's contribution and plan administration expense totaled approximately \$287 thousand and \$401 thousand, respectively.

State Fair of Texas

Notes to Financial Statements (continued)

11. 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 \$22.5 thousand and \$20.5 thousand in 2023 and 2022, respectively. All contributions under the 457(b) Plan are vested immediately. For the years ended December 31, 2023 and 2022, the Fair made matching contributions to the 457(b) Plan of approximately \$103 thousand and \$89 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.

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 years ended December 31, 2023 and 2022, the Fair received \$886.7 thousand and \$291.7 thousand, respectively, 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 10, 2024, the date the financial statements were available to be issued.

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