



Financial Statements
September 30, 2013 and 2012

North Dakota State Fair Association

North Dakota State Fair Association

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September 30, 2013 and 2012

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Independent Auditor's Report

The Board of Directors
North Dakota State Fair Association
Minot, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of the North Dakota State Fair Association, an enterprise fund of the State of North Dakota, which comprise the balance sheet as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, the statement of cash flows, and the statement of appropriations for the years then ended, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the North Dakota State Fair Association, as of September 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note I, the financial statements of North Dakota State Fair Association, an enterprise fund of the State of North Dakota, are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the State of North Dakota that is attributable to the transactions of North Dakota State Fair Association. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of September 30, 2013, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2013 on our consideration of the North Dakota State Fair Association internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Dakota State Fair Association's internal control over financial reporting and compliance.



Bismarck, North Dakota
November 6, 2013

This section of the Association's annual financial report presents our analysis of the financial performance during the fiscal year that ended September 30, 2013. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- During fiscal year 2013, the Association had a successful Fair.
- During fiscal year 2012, the Association had a successful Fair.
- During fiscal year 2011, the Association cancelled the Fair due to flooding.
- The Association's net position increased by \$1,512,777 or 5.6% in fiscal year 2013.
- During fiscal year 2012, the Association's net position increased by \$1,123,046 or 4.36%.
- During fiscal year 2011, the Association's net position decreased by \$2,016,943 or -7.3%.
- During fiscal year 2013, the Association's operating revenues increased by \$312,957 or 4.57%, while operating expenses increased by \$534,014 or 7.66%.
- During fiscal year 2012, the Association's operating revenues increased \$5,547,354 or 427%, while operating expenses increased \$3,192,066 or 84.2%.
- During fiscal year 2011, the Association's operating revenues decreased \$4,662,751 or -78.21%.
- Fair revenues in fiscal year 2013 decreased to \$6,308,226 or -5.19%.
- Fair revenues in fiscal year 2012 increased to \$6,652,773 or 543% over fiscal year 2011.
- Fair revenues in fiscal year 2011 decreased to \$1,034,986 or -82%.
- During fiscal year 2013, the property and equipment additions totaled \$587,211.
- During fiscal year 2012, the property and equipment additions totaled \$1,387,191.
- During fiscal year 2011, the property and equipment additions totaled \$335,448.
- Depreciation expense for the current fiscal year 2013 totaled \$1,372,345.
- Depreciation expense for fiscal year 2012 totaled \$1,332,486.
- Depreciation expense for fiscal year 2011 totaled \$1,317,930.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis, Financial Statements, and Supplementary Information. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The Financial Statements of the Association report information about the Association using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Balance Sheet includes all of the Association's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Association creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Association and assessing the liquidity and financial flexibility of the Association. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Net Position. This statement measures the success of the Association's operations over the past year and can be used to determine whether the Association has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Association's cash receipts and cash payments during the reporting period.

The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the Association

One of the most important questions asked about the Association's finances is "Is the Association as a whole better off or worse off as a result of the year's activities?" The Balance Sheet, and the Statement of Revenues, Expenses and Changes in Net Position report information about the Association's activities in a way that will help answer this question. These two statements report the net position of the Association and changes in them. You can think of the Association's net position-the difference between assets and liabilities-as one way to measure financial health or financial position. Over time, increases or decreases in the Association's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population declines, and competitive forms of entertainment.

Net Position

To begin our analysis, a summary of the Association's Balance Sheets is presented in the following:

Condensed Balance Sheets (In Thousands of Dollars)

| | 2013 | 2012 | 2011 | Dollar Change | Total Percent Change |
|--|------------------|------------------|------------------|-------------------|----------------------------|
| Current and other assets | \$ 5,891 | \$ 4,637 | \$ 5,734 | \$ 1,254 | 27.04% |
| Capital assets | 22,651 | 23,447 | 23,405 | (796) | -3.39% |
| Total assets | \$ 28,542 | \$ 28,084 | \$ 29,139 | \$ 458 | 1.63% |
| Long-term debt outstanding | \$ - | \$ - | \$ 419 | \$ - | 0.00% |
| Other liabilities | 129 | 1,184 | 2,943 | (1,055) | -89.10% |
| Total liabilities | \$ 129 | \$ 1,184 | \$ 3,362 | \$ (1,055) | -89.10% |
| Invested in capital assets, net of related debt | \$ 22,651 | \$ 23,447 | \$ 22,987 | \$ (796) | -3.39% |
| Restricted | - | - | 470 | - | 0.00% |
| Unrestricted | 5,762 | 3,453 | 2,320 | 2,309 | 66.87% |
| Total net position | \$ 28,413 | \$ 26,900 | \$ 25,777 | \$ 1,513 | 5.62% |

As can be seen from the table above, net position increased \$1.5 million. The increase is due to another successful Fair. Total liabilities decreased \$1 million to \$129 thousand due to the payoff of the flood loan. Net position increased over \$1 million in fiscal year 2012 from fiscal year 2011 due to the flooding of the Fairgrounds and lost revenue due to the cancellation of the 2011 North Dakota State Fair. In fiscal year 2012 and 2013 operations were back to normal.

Condensed Statements of Revenues, Expenses and Changes in Net Position
(In Thousands of Dollars)

| | 2013 | 2012 | 2011 | Dollar Change | Total Percent Change |
|--|------------------|------------------|------------------|------------------|----------------------------|
| Operating Revenues | | | | | |
| Fair proceeds and other revenue | \$ 6,308 | \$ 6,653 | \$ 1,035 | \$ (345) | -5.19% |
| Arena revenue | 285 | 177 | 255 | 108 | 61.02% |
| Insurance proceeds | 550 | - | - | 550 | |
| Other revenue | 16 | 16 | 9 | - | 0.00% |
| | <u>7,159</u> | <u>6,846</u> | <u>1,299</u> | <u>313</u> | 4.57% |
| Nonoperating Revenues | | | | | |
| Local grants | 942 | 1,171 | 779 | (229) | -19.56% |
| Interest and investment income | 3 | 3 | 6 | - | 0.00% |
| (Loss)/Gain on sale of fixed assets | - | (1) | - | 1 | 0.00% |
| | <u>945</u> | <u>1,173</u> | <u>785</u> | <u>(228)</u> | -19.44% |
| Total Revenue | <u>8,104</u> | <u>8,019</u> | <u>2,084</u> | <u>85</u> | 1.06% |
| Operating Expenses | | | | | |
| General expenses | 4,259 | 3,860 | 1,163 | 399 | 10.34% |
| Depreciation expense | 1,372 | 1,332 | 1,318 | 40 | 3.00% |
| Salaries, wages and vacation pay | 1,611 | 1,524 | 1,310 | 87 | 5.71% |
| Premiums, trophies and awards | 275 | 266 | 17 | 9 | 3.38% |
| | <u>7,517</u> | <u>6,982</u> | <u>3,808</u> | <u>535</u> | 7.66% |
| Non Operating Expenses | | | | | |
| Interest expense | 13 | 38 | 21 | (25) | -65.79% |
| Bond issuance costs | - | 1 | 3 | (1) | -100.00% |
| Amortization | - | 1 | 9 | (1) | -100.00% |
| | <u>13</u> | <u>40</u> | <u>33</u> | <u>(27)</u> | -67.50% |
| Total Expenses | <u>7,530</u> | <u>7,022</u> | <u>3,841</u> | <u>508</u> | 7.23% |
| Extraordinary Items | | | | | |
| FEMA grants | 18 | 1,424 | 2,569 | (1,406) | 100% |
| Flood expenditures | - | (1,768) | (2,846) | 1,768 | 100% |
| Transfers - | | | | | |
| State Appropriations | 920 | 470 | 17 | 450 | 95.74% |
| Change in Net Position | 1,513 | 1,123 | (2,017) | 389 | |
| Net Position, Beginning of Year | <u>26,900</u> | <u>25,777</u> | <u>27,794</u> | <u>1,123</u> | |
| Net Position, End of Year | <u>\$ 28,413</u> | <u>\$ 26,900</u> | <u>\$ 25,777</u> | <u>\$ 1,512</u> | 5.62% |

While the Balance Sheet shows the change in financial position of net position, the Statement of Revenues, Expenses, and Changes in Net Position, provides answers as to the nature and source of these changes. As can be seen above, there is an increase in net position due to a successful 2013 ND State Fair.

Capital Assets

As of September 30, 2013 and September 30, 2012, the Association had invested more than \$42 million in infrastructure including land, buildings, improvements and equipment. Approximately 95 percent of that total is related to land and structures. Maintenance and upkeep of those structures and improvements is a continual ongoing process for the Association. Annual yearly costs for building and grounds upkeep exceed \$863 thousand, excluding payroll costs for Association employees engaged in repair and upkeep procedures.

Current year additions to the capital asset category totaled approximately \$587 thousand. See footnote 3 for additional details.

Long-Term Bond Debt

At year end, the Association had no long or short-term bond debt. In fiscal year 2012, the Association had no long or short-term bond debt down from \$420 thousand in fiscal year 2011. The decrease is due to the payoff of the debt. See footnote 4 for additional details.

Economic Factors and Next Year's Operations

The North Dakota State Fair Association is in the entertainment business, and as such is dependent upon many factors affecting the entertainment spending decisions of its customers. Factors such as condition of the agriculture economy, oil industry, Minot Air Force Base, Canadian exchange rates, weather, and competing entertainment providers such as casinos can all have significant impact on turnout for the annual State Fair. Fair attendance figures have increased in the past couple of years because of the strong local economy.

Contacting the Association's Financial Manager

This financial report is designed to provide our state citizens, customers, and creditors with a general overview of the Association's finances and to demonstrate the Association's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the North Dakota State Fair Association office at P.O. Box 1796, Minot, ND 58702-1796.

| | <u>2013</u> | <u>2012</u> |
|--|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 5,613,779 | \$ 4,237,422 |
| Accounts receivable, net of allowance for uncollectible accounts (2013 and 2012 - \$50,000) | 36,096 | 28,741 |
| FEMA receivable - due from Federal Government | 194,065 | 330,801 |
| Prepaid items | <u>47,869</u> | <u>39,760</u> |
| Total current assets | <u>5,891,809</u> | <u>4,636,724</u> |
| Noncurrent Assets | | |
| Capital assets | | |
| Land | 390,816 | 390,816 |
| Infrastructure | 3,807,876 | 3,776,156 |
| Buildings | 36,183,786 | 35,741,352 |
| Equipment | 1,947,503 | 1,859,469 |
| Less accumulated depreciation | <u>(19,679,403)</u> | <u>(18,320,511)</u> |
| Total noncurrent assets | <u>22,650,578</u> | <u>23,447,282</u> |
| Total assets | <u>\$ 28,542,387</u> | <u>\$ 28,084,006</u> |

See Notes to Financial Statements

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 Balance Sheets
 September 30, 2013 and 2012

| | 2013 | 2012 |
|--|---------------|---------------|
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Trade accounts payable | \$ 51,305 | \$ 113,101 |
| Accrued interest payable | - | 36,006 |
| Current portion of accrued employee leave | 55,000 | 45,000 |
| Current portion of flood loan payable | - | 964,830 |
| Total current liabilities | 106,305 | 1,158,937 |
| Noncurrent Liabilities | | |
| Accrued employee leave, net of current portion | 23,092 | 24,856 |
| Total noncurrent liabilities | 23,092 | 24,856 |
| Total liabilities | 129,397 | 1,183,793 |
| Net Position | | |
| Net investment in capital assets | 22,650,578 | 23,447,282 |
| Unrestricted | 5,762,412 | 3,452,931 |
| Total net position | 28,412,990 | 26,900,213 |
| Total liabilities and net position | \$ 28,542,387 | \$ 28,084,006 |

North Dakota State Fair Association
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

| | 2013 | 2012 |
|---|---------------|---------------|
| Operating Revenues | | |
| Fair proceeds and other revenue | \$ 6,308,226 | \$ 6,652,773 |
| Arena revenue | 284,767 | 177,423 |
| Insurance Proceeds | 550,000 | - |
| Other revenue | 16,168 | 16,008 |
| Total operating revenues | 7,159,161 | 6,846,204 |
| Operating Expenses | | |
| General expenses | 4,258,819 | 3,860,393 |
| Depreciation expense | 1,372,345 | 1,332,486 |
| Salaries, wages and vacation pay | 1,610,963 | 1,524,491 |
| Premiums, trophies and awards | 275,125 | 265,868 |
| Total operating expenses | 7,517,252 | 6,983,238 |
| Operating Loss | (358,091) | (137,034) |
| Nonoperating Revenues (Expenses) | | |
| Local grants | 942,351 | 1,170,797 |
| Interest and investment income | 2,775 | 3,232 |
| Loss on disposal of fixed assets | - | (535) |
| Interest expense | (12,772) | (38,409) |
| Bond issuance costs | - | (555) |
| Amortization of bond discount | - | (1,461) |
| Total nonoperating revenues | 932,354 | 1,133,069 |
| Gain Before Extraordinary Items & Transfers | 574,263 | 996,035 |
| Extraordinary Items | | |
| FEMA grants | 18,153 | 1,424,750 |
| Flood expenditures | - | (1,767,739) |
| Transfers - State Appropriations | 920,361 | 470,000 |
| Change in Net Position | 1,512,777 | 1,123,046 |
| Net Position, Beginning of Year | 26,900,213 | 25,777,167 |
| Net Position, End of Year | \$ 28,412,990 | \$ 26,900,213 |

North Dakota State Fair Association
Statements of Cash Flows
Years Ended September 30, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| Operating Activities | | |
| Cash received from customers | \$ 6,601,806 | \$ 6,931,738 |
| Cash received from insurance proceeds | 550,000 | - |
| Cash payments for goods and services | (4,603,849) | (4,035,208) |
| Cash payments to employees | <u>(1,602,727)</u> | <u>(1,516,412)</u> |
| Net Cash from Operating Activities | <u>945,230</u> | <u>1,380,118</u> |
| Non-Capital Financing Activities | | |
| Local grants received | 942,351 | 1,170,797 |
| State appropriations received | <u>273,000</u> | <u>470,000</u> |
| Net Cash from Non-Capital Financing Activities | <u>1,215,351</u> | <u>1,640,797</u> |
| Capital and Related Financing Activities | | |
| Payments for capital acquisitions | (575,641) | (1,375,103) |
| State appropriations received | 647,361 | - |
| FEMA flood assistance received | 154,889 | 3,662,981 |
| Proceeds from issuance of flood loan | - | 3,572,018 |
| Payments on flood loan | (964,830) | (3,662,981) |
| Payments for flood expenditures | - | (3,566,424) |
| Principal payments on bonds | - | (420,000) |
| Interest paid | <u>(48,778)</u> | <u>(8,843)</u> |
| Net Cash used for Capital and Related Financing Activities | <u>(786,999)</u> | <u>(1,798,352)</u> |
| Investing Activities | | |
| Receipts of interest and dividends | 2,775 | 3,232 |
| Proceeds from the sale of US Treasury Notes | <u>-</u> | <u>219,055</u> |
| Net Cash from Investing Activities | <u>2,775</u> | <u>222,287</u> |
| Net Change in Cash and Cash Equivalents | 1,376,357 | 1,444,850 |
| Cash and Cash Equivalents, Beginning of Year | <u>4,237,422</u> | <u>2,792,572</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 5,613,779</u> | <u>\$ 4,237,422</u> |

North Dakota State Fair Association
 Statements of Cash Flows
 Years Ended September 30, 2013 and 2012

| | 2013 | 2012 |
|--|--------------|--------------|
| Reconciliation of Operating Income to Net Cash from Operating Activities | | |
| Operating loss | \$ (358,091) | \$ (137,034) |
| Adjustments to reconcile operating loss to net cash from operating activities | | |
| Depreciation | 1,372,345 | 1,332,486 |
| Changes in operating assets and liabilities | | |
| Customer receivables | (7,355) | 85,534 |
| Prepaid expenses | (8,109) | (1,058) |
| Trade accounts payable | (61,796) | 92,111 |
| Accrued leave | 8,236 | 8,079 |
| Net Cash from Operating Activities | \$ 945,230 | \$ 1,380,118 |
| Supplemental Disclosure of Noncash Capital Financing Activities | | |
| Value received for trade of capital assets | \$ 11,145 | \$ 12,089 |

North Dakota State Fair Association
Statement of Appropriations
Year Ended September 30, 2013

| | <u>2011-2013 Appropriation</u> | <u>7/1/2011- 9/30/2011 Expenditures</u> | <u>10/1/2011- 9/30/2012 Expenditures</u> | <u>Unexpended Appropriations at 9/30/2012</u> | <u>2013-2015 Appropriation</u> | <u>10/1/2012- 9/30/2013 Expenditures</u> | <u>Unexpended Appropriations at 9/30/2013</u> |
|--------------|------------------------------------|---|--|---|------------------------------------|--|---|
| Debt Service | \$ 210,000 | \$ - | \$ 210,000 | \$ - | \$ 647,361 | \$ 647,361 | \$ - |
| Asphalt | - | - | - | - | 2,750,000 | - | 2,750,000 |
| Premiums | <u>520,000</u> | <u>17,392</u> | <u>260,000</u> | <u>242,608</u> | <u>546,000</u> | <u>273,000</u> | <u>273,000</u> |
| | <u>\$ 730,000</u> | <u>\$ 17,392</u> | <u>\$ 470,000</u> | <u>\$ 242,608</u> | <u>\$ 3,943,361</u> | <u>\$ 920,361</u> | <u>\$ 3,023,000</u> |

The following schedule shows the appropriated and non-appropriated portion of premiums, operating expenses, interest expense and bond principal payments for the two-year period ended September 30, 2013. Non-appropriated expenditures are made in accordance with NDCC 4-02.1-15.

| | <u>FY 2013 Appropriated</u> | <u>FY 2013 Non-appropriated</u> | <u>FY 2012 Appropriated</u> | <u>FY 2012 Non-appropriated</u> | <u>Fiscal Years 2012-2013 Total</u> |
|----------------------------------|---------------------------------|-------------------------------------|---------------------------------|-------------------------------------|---|
| Premiums | \$ 273,000 | \$ 2,125 | \$ 260,000 | \$ 5,868 | \$ 540,993 |
| Operating expenses | - | 7,242,127 | - | 6,717,370 | 13,959,497 |
| Interest expenses | - | 12,772 | - | 38,409 | 51,181 |
| Principal payments on flood loan | 647,361 | - | - | - | 647,361 |
| Principal payments on bonds | - | - | 210,000 | 210,000 | 420,000 |
| | <u>\$ 920,361</u> | <u>\$ 7,257,024</u> | <u>\$ 470,000</u> | <u>\$ 6,971,647</u> | <u>\$ 15,619,032</u> |

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

The North Dakota State Fair Association is an Enterprise Fund of the State of North Dakota. The purpose of the State Fair Association is to conduct an annual exhibition of the state's resources and products in order to promote the state.

The accompanying financial statements of the North Dakota State Fair Association follow the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing generally accepted accounting principles for governmental entities.

The accounting policies of the North Dakota State Fair Association conform to generally accepted accounting principles as applicable to local governmental units. The following is a summary of the more significant policies:

Reporting Entity

For financial reporting purposes, the North Dakota State Fair Association has included all funds, and has considered all potential component units for which the North Dakota State Fair Association is financially accountable, and other organizations for which the nature and significance of their relationship with the North Dakota State Fair Association are such that exclusion would cause the North Dakota State Fair Association's financial statements to be misleading or incomplete. The North Dakota State Fair Association has no component units. Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the North Dakota State Fair Association to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the North Dakota State Fair Association.

Revenue Recognition

Revenue is recognized on the accrual basis for financial reporting.

Infrastructure, Buildings, and Equipment

Infrastructure, buildings and equipment are stated at cost except for donated assets which are reported at fair value on the date received. Expenditures exceeding \$5,000 for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance, repairs and improvements less than \$5,000 are currently charged to expense.

Depreciation is provided for over the estimated useful lives of the individual assets using the straight-line method. The estimated useful lives used in the computation of depreciation are as follows:

| | |
|----------------|-------------|
| Infrastructure | 5-25 years |
| Buildings | 20-40 years |
| Equipment | 3-15 years |

Pension Costs

Pension costs are funded as they accrue.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Association considers all Treasury bills, commercial paper, certificates of deposit and money market funds which have an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are carried at original invoice amount less a reserve estimate made for doubtful accounts. Management's estimate of the allowance for doubtful accounts is based on historical loss levels and an analysis of the collectability of individual accounts. Accounts receivable are due within 30 days after which they are charged interest at 18% annually.

Due from State General Fund

The North Dakota State Fair receives funds from the State of North Dakota General Fund for certain activities designated during the State budget appropriations. The State allocates these funds to the State Fair Association after the Association has spent them on the applicable activities, so occasionally depending on the timing of the expenditures and when the funds are received from the State this can result in a due from the State General Fund.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements.

Operating Revenues

For purposes of differentiating operating revenues from non-operating revenues, the Association considers support received from the City of Minot and Ward County to be non-operating revenues. The stated purpose of the support from the mentioned entities is to help offset the operating expenses related to the fair and ice arena activities. Expenses related to the maintenance and operations of these facilities are classified as operating expenses.

Restricted Resources

It is the Association's policy to first apply restricted resources when an expense is incurred for which both restricted and unrestricted resources are available.

Compensated Absences

Employees accrue annual leave at a rate of eight hours per month for the first three years of continuous service. The accrual rate is increased to ten hours per month after three years, twelve hours per month after seven years, fourteen hours per month after thirteen years, and sixteen hours per month after eighteen years of service. The maximum amount of leave that may be carried forward each calendar year is 240 hours. All unpaid leave is payable upon termination.

Permanent employees also earn sick leave at a rate of eight hours per month. Sick leave is being carried over from year to year. If an employee leaves after ten continuous years of service, the employee will be paid for ten percent of any unused accumulated sick leave.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense for the years ended September 30, 2013 and 2012, is \$303,603 and \$275,443, respectively.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Subsequent Events

The North Dakota State Fair Association has evaluated subsequent events through November 6, 2013 the date which the financial statements were available to be issued.

Note 2 - Cash

Custodial and Concentration of Credit Risk

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-02 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, "all state funds... must be deposited in the Bank of North Dakota" or must be deposited in accordance with constitutional and statutory provisions.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State Fair Association will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The State Fair Association does not have a formal policy that limits custodial credit risk for deposits. Deposits held with Bremer Bank are covered by depository insurance. The State Fair Association's remaining deposits are uncollateralized and held on deposit at the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Note 3 - Capital Assets

The components and changes in components of capital assets at September 30, 2013 and 2012 are as follows:

| | Balance 09/30/12 | Additions/ Depreciation Expense | Deletions | Balance 09/30/13 |
|--------------------------------------|----------------------|---------------------------------------|--------------------|----------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 390,816 | \$ - | \$ - | \$ 390,816 |
| Capital Assets Being Depreciated | | | | |
| Infrastructure | 3,776,156 | 31,720 | | 3,807,876 |
| Buildings | 35,741,352 | 442,434 | | 36,183,786 |
| Equipment | 1,859,469 | 113,057 | (25,023) | 1,947,503 |
| | <u>41,767,793</u> | <u>587,211</u> | <u>(25,023)</u> | <u>42,329,981</u> |
| Less accumulated depreciation | | | | |
| Infrastructure | (2,661,428) | (120,929) | | (2,782,357) |
| Buildings | (14,148,853) | (1,173,049) | | (15,321,902) |
| Equipment | (1,510,230) | (78,367) | 13,453 | (1,575,144) |
| | <u>(18,320,511)</u> | <u>(1,372,345)</u> | <u>13,453</u> | <u>(19,679,403)</u> |
| Net | <u>\$ 23,447,282</u> | <u>\$ (785,134)</u> | <u>\$ (11,570)</u> | <u>\$ 22,650,578</u> |
| | | | | |
| | Balance 09/30/11 | Additions/ Depreciation Expense | Deletions | Balance 09/30/12 |
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 390,816 | \$ - | \$ - | \$ 390,816 |
| Capital Assets Being Depreciated | | | | |
| Infrastructure | 3,613,281 | 170,935 | (8,060) | 3,776,156 |
| Buildings | 34,728,112 | 1,019,369 | (6,129) | 35,741,352 |
| Equipment | 1,758,107 | 196,887 | (95,525) | 1,859,469 |
| | <u>40,490,316</u> | <u>1,387,191</u> | <u>(109,714)</u> | <u>41,767,793</u> |
| Less accumulated depreciation | | | | |
| Infrastructure | (2,545,912) | (123,576) | 8,060 | (2,661,428) |
| Buildings | (13,005,752) | (1,148,695) | 5,594 | (14,148,853) |
| Equipment | (1,533,451) | (60,215) | 83,436 | (1,510,230) |
| | <u>(17,085,115)</u> | <u>(1,332,486)</u> | <u>97,090</u> | <u>(18,320,511)</u> |
| Net | <u>\$ 23,405,201</u> | <u>\$ 54,705</u> | <u>\$ (12,624)</u> | <u>\$ 23,447,282</u> |

Note 4 - Long – Term Debt

Changes in Bonds Payable and Accrued Employee Leave

The following is a summary of changes in bonds payable and accrued employee leave for the year ended September 30, 2013 and 2012:

| | Balance 09/30/12 | Additions | Retirements | Balance 09/30/13 | Current Portion |
|---------------------------|---------------------|---------------------|-----------------------|---------------------|---------------------|
| Flood Loan | \$ 964,830 | \$ - | \$ (964,830) | \$ - | \$ - |
| Accrued Employee Leave | 69,856 | 59,598 | (51,362) | 78,092 | 55,000 |
| | <u>\$ 1,034,686</u> | <u>\$ 59,598</u> | <u>\$ (1,016,192)</u> | <u>\$ 78,092</u> | <u>\$ 55,000</u> |
| | Balance 09/30/11 | Additions | Retirements | Balance 09/30/12 | Current Portion |
| Bonds Payable | \$ 420,000 | \$ - | \$ (420,000) | \$ - | \$ - |
| Flood Loan | 1,055,793 | 3,572,018 | (3,662,981) | 964,830 | 964,830 |
| Accrued Employee Leave | 61,777 | 50,889 | (42,810) | 69,856 | 45,000 |
| | <u>\$ 1,537,570</u> | <u>\$ 3,622,907</u> | <u>\$ (4,125,791)</u> | <u>\$ 1,034,686</u> | <u>\$ 1,009,830</u> |

Maturities of Bonds Payable

The following summarizes the Association's debt outstanding at September 30, 2012:

| Description and Due Date | Interest Rate | Original Issue Amount |
|--|--|-----------------------------|
| Flood Loan through the Bank of North Dakota 08/10/11 - 06/30/13 | 1.25% over 30-day LIBOR Floor rate of 2.26% | Maximum \$6,000,000 |

Bank of North Dakota Flood Loan

On August 10, 2011, the Bank of North Dakota approved a loan for a non-revolving line of credit for the North Dakota State Fair Association, with funds up to \$6,000,000 available. The purpose of the unsecured loan is to cover expenses associated with 2011 flooding. All principal and interest are due at the maturity date of June 30, 2013. The interest rate is 1.25% over the 30-day LIBOR, with a floor rate of 2.26%, at September 30, 2012 the interest rate was at 2.25%. The flood loan was paid off in fiscal year 2013.

Note 5 - Appropriations

The North Dakota State Fair Association receives premium appropriations from the State of North Dakota. These premium appropriations are restricted for the purpose of providing premiums to fair exhibition winners. Premium appropriations expended for the years ended September 30, 2013 and 2012, were \$273,000 and \$260,000, respectively.

The North Dakota State Fair Association receives debt service appropriations from the State of North Dakota. These amounts are restricted for the purpose of bond payments. Debt service appropriations expended for September 30, 2013 and 2012 totaled \$0 and \$210,000, respectively.

The North Dakota State Fair Association received a onetime debt service appropriation from the State of North Dakota. This amount was restricted for the purpose of flood loan payoff. Debt Service appropriations expended for September 30, 2013 totaled \$647,361.

Note 6 - Pensions

The North Dakota State Fair Association participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. The following is a brief description of the plan.

Description of Plan

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the North Dakota State Fair Association. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees, who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service. NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 E. Broadway, Suite 505; P.O. Box 1657; Bismarck, ND 58502-1657.

Funding Policy

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 6% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The North Dakota State Fair Association has implemented a salary reduction agreement and is currently contributing the employee's share of 4%. The North Dakota State Fair Association is required to contribute 6.12% of each participant's salary as the employer's share. In addition to the 6.12% employer contribution the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method and are included in state statute. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The North Dakota State Fair Association's required and actual contributions to NDPERS for the fiscal years ended September 30, 2013, 2012, and 2011 were \$102,310, \$87,485 and \$71,639, respectively.

Note 7 - Lease Agreements

The North Dakota State Fair Association, as lessor, has entered into lease agreements with local organizations for the use of Association buildings. The lessees have use of the facilities for established months of each year and the Association has use of the facilities for the period which coincides with fair time.

Lease terms are as follows:

| | <u>Term and Expiration Date</u> | <u>Annual Rental</u> |
|--|------------------------------------|----------------------|
| Gymagic Gymnastics Agreement | 5 years through September 2017 | \$ 25,200 |
| All Seasons Arena Ice Contract | Annual with renewal option | 105,900 |
| Norsk Hostfest Contract | 1 year through October 2013 | 167,200 |
| Minot Curling Club Contract | 5 years through April 2017 | 6,000 |
| North Dakota Firefighter's Association | 5 years February 2016 - March 2020 | 25,600 |
| Minot Y's Men's PRCA | 3 years October 2015 | 22,000 |
| Magic City International Dragway | 5 years through March 2018 | 10% of Revenue |

The leases are accounted for as operating leases. The Gymagic Gymnastics and the Minot Curling Club leases are noncancelable. The Minot Curling Club Contract increases to \$7,200 annually in fiscal year 2015. The All Seasons Arena Ice Contract and Norsk Hostfest contracts are cancelable in the event the facilities specified within the contracts are destroyed.

The minimum aggregate lease revenue over the next five years is as follows:

| <u>Years Ended September 30,</u> | <u>Amount</u> |
|----------------------------------|-------------------|
| 2014 | \$ 326,300 |
| 2015 | 54,400 |
| 2016 | 80,000 |
| 2017 | 58,000 |
| 2018 | 25,600 |
| | <u>\$ 544,300</u> |

Note 8 - Risk Management

The North Dakota State Fair Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees and the University System. All State agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

In 1986 State agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for over 2,000 State agencies and political subdivisions. The North Dakota State Fair Association pays an annual premium to NDRIF for its general liability, auto, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of one million dollars per occurrence.

The Association also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides the agency with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The agency participates in the North Dakota Workforce Safety and Insurance Fund (WSI), an Enterprise Fund of the State of North Dakota. The WSI is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past two fiscal years.

Note 9 - Commitments

The North Dakota State Fair Association entered into a lease and concessions arrangement with M & S Concessions. The lessee is responsible to provide for its own concession equipment. In the event that the lease is not renewed or terminated, the Association is committed to purchase the equipment and improvements installed by the lessee at a price equal to "depreciated value." Depreciated value means the original cost of the equipment or improvements, less 10% per year from the date of installation to the date of termination. Estimated depreciated value at September 30, 2013 is approximately \$271,085.

Note 10 - Extraordinary Items – Flooding

During the month of June 2011, flooding from the Souris River directly impacted the North Dakota State Fair Association causing significant damage to the buildings and other properties. Costs were partially recovered from federal assistance programs. Included in the financial statements for the year ended September 30, 2013 and 2012 are \$0 and \$1,767,739 in expenditures incurred or payable, respectively, and \$18,153 and \$1,424,750 in federal grants revenues or receivables, respectively, from the Federal Emergency Management Agency.



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Directors
North Dakota State Fair Association
Minot, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the North Dakota State Fair Association as of and for the year ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise North Dakota State Fair Association's basic financial statements, and have issued our report thereon dated November 6, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Dakota State Fair Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dakota State Fair Association's internal control. Accordingly, we do not express an opinion on the effectiveness of North Dakota State Fair Association's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as finding 13-1, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Dakota State Fair Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to the Finding

North Dakota State Fair Association's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. North Dakota State Fair Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed name and address.

Bismarck, North Dakota
November 6, 2013

A. Financial Statement Findings

13-1 Segregation of Duties – Significant Deficiency

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion, or has access to all accounting system modules.

Condition: The Association has a lack of segregation of duties in certain areas due to having one individual with access to all accounting modules.

Cause: The deficiency could result in the improper or inappropriate recording of a transaction.

Effect: Inadequate segregation of duties could adversely affect the Association's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned function.

Recommendation: While we recognize that your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, all accounting personnel should functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the Association. We also recommend that a review of access to accounting modules be reviewed to determine if access to multiple modules of the accounting system can be limited or permissions be changed from "live access" to "view only access".

Management's Response: At the present time the North Dakota State Fair has segregated the duties of all key accounting personnel in the most efficient manner possible, given its limited staff. Due to cost constraints, there will be no further administrative employees added.