



Financial Statements
September 30, 2010 and 2009

North Dakota State Fair Association

North Dakota State Fair Association

Table of Contents

September 30, 2010 and 2009

Financial Statements

Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3
Balance Sheets	7
Statements of Revenues, Expenses and Changes in Net Assets	8
Statements of Cash Flows	9
Statement of Appropriations	11
Notes to Financial Statements.....	12

Supplementary Information

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22
Schedule of Findings, Recommendations, and Agency Responses	24
Independent Auditor's Specific Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee.....	25



Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities of the North Dakota State Fair Association, enterprise fund of the State of North Dakota, as of and for the years ended September 30, 2010 and 2009, which comprise the Association's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Dakota State Fair Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the North Dakota State Fair Association are intended to present the financial position, changes in financial position, and cash flows of the State of North Dakota that are attributable to the transactions of the 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, 2010 and 2009 and the changes in financial position and cash flows for the years ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Dakota State Fair Association as of September 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 4, 2010, on our consideration of North Dakota State Fair Association's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 - 6, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Bismarck, North Dakota
November 4, 2010

This section of the Association's annual financial report presents our analysis of the financial performance during the fiscal year that ended September 30, 2010. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- The Association's net assets increased by \$14,315,138 or 106.2% in fiscal year 2010.
- During fiscal year 2009, the Association's net assets increased by \$1,075,135 or 8.67%.
- During fiscal year 2010, the Association's operating revenues increased \$762,639 or 14.6%, while operating expenses increased \$678,340 or 11%.
- In 2009, the Association's operating revenues increased \$1,010,788 or 24%, while operating expenses increased \$817,824 or 15.8%.
- Fair revenues in fiscal year 2010 increased to \$5,728,818 or 17.7% over last year.
- In fiscal year 2009, fair revenues increased to \$4,865,397 or 23.6% over fiscal year 2008.
- During fiscal year 2010, the property and equipment additions totaled \$15,877,444.
- During fiscal year 2009, the property and equipment additions totaled \$1,290,881.
- Depreciation expense for the current fiscal year totaled \$1,035,825.
- Depreciation expense for fiscal year 2009 totaled \$930,201.

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 Assets. 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 Assets report information about the Association's activities in a way that will help answer this question. These two statements report the net assets of the Association and changes in them. You can think of the Association's net assets-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 assets 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 Assets

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

Condensed Balance Sheets (In Thousands of Dollars)

	2010	2009	2008	Dollar Change	Total Percent Change
Current and other assets	\$ 5,157	\$ 3,513	\$ 3,155	\$ 1,644	46.80%
Capital assets	24,401	10,843	10,495	13,558	125.04%
Total assets	\$ 29,558	\$ 14,356	\$ 13,650	\$ 15,202	105.89%
Long-term debt outstanding	\$ 595	\$ 776	\$ 957	\$ (181)	-23.32%
Other liabilities	1,169	101	289	1,068	1057.43%
Total liabilities	\$ 1,764	\$ 877	\$ 1,246	\$ 887	101.14%
Invested in capital assets, net of related debt	\$ 23,806	\$ 10,067	\$ 9,537	\$ 13,739	136.48%
Restricted	472	473	476	(1)	-0.21%
Unrestricted	3,516	2,939	2,391	577	19.63%
Total net assets	\$ 27,794	\$ 13,479	\$ 12,404	\$ 14,315	106.20%

As can be seen from the table above, net assets increased over \$14 million. This increase is due to the addition of the Grandstand and an increase in cash due to increased revenue from the 2010 Fair. Total liabilities increased \$887 thousand to \$1,764 thousand due to grandstand construction payables.

Net assets increased over \$1 million in fiscal year 2009 from fiscal year 2008. The increase was due to the construction in progress on the Grandstand and an increase in cash due to increased revenue from the 2009 Fair. Liabilities in fiscal year 2009 decreased \$369 thousand to \$877 thousand from the prior year.

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

	2010	2009	2008	Dollar Change	Total Percent Change
Operating Revenues					
Fair proceeds and other revenue	\$ 5,728	\$ 4,865	\$ 3,936	\$ 863	17.74%
Arena revenue	210	320	244	(110)	-34.38%
Other revenue	23	14	8	9	64.29%
	<u>5,961</u>	<u>5,199</u>	<u>4,188</u>	<u>762</u>	14.66%
Nonoperating Revenues					
Local grants	634	545	517	89	16.33%
Interest and investment income	8	15	33	(7)	-46.67%
(Loss)/Gain on sale of fixed assets	(54)	(2)	5	(52)	2600.00%
	<u>588</u>	<u>558</u>	<u>555</u>	<u>30</u>	5.38%
Total Revenue	<u>6,549</u>	<u>5,757</u>	<u>4,743</u>	<u>792</u>	13.76%
Operating Expenses					
General expenses	4,076	3,555	2,860	521	14.66%
Depreciation expense	1,036	930	911	106	11.40%
Salaries, wages and vacation pay	1,291	1,276	1,174	15	1.18%
Premiums, trophies and awards	273	237	235	36	15.19%
	<u>6,676</u>	<u>5,998</u>	<u>5,180</u>	<u>678</u>	11.30%
Non Operating Expenses					
Interest expense	29	32	41	(3)	-9.38%
Bond issuance costs	3	3	3	-	0.00%
Amortization	9	9	9	-	0.00%
	<u>41</u>	<u>44</u>	<u>53</u>	<u>(3)</u>	-6.82%
Total Expenses	<u>6,717</u>	<u>6,042</u>	<u>5,233</u>	<u>675</u>	11.17%
Transfers -					
State Appropriations	14,483	1,360	561	13,123	964.93%
Change in Net Assets	14,315	1,075	71	13,240	
Net Assets, Beginning of Year	<u>13,479</u>	<u>12,404</u>	<u>12,333</u>	<u>1,075</u>	
Net Assets, End of Year	<u>\$ 27,794</u>	<u>\$ 13,479</u>	<u>\$ 12,404</u>	<u>\$ 14,315</u>	106.20%

While the Balance Sheet shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets, provides answers as to the nature and source of these changes. As can be seen above, the majority of the increase is in the change of net assets due to the building of the grandstand.

Depreciation expense for the current fiscal year has increased \$106 thousand. Depreciation expense for fiscal year 2009 increased \$19 thousand from the prior year.

Capital Assets

As of September 30, 2010, the Association had invested more than \$40 million in infrastructure including land, buildings, improvements and equipment. Approximately 96 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 \$285 thousand, excluding payroll costs for Association employees engaged in repair and upkeep procedures.

Current year additions to the capital asset category totaled approximately \$15.877 million, due to the Grandstand construction. See footnote 4 for additional details.

As of September 30, 2009, the Association had invested more than \$25 million in infrastructure including land, buildings, improvements and equipment. Approximately 93 percent of that total was related to land and structures.

Long-Term Debt

At year end, the Association had \$605 thousand in long and short-term debt down from \$795 thousand in the prior year for a decrease of 23.8 percent. The decrease is due to the annual payment of the current portion of the debt. See footnote 5 for additional details. In fiscal year 2009, the Association had \$795 thousand in long and short-term debt down from \$985 thousand in fiscal year 2008 for a decrease of 19 percent.

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>2010</u>	<u>2009</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,605,522	\$ 2,951,326
Accounts receivable, net of allowance for uncollectible accounts (2010 and 2009 - \$50,000)	13,006	37,500
Due from state general fund	1,026,562	-
Prepaid items	36,142	43,121
Total current assets	<u>4,681,232</u>	<u>3,031,947</u>
Noncurrent Assets		
Restricted cash and cash equivalents	250,871	252,223
Restricted investment, at fair value	220,985	220,996
Unamortized bond issuance costs	3,891	7,226
Capital assets		
Land	390,816	390,816
Infrastructure	3,465,987	3,263,396
Buildings	34,598,086	19,195,762
Equipment	1,721,182	1,781,536
Construction work in process	-	1,220,366
Less accumulated depreciation	(15,775,382)	(15,008,685)
Total noncurrent assets	<u>24,876,436</u>	<u>11,323,636</u>
Total assets	<u>\$ 29,557,668</u>	<u>\$ 14,355,583</u>

See Notes to Financial Statements

North Dakota State Fair Association
Balance Sheets
September 30, 2010 and 2009

	2010	2009
Liabilities and Net Assets		
Current Liabilities		
Trade accounts payable	\$ 1,105,092	\$ 31,446
Accrued interest payable	9,215	12,000
Current portion of accrued employee leave	20,000	20,000
Bonds payable	185,000	190,000
Total current liabilities	1,319,307	253,446
Noncurrent Liabilities		
Accrued employee leave, net of current portion	34,466	37,134
Bonds payable, net of unamortized discount (2010 - \$10,215; 2009 - \$18,969)	409,785	586,031
Total noncurrent liabilities	444,251	623,165
Total liabilities	1,763,558	876,611
Net Assets		
Invested in capital assets, net of related debt	23,805,904	10,067,160
Restricted for debt service	471,856	473,219
Unrestricted	3,516,350	2,938,593
Total net assets	27,794,110	13,478,972
Total liabilities and net assets	\$ 29,557,668	\$ 14,355,583

North Dakota State Fair Association
 Statements of Revenues, Expenses and Changes in Net Assets
 Years Ended September 30, 2010 and 2009

	2010	2009
Operating Revenues		
Fair proceeds and other revenue	\$ 5,728,818	\$ 4,865,397
Arena revenue	209,876	319,984
Other revenue	22,907	13,581
Total operating revenues	5,961,601	5,198,962
Operating Expenses		
General expenses	4,075,876	3,554,803
Depreciation expense	1,035,825	930,201
Salaries, wages and vacation pay	1,291,636	1,276,161
Premiums, trophies and awards	272,866	236,698
Total operating expenses	6,676,203	5,997,863
Operating Loss	(714,602)	(798,901)
Nonoperating Revenues (Expenses)		
Local grants	633,582	545,080
Interest and investment income	8,287	9,241
Net increase (decrease) in fair value of investments	(11)	5,308
Loss on disposal of fixed assets	(54,024)	(1,522)
Interest expense	(29,214)	(32,136)
Bond issuance costs	(3,335)	(3,335)
Amortization of bond discount	(8,754)	(8,754)
Total nonoperating revenues	546,531	513,882
Loss Before Transfers	(168,071)	(285,019)
Transfers - State Appropriations	14,483,209	1,360,154
Change in Net Assets	14,315,138	1,075,135
Net Assets, Beginning of Year	13,478,972	12,403,837
Net Assets, End of Year	\$ 27,794,110	\$ 13,478,972

North Dakota State Fair Association
Statements of Cash Flows
Years Ended September 30, 2010 and 2009

	2010	2009
Operating Activities		
Cash received from customers	\$ 5,986,095	\$ 5,429,676
Cash payments for goods and services	(3,268,117)	(3,995,581)
Cash payments to employees	(1,294,304)	(1,267,080)
Net Cash from Operating Activities	1,423,674	167,015
Non-Capital Financing Activities		
Local grants received	633,582	545,080
State appropriations received	453,575	1,360,154
Net Cash from Non-Capital Financing Activities	1,087,157	1,905,234
Capital and Related Financing Activities		
Payments for capital acquisitions	(14,647,347)	(1,290,882)
State appropriations received	13,003,072	-
Proceeds from sale of fixed assets	-	10,600
Principal payments on bonds	(190,000)	(190,000)
Interest paid	(31,999)	(34,861)
Net Cash used for Capital and Related Financing Activities	(1,866,274)	(1,505,143)
Investing Activities		
Receipts of interest and dividends	8,298	3,933
Purchase of US Treasury Notes	(221,011)	(438,681)
Proceeds from the sale of US Treasury Notes	221,000	443,989
Net Cash from Investing Activities	8,287	9,241
Net Change in Cash and Cash Equivalents	652,844	576,347
Cash and Cash Equivalents, Beginning of Year	3,203,549	2,627,202
Cash and Cash Equivalents, End of Year	\$ 3,856,393	\$ 3,203,549

North Dakota State Fair Association
 Statements of Cash Flows
 Years Ended September 30, 2010 and 2009

	2010	2009
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating loss	\$ (714,602)	\$ (798,901)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	1,035,825	930,201
Changes in operating assets and liabilities		
Customer receivables	24,494	230,714
Prepaid expenses	6,979	(9,591)
Trade accounts payable	1,073,646	(194,489)
Accrued leave	(2,668)	9,081
Net Cash from Operating Activities	\$ 1,423,674	\$ 167,015
Summary of Cash and Cash Equivalents		
Unrestricted cash in banks	\$ 3,605,522	\$ 2,951,326
Restricted cash in banks	250,871	252,223
	\$ 3,856,393	\$ 3,203,549
Supplemental Disclosure of Noncash Capital Financing Activities		
Amortization of bond discount	\$ 8,754	\$ 8,754
Amortization of bond issuance costs	\$ 3,335	\$ 3,335

North Dakota State Fair Association
Statement of Appropriations
Year Ended September 30, 2010

	<u>2009-2011 Appropriation</u>	<u>7/1/2009- 9/30/2009 Expenditures</u>	<u>10/1/2010- 9/30/2010 Expenditures</u>	<u>Unexpended Appropriations at 9/30/2010</u>
Debt Service	\$ 210,000	\$ -	\$ 190,000	\$ 20,000
Grandstand	15,000,000	970,366	14,029,634	-
Premiums	<u>487,150</u>	<u>236,698</u>	<u>250,452</u>	<u>-</u>
	<u>\$ 15,697,150</u>	<u>\$ 1,207,064</u>	<u>\$ 14,470,086</u>	<u>\$ 20,000</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, 2010. Non-appropriated expenditures are made in accordance with NDCC 4-02.1-15.

	<u>FY 2010 Appropriated</u>	<u>FY 2010 Non-appropriated</u>	<u>FY 2009 Appropriated</u>	<u>FY 2009 Non-appropriated</u>	<u>Fiscal Years 2009-2010 Total</u>
Premiums	\$ 250,452	\$ 22,414	\$ 236,698	\$ -	\$ 509,564
Operating expenses	-	6,403,337	-	5,761,165	12,164,502
Interest expenses	-	29,214	-	32,136	61,350
Asphalt	-	-	16,412	-	16,412
Grandstand	14,029,634	104,368	1,100,166	-	15,234,168
Principal payments on bonds	<u>190,000</u>	<u>-</u>	<u>15,000</u>	<u>-</u>	<u>205,000</u>
	<u>\$ 14,470,086</u>	<u>\$ 6,559,333</u>	<u>\$ 1,368,276</u>	<u>\$ 5,793,301</u>	<u>\$ 28,190,996</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. In addition, the Association follows all nonconflicting pronouncements of the Financial Accounting Standards Board (FASB) issued and effective subsequent to November 30, 1989.

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. Appropriations received but not spent are recorded as due to the State General Fund on the accompanying balance sheet.

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 collectibility 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.

Bond Issuance Costs and Bond Discounts

Bond issuance costs and bond discounts are amortized over the life of the bonds using the straight-line method.

Operating Revenues

For purposes of differentiating operating revenues from nonoperating 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, 2010 and 2009, is \$270,877 and \$259,148, 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.

Note 2 - Cash

Custodial 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.

Note 3 - Investments

As of September 30, 2010 and 2009, the Association has the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>2010 Fair Value</u>	<u>2009 Fair Value</u>
U.S. Treasury note	10/21/10	\$ 220,985	\$ 220,996

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. The North Dakota State Fair Association only invests in investments offered by the State Treasurer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The Association does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

Note 4 - Capital Assets

The components and changes in components of capital assets at September 30, 2010 and 2009 are as follows:

	Balance 09/30/09	Additions/ Depreciation Expense	Deletions	Balance 09/30/10
Capital Assets Not Being Depreciated				
Land	\$ 390,816	\$ -	\$ -	\$ 390,816
Construction in process	1,220,366	-	(1,220,366)	-
Capital Assets Being Depreciated				
Infrastructure	3,263,396	202,589	-	3,465,985
Buildings	19,195,762	15,590,338	(188,013)	34,598,087
Equipment	1,781,536	84,517	(144,870)	1,721,183
	25,851,876	15,877,444	(1,553,249)	40,176,071
Less accumulated depreciation				
Infrastructure	(2,302,361)	(122,507)	-	(2,424,868)
Buildings	(11,147,004)	(855,899)	134,053	(11,868,850)
Equipment	(1,559,320)	(57,419)	135,075	(1,481,664)
	(15,008,685)	(1,035,825)	269,128	(15,775,382)
Net	\$ 10,843,191	\$ 14,841,619	\$ (1,284,121)	\$ 24,400,689

North Dakota State Fair Association
Notes to Financial Statements
September 30, 2010 and 2009

	Balance 09/30/08	Additions/ Depreciation Expense	Deletions	Balance 09/30/09
Capital Assets Not Being Depreciated				
Land	\$ 390,816	\$ -	\$ -	\$ 390,816
Construction in process	120,200	1,100,166	-	1,220,366
Capital Assets Being Depreciated				
Infrastructure	3,170,130	93,266	-	3,263,396
Buildings	19,403,252	55,348	(262,838)	19,195,762
Equipment	1,739,435	42,101	-	1,781,536
	<u>24,823,833</u>	<u>1,290,881</u>	<u>(262,838)</u>	<u>25,851,876</u>
Less accumulated depreciation				
Infrastructure	(2,182,605)	(119,756)	-	(2,302,361)
Buildings	(10,637,950)	(759,771)	250,717	(11,147,004)
Equipment	(1,508,646)	(50,674)	-	(1,559,320)
	<u>(14,329,201)</u>	<u>(930,201)</u>	<u>250,717</u>	<u>(15,008,685)</u>
Net	<u>\$ 10,494,632</u>	<u>\$ 360,680</u>	<u>\$ (12,121)</u>	<u>\$ 10,843,191</u>

Note 5 - 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, 2010 and 2009:

	Balance 9/30/2009	Additions	Retirements	Balance 9/30/2010	Current Portion
Bonds Payable	\$ 795,000	\$ -	\$ (190,000)	\$ 605,000	\$ 185,000
Accrued Employee Leave	57,134	-	(2,668)	54,466	20,000
	Balance 9/30/2008	Additions	Retirements	Balance 9/30/2009	Current Portion
Bonds Payable	\$ 985,000	\$ -	\$ (190,000)	\$ 795,000	\$ 190,000
Accrued Employee Leave	48,053	9,081	-	57,134	20,000

Maturities of Bonds Payable

Maturities of principal and interest on bonds are as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 185,000	\$ 23,483	\$ 208,483
2012	420,000	9,660	429,660
	<u>\$ 605,000</u>	<u>\$ 33,143</u>	<u>\$ 638,143</u>

The following summarizes the Association's bond outstanding at September 30, 2010.

<u>Description and Due Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
Refunding Revenue Bonds Series 2001 12/01/02 - 12/01/11	3.5 - 4.6	\$ 2,205,000

Refunding Revenue Bonds Series 2001

Interest on the 2001 Series Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on December 1, 2011 are not subject to optional redemption prior to maturity except under extraordinary circumstances. The bonds are presented on the balance sheet net of unamortized discount of \$10,215 and \$18,969 for the years ended September 30, 2010 and 2009, respectively. The bonds are secured by the Association's net revenues, designated appropriations from the North Dakota Legislature, a Reserve Account in the amount of \$221,856, and by an Emergency Reserve Account in the amount of \$250,000.

Note 6 - 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, 2010 and 2009, were \$250,452 and \$236,698, 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, 2010 and 2009 totaled \$190,000 and \$15,000, respectively.

The North Dakota State Fair Association receives capital outlay appropriations from the State of North Dakota. These amounts are restricted for the purpose of asphalt repairs and the new grandstand project. Asphalt appropriations expended for September 30, 2010 and 2009 totaled \$0 and \$16,412, respectively. Grandstand appropriations expended for September 30, 2010 and 2009 totaled \$14,029,634 and \$1,100,166, respectively.

Note 7 - 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 five 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 five 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, or 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, effective August 1, 1995, 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 five 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 1214; Bismarck, ND 58502-1214.

Funding Policy

NDPERS is funded by employee contributions (set by statute) of 4% of regular compensation. During the 1983-1985 biennium the State implemented the employer pickup provision of the IRS code whereby a portion or all of the required employee contributions are made by the employer. The State is paying the full employee contribution. Employer contributions of 4.12 percent of covered compensation are set by statute. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State legislature and is the governing authority of NDPERS. Benefit and contribution provisions are administered in accordance with Chapter 54-52 of the North Dakota Century Code. The North Dakota State Fair Association's required and actual contributions to NDPERS for the fiscal years ending September 30, 2010, 2009, and 2008, were \$32,287, \$33,230, and \$29,494, respectively.

Note 8 - 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 2012,	\$ 24,000
All Seasons Arena Ice Contract	Annual with renewal option	105,900
Norsk Hostfest Contract	5 years through October 2011	156,400
Minot Curling Club Contract	5 years through April 20, 2012	6,000

The leases are accounted for as operating leases. The Gymagic Gymnastics and the Minot Curling Club leases are noncancelable. The All Seasons Arena Ice Contract and Norsk Hostfest contracts cancelable in the event the facilities specified within the contracts are destroyed. The annual rent for the Norsk Hostfest lease will start increasing in fiscal year 2010 as stated within the agreement.

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

<u>Years Ended September 30,</u>	<u>Amount</u>
2011	\$ 292,300
2012	30,000
	<u>\$ 322,300</u>

The North Dakota State Fair Association entered into an operating lease commitment for lease of mailing equipment on June 1, 2007. The non-cancelable lease requires monthly payments of \$66 through May 31, 2012.

Annual lease commitments under this obligation are as follows:

<u>Years Ended September 30,</u>	<u>Amount</u>
2011	\$ 792
2012	528
	<u>\$ 1,320</u>

Note 9 - 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 10 - 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, 2010 is approximately \$298,222.



Supplementary Information
September 30, 2010 and 2009

North Dakota State Fair Association



**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 the financial statements of the North Dakota State Fair Association, as of and for the year ended September 30, 2010, and have issued our report thereon dated November 4, 2010. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered North Dakota State Fair Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Dakota State Fair Association's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, recommendations, and agency responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. We consider deficiency 10-2 as described in the accompanying schedule of findings, recommendations, and agency responses to be a material weakness.

A significant deficiency is a deficiency, or 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. We consider deficiency 10-1 as described in the accompanying schedule of findings, recommendations, and agency responses to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota State Fair Association's financial statements are free of 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*.

The North Dakota State Fair Association's responses to the findings identified in our audit are described in the accompanying schedule of audit findings. We did not audit the North Dakota State Fair Association's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Legislative Audit and Fiscal Review Committee, management, federal awarding agencies, and other state officials and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota
November 4, 2010

Current Audit Findings and Recommendations

10-1 Segregation of Duties – Significant Deficiency

Condition: The Association has a lack of segregation of duties in certain areas due to a limited staff.

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.

Cause: The control deficiency could result in the improper 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 functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the Association.

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.

10-2 Preparation of Financial Statements – Material Weakness

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Condition: The Association does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Cause: The control deficiency could result in a misstatement to the presentation of the financial statements.

Effect: Inadequate controls over financial reporting of the Association result in more than a remote likelihood that the Association would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the Association and changes in reporting requirements.

Management's Response: Since it is not cost-effective for an for an organization our size to have staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare the audit financial statements as part of their annual audit of the North Dakota State Fair.



Independent Auditor's Specific Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee

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

The Legislative Audit and Fiscal Review Committee require that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses regarding the September 30, 2010, audit of the North Dakota State Fair Association are as follows:

Audit Report Communications

1. What type of opinion was issued on the financial statements?

Unqualified.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

See schedule of findings for deficiencies in internal control, we consider the deficiency described in finding 10-1 to be a significant deficiency in internal control over financial reporting and deficiency 10-2 to be a material weakness in internal control over financial reporting.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

5. Has action been taken on findings and recommendations included in prior audit reports?

In regards to the segregation of duties finding in the prior year the Association feels they have segregated the duties of all key accounting personnel in the most efficient manner possible, given its limited staff. Due to cost constraints, they will not be adding administrative employees, so this is a repeat finding in the current year. This is the same for preparation of financial statements; it is not cost-effective for them to hire another employee who would be capable of preparing audit-ready financial statements so this will be a repeat finding again in the current year.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

Yes. See Management letter for any findings and recommendations.

Audit Committee Communications

1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions?

We noted no significant changes in accounting policies, no conflicts of interest, no contingent liabilities, and no significant unusual transactions.

2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates?

The North Dakota State Fair Association estimates the depreciation of fixed assets. Management determines the useful life of the assets based on planned use, subtracts the estimated salvage value, and depreciates the remaining cost of the asset over the useful life. The auditor's conclusion of the reasonableness of the useful lives is based on the past history of similar assets used by the organization.

The North Dakota State Fair Association also estimates the allowance for uncollectible accounts based on the history of balance write-offs and the aging of accounts receivable in the current year, the auditor's conclusion is that the allowance for uncollectible accounts is reasonable.

3. Identify any significant audit adjustments?

No material audit adjustments in the current year.

4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to the financial accounting, reporting, or auditing matter that could be significant to the financial statements?

None.

5. Identify any serious difficulties encountered in performing the audit.

None.

6. Identify any major issues discussed with management prior to retention.

None.

7. Identify any management consultations with other accountants about auditing and accounting matters.

None.

8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions to be assessed by auditors are directly related to the operations of an information technology system.

None.

This report is intended solely for the information and use of the Legislative Audit and Fiscal Review Committee, management, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Bismarck, North Dakota
November 4, 2010