Financial Statements
September 30, 2012 and 2011

North Dakota State Fair Association

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, 2012 and 2011, 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, 2012 and 2011 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, 2012 and 2011, 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.

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In accordance with *Government Auditing Standards*, we have also issued a report dated November 5, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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.

Eide Bailly LLP

Bismarck, North Dakota
November 5, 2012

This section of the Association's annual financial report presents our analysis of the financial performance during the fiscal year that ended September 30, 2012. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- During fiscal year 2012, the Association had a successful Fair.
- During fiscal year 2011, the Association cancelled the Fair due to flooding.
- During fiscal year 2012, the Association's net assets increased by $1,123,046 or 4.36%.
- During fiscal year 2011, the Association's net assets decreased by $2,016,943 or -7.3%.
- During fiscal year 2010, the Association's net assets increased by $14,315,138 or 106.2%.
- In 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 by $4,662,751 or -78.21%
- During fiscal year 2010, the Association's operating revenues increased $762,639 or 14.6%, while operating expenses increased $678,340 or 11%.
- In fiscal year 2012, fair revenues increased to $6,652,773 or 543% over fiscal year 2011.
- Fair revenues in fiscal year 2011 decreased to $1,034,986 or -82%.
- Fair revenues in fiscal year 2010 increased to $5,728,818 or 17.7% over 2009.
- 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.
- During fiscal year 2010, the property and equipment additions totaled $15,877,444.
- Depreciation expense for the current fiscal year 2012 totaled $1,332,486.
- Depreciation expense for fiscal year 2011 totaled $1,317,930.
- Depreciation expense for fiscal year 2010 totaled $1,035,825.

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)

	2012	2011	2010	Dollar Change	Total Percent Change
Current and other assets	$ 4,637	$ 5,734	$ 5,157	$ (1,097)	-19.13%
Capital assets	23,447	23,405	24,401	42	0.18%
Total assets	$ 28,084	$ 29,139	$ 29,558	$ (1,055)	-3.62%
Long-term debt outstanding	$ -	$ 419	$ 595	$ (419)	-100.00%
Other liabilities	1,184	2,943	1,169	(1,759)	-59.77%
Total liabilities	$ 1,184	$ 3,362	$ 1,764	$ (2,178)	-64.78%
Invested in capital assets, net of related debt	$ 23,447	$ 22,987	$ 23,806	$ 460	2.00%
Restricted	-	470	472	(470)	-100.00%
Unrestricted	3,453	2,320	3,516	1,133	48.84%
Total net assets	$ 26,900	$ 25,777	$ 27,794	$ 1,123	4.36%

As can be seen from the table above, net assets increased over $1 million. The increase is due to the Fair resuming operations this year after last years' Fair being cancelled due to the flooding of the Fairgrounds. Total liabilities decreased $2,178,000 to $1,184,000 due to the payoff of the bond and payment on all flood contracts that were payable at 2011 year end.

Net assets decreased over $2 million in fiscal year 2011 from fiscal year 2010. The decrease was due to the flooding of the ND State Fairgrounds and lost revenue due to the cancellation of the 2011 ND State Fair. Total liabilities increased from $1,764,000 in 2010 to $3,362,000 in 2011 due to flood contracts payable.

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

	2012	2011	2010	Dollar Change	Total Percent Change
Operating Revenues					
Fair proceeds and other revenue	$ 6,653	$ 1,035	$ 5,728	$ 5,618	542.80%
Arena revenue	177	255	210	(78)	-30.59%
Other revenue	16	9	23	7	77.78%
	6,846	1,299	5,961	5,547	427.02%
Nonoperating Revenues					
Local grants	1,171	779	634	392	50.32%
Interest and investment income	3	6	8	(3)	-50.00%
(Loss)/Gain on sale of fixed assets	(1)	-	(54)	(1)	0.00%
	1,173	785	588	388	49.43%
Total Revenue	8,019	2,084	6,549	5,935	284.79%
Operating Expenses					
General expenses	3,860	1,163	4,076	2,697	231.90%
Depreciation expense	1,332	1,318	1,036	14	1.06%
Salaries, wages and vacation pay	1,524	1,310	1,291	214	16.34%
Premiums, trophies and awards	266	17	273	249	1464.71%
	6,982	3,808	6,676	3,174	83.35%
Non Operating Expenses					
Interest expense	38	21	29	17	80.95%
Bond issuance costs	1	3	3	(2)	-66.67%
Amortization	1	9	9	(8)	-88.89%
	40	33	41	7	21.21%
Total Expenses	7,022	3,841	6,717	3,181	82.82%
Extraordinary Items					
FEMA grants	1,424	2,569	-	(1,145)	100%
Flood expenditures	(1,768)	(2,846)	-	1,078	100%
Transfers -					
State Appropriations	470	17	14,483	453	2664.71%
Change in Net Assets	1,123	(2,017)	14,315	3,140	
Net Assets, Beginning of Year	25,777	27,794	13,479	(2,017)	
Net Assets, End of Year	$ 26,900	$ 25,777	$ 27,794	$ 1,123	4.36%

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, there is an increase in net assets due to revenues from the 2012 ND State Fair, flooding in 2011 caused the cancellation of the 2011 ND State Fair.

Capital Assets

As of September 30, 2012 and September 30, 2011, the Association had invested more than $41 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 $665 thousand, excluding payroll costs for Association employees engaged in repair and upkeep procedures.

Current year additions to the capital asset category totaled approximately $1,387,191. See footnote 4 for additional details.

Long-Term Bond Debt

At year end, the Association had no long or short-term bond debt down from $420 thousand in the prior year. The decrease is due to the payoff of the debt. See footnote 5 for additional details. In fiscal year 2011, the Association had $420 thousand in long and short-term bond debt down from $605 thousand in fiscal year 2010 for a decrease of 30.6 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 increased the past year 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.

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 4,237,422	$ 2,541,701
Accounts receivable, net of allowance for uncollectible accounts (2012 and 2011 - $50,000)	28,741	114,275
FEMA receivable - due from Federal Government	330,801	2,569,030
Prepaid items	39,760	38,702
Total current assets	4,636,724	5,263,708
Noncurrent Assets		
Restricted cash and cash equivalents	-	250,871
Restricted investment, at fair value	-	219,055
Unamortized bond issuance costs	-	556
Capital assets		
Land	390,816	390,816
Infrastructure	3,776,156	3,613,281
Buildings	35,741,352	34,728,112
Equipment	1,859,469	1,758,107
Less accumulated depreciation	(18,320,511)	(17,085,115)
Total noncurrent assets	23,447,282	23,875,683
Total assets	$ 28,084,006	$ 29,139,391

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Trade accounts payable	$ 113,101	$ 20,990
Flood contracts payable	-	1,798,685
Accrued interest payable	36,006	6,440
Current portion of accrued employee leave	45,000	30,000
Current portion of flood loan payable	964,830	-
Bonds payable, net of unamortized discount (2011 - $1,461)	-	418,539
Total current liabilities	1,158,937	2,274,654
Noncurrent Liabilities		
Accrued employee leave, net of current portion	24,856	31,777
Flood loan payable	-	1,055,793
Total noncurrent liabilities	24,856	1,087,570
Total liabilities	1,183,793	3,362,224
Net Assets		
Invested in capital assets, net of related debt	23,447,282	22,986,662
Restricted for debt service	-	469,926
Unrestricted	3,452,931	2,320,579
Total net assets	26,900,213	25,777,167
Total liabilities and net assets	$ 28,084,006	$ 29,139,391

	2012	2011
Operating Revenues		
Fair proceeds and other revenue	$ 6,652,773	$ 1,035,336
Arena revenue	177,423	254,612
Other revenue	16,008	8,902
Total operating revenues	6,846,204	1,298,850
Operating Expenses		
General expenses	3,860,393	1,146,129
Depreciation expense	1,332,486	1,317,930
Salaries, wages and vacation pay	1,524,491	1,309,721
Premiums, trophies and awards	265,868	17,392
Total operating expenses	6,983,238	3,791,172
Operating Loss	(137,034)	(2,492,322)
Nonoperating Revenues (Expenses)		
Local grants	1,170,797	778,609
Interest and investment income	3,232	8,440
Net decrease in fair value of investments	-	(1,930)
Loss on disposal of fixed assets	(535)	-
Interest expense	(38,409)	(21,111)
Bond issuance costs	(555)	(3,335)
Amortization of bond discount	(1,461)	(8,754)
Total nonoperating revenues	1,133,069	751,919
Gain (Loss) Before Extraordinary Items & Transfers	996,035	(1,740,403)
Extraordinary Items		
FEMA grants	1,424,750	2,569,030
Flood expenditures	(1,767,739)	(2,862,940)
Transfers - State Appropriations	470,000	17,370
Change in Net Assets	1,123,046	(2,016,943)
Net Assets, Beginning of Year	25,777,167	27,794,110
Net Assets, End of Year	$ 26,900,213	$ 25,777,167

	2012	2011
Operating Activities		
Cash received from customers	$ 6,931,738	$ 1,197,581
Cash payments for goods and services	(4,035,208)	(2,267,105)
Cash payments to employees	(1,516,412)	(1,302,410)
Net Cash from (used for) Operating Activities	1,380,118	(2,371,934)
Non-Capital Financing Activities		
Local grants received	1,170,797	778,609
State appropriations received	470,000	17,370
Net Cash from Non-Capital Financing Activities	1,640,797	795,979
Capital and Related Financing Activities		
Payments for capital acquisitions	(1,375,103)	(322,442)
State appropriations received		1,026,562
FEMA flood assistance received	3,662,981	-
Proceeds from issuance of flood loan	3,572,018	1,073,698
Payments on flood loan	(3,662,981)	(17,905)
Payments for flood expenditures	(3,566,424)	(1,047,333)
Principal payments on bonds	(420,000)	(185,000)
Interest paid	(8,843)	(23,886)
Net Cash from (used for) Capital and Related Financing Activities	(1,798,352)	503,694
Investing Activities		
Receipts of interest and dividends	3,232	8,440
Purchase of US Treasury Notes	-	(221,000)
Proceeds from the sale of US Treasury Notes	219,055	221,000
Net Cash from Investing Activities	222,287	8,440
Net Change in Cash and Cash Equivalents	1,444,850	(1,063,821)
Cash and Cash Equivalents, Beginning of Year	2,792,572	3,856,393
Cash and Cash Equivalents, End of Year	$ 4,237,422	$ 2,792,572

	2012	2011
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating loss	$ (137,034)	$ (2,509,244)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	1,332,486	1,317,930
Changes in operating assets and liabilities		
Customer receivables	85,534	(101,269)
Prepaid expenses	(1,058)	(2,560)
Trade accounts payable	92,111	(1,084,102)
Accrued leave	8,079	7,311
Net Cash from Operating Activities	$ 1,380,118	$ (2,371,934)
Summary of Cash and Cash Equivalents		
Unrestricted cash in banks	$ 4,237,422	$ 2,541,701
Restricted cash in banks	-	250,871
	$ 4,237,422	$ 2,792,572
Supplemental Disclosure of Noncash Capital Financing Activities		
Value received for trade of capital assets	$ 12,089	$ -
Noncash Investing Activity		
Change in FMV of investments	$ -	$ (1,930)

	2009-2011 Appropriation	7/1/2009 9/30/2009 Expenditures	10/1/2009- 9/30/2010 Expenditures	10/1/2010- 6/30/2011 Expenditures	2011-2013 Appropriation	7/1/2011- 9/30/2011 Expenditures	10/1/2011- 9/30/2012 Expenditures	Unexpended Appropriations at 9/30/2012
Debt Service	$ 210,000	$ -	$ 190,000	$ 20,000	$ 210,000	$ -	$ 210,000	$ -
Grandstand	15,000,000	970,366	14,029,634		-	-		-
Premiums	487,150	236,698	250,452	-	520,000	17,392	260,000	242,608
	$ 15,697,150	$ 1,207,064	$ 14,470,086	$ 20,000	$ 730,000	$ 17,392	$ 470,000	$ 242,608

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, 2012. Non-appropriated expenditures are made in accordance with NDCC 4-02.1-15.

	FY 2012 Appropriated	FY 2012 Non-appropriated	FY 2011 Appropriated	FY 2011 Non-appropriated	Fiscal Years 2011-2012 Total
Premiums	$ 260,000	$ 5,868	$ 17,392	$ -	$ 283,260
Operating expenses	-	6,717,370	-	3,790,702	10,508,072
Interest expenses	-	38,409	-	21,111	59,520
Principal payments on bonds	210,000	210,000	20,000	165,000	605,000
	$ 470,000	$ 6,971,647	$ 37,392	$ 3,976,813	$ 11,455,852

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.

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.

Restricted Cash and Investments

As of September 30, 2011, the North Dakota State Fair had a bond that required certain reservations of the Association's assets. The Association had a reserved investment account in the amount of $219,055, and an Emergency Reserve Cash Account in the amount of $250,871. The bond was paid in full during 2012.

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.

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 no 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 non-Fair and arena ice 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 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, 2012 and 2011, is $275,442 and $208,978, 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, 2012 and 2011, the Association has the following investments:

Investment	Maturity	2012 Fair Value	2011 Fair Value
U.S. Treasury note	10/21/10	$ -	$ 219,055

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, 2012 and 2011 are as follows:

	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
	40,490,316	1,387,191	(109,714)	41,767,793
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)
	(17,085,115)	(1,332,486)	97,090	(18,320,511)
Net	$ 23,405,201	$ 54,705	$ (12,624)	$ 23,447,282

	Balance 09/30/10	Additions/ Depreciation Expense	Deletions	Balance 09/30/11
Capital Assets Not Being Depreciated				
Land	$ 390,816	$ -	$ -	$ 390,816
Capital Assets Being Depreciated				
Infrastructure	3,465,985	147,296	-	3,613,281
Buildings	34,598,087	130,025	-	34,728,112
Equipment	1,721,183	58,127	(21,203)	1,758,107
	40,176,071	335,448	(21,203)	40,490,316
Less accumulated depreciation				
Infrastructure	(2,424,868)	(121,044)	-	(2,545,912)
Buildings	(11,868,850)	(1,136,902)	-	(13,005,752)
Equipment	(1,481,664)	(59,983)	8,196	(1,533,451)
	(15,775,382)	(1,317,929)	8,196	(17,085,115)
Net	$ 24,400,689	$ (982,481)	$ (13,007)	$ 23,405,201

Note 5 - Long – Term Debt

Changes in Bonds Payable, Flood Loan Payable and Accrued Employee Leave

The following is a summary of changes in bonds payable, flood loan payable and accrued employee leave for the year ended September 30, 2012 and 2011:

	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
	$ 1,537,570	$ 3,622,907	$ (4,125,791)	$ 1,034,686	$ 1,009,830

	Balance 09/30/10	Additions	Retirements	Balance 09/30/11	Current Portion
Bonds Payable	$ 605,000	$ -	$ (185,000)	$ 420,000	$ 420,000
Flood Loan	-	1,073,698	(17,905)	1,055,793	-
Accrued Employee Leave	54,466	34,821	(27,510)	61,777	30,000
	$ 659,466	$ 1,108,519	$ (230,415)	$ 1,537,570	$ 450,000

Maturities of Bonds & Loan Payable

Maturities of principal and interest on the flood loan are as follows:

Year Ended September 30,	Principal	Interest	Total
2013	$ 964,830	$ 52,243	$ 1,017,073

The following summarizes the Association's debt outstanding as of September 30, 2012 and 2011:

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

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 $1,461 for the year ended September 30, 2011. The bonds are secured by the Association's net revenues, designated appropriations from the North Dakota Legislature, a Reserve Account in the amount of $219,926, and by an Emergency Reserve Account in the amount of $250,000. During 2012 the bonds were paid in full.

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 and 2011 the interest rate was at 2.25% and 2.26%, respectively.

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 for the years ended September 30, 2012 and 2011, were $260,000 and $17,370, 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 for September 30, 2012 and 2011 totaled $210,000 and $0, 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 5% 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 ND State Fair Assn is paying the full employee contribution of 4%. Employer contributions of 5.12 percent of covered compensation are set by statute. Therefore, the ND State Fair Assn is paying a total contribution of 9.12% out of ND State Fair Assn operating funds. 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, 2012, 2011, and 2010, were $73,367, $61,952, and $61,335, 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:

	Term and Expiration Date	Annual Rental
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 September 2012	156,400
Minot Curling Club Contract	5 years through April 2017	6,000

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:

Years Ended September 30,	Amount
2013	$ 137,100
2014	31,200
2015	32,400
2016	32,400
2017	32,400
	$ 265,500

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 (NDIRF), 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 NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF 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, 2012 is approximately $260,844.

Note 11 - 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 are expected to be partially recovered from federal assistance programs. Included in the financial statements for the year ended September 30, 2012 and 2011 are $1,767,739 and $2,862,940 in expenditures incurred or payable, respectively, and $1,424,750 and $2,569,030 in federal grants revenues or receivables, respectively, from the Federal Emergency Management Agency.