



Financial Statements  
September 30, 2015 and 2014

# North Dakota State Fair Association

North Dakota State Fair Association

Table of Contents

September 30, 2015 and 2014

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Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	4
Basic Financial Statements	
Balance Sheets .....	8
Statements of Revenues, Expenses and Changes in Net Position.....	9
Statements of Cash Flows .....	10
Statement of Appropriations .....	12
Notes to Financial Statements.....	13
Required Supplementary Information	
Schedules of Employer’s Share of Net Pension Liability and Employer Contributions.....	27
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	28
Schedule of Findings and Responses .....	30



## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the North Dakota State Fair Association, an enterprise fund of the State of North Dakota, which comprise the balance sheets as of September 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, the statements of cash flows, and the statement of appropriations for the years then ended, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

**Basis for Qualified Opinion on Business-Type Activities**

As discussed in Note 7 to the financial statements, the North Dakota State Fair Association has not determined the net pension liability as of a measurement date no earlier than the end of the employer's prior fiscal year. Accounting principles generally accepted in the United States of America require that the net pension liability be determined as of a measurement date no earlier than the end of the employer's prior fiscal year. The effect of this departure on the deferred outflows of resources, deferred inflows of resources, liabilities, net position, and expenses has not been determined.

**Qualified Opinion on Business-Type Activities**

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the North Dakota State Fair Association, as of September 30, 2015 and 2014, and the respective changes in financial position, cash flows and appropriations thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Basis for Adverse Opinion on Discretely Presented Component Units**

As discussed in Note 1 to the financial statements, the North Dakota State Fair Association has not included the financial statements of the North Dakota State Fair Foundation, a component unit of the North Dakota State Fair Association. Accounting principles generally accepted in the United States of America require the North Dakota State Fair Foundation to be presented as a discretely presented component unit. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the North Dakota State Fair Association has not been determined.

**Adverse Opinion on Discretely Presented Component Units**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the discretely presented component units of the North Dakota State Fair Association, as of September 30, 2015 and 2014, or the changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements of North Dakota State Fair Association, an enterprise fund of the State of North Dakota, are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the State of North Dakota that is attributable to the transactions of North Dakota State Fair Association. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of September 30, 2015 and 2014, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Change in Accounting Principle**

As discussed in Notes 1, 6 and 7 to the financial statements, North Dakota State Fair Association has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of October 1, 2014. In accordance with GASB Statement No. 68, the 2014 financial statements have not been restated to reflect this change. Our opinion is not modified with respect to this matter, except for the effects of the matters described in the “Basis for Qualified Opinion on Business-Type Activities.”

### **Other Matters**

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, Schedule of Employer’s Share of Net Pension Liability and Schedule of Employer Contributions as listed in the table of contents 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. Although our opinion on the basic financial statements is not affected, except for the effects of the matters described in the “Basis for Qualified Opinion on Business-Type Activities”, the following material departures from the prescribed guidelines exist: as discussed in Note 7 to the financial statements, the North Dakota State Fair Association has not determined the net pension liability as of a measurement date no earlier than the end of the employer’s prior fiscal year. Accounting principles generally accepted in the United States of America require that the net pension liability be determined as of a measurement date no earlier than the end of the employer’s prior fiscal year. We do not express an opinion or provide any assurance on the information.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015 on our consideration of the North Dakota State Fair Association’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Dakota State Fair Association’s internal control over financial reporting and compliance.



Bismarck, North Dakota  
October 30, 2015

This section of the Association's annual financial report presents our analysis of the financial performance during the fiscal year that ended September 30, 2015 and certain comparative data for 2014. The management's discussion and analysis does not present comparative information in all areas due to the adoption of GASB Statement No. 68 during 2015 as the restatement of all prior periods was not practical and the information necessary to provide comparative information was not available prior to 2015. Please read it in conjunction with the financial statements, which follow this section.

### **Financial Highlights**

- The Beginning of year net position was adjusted due to the implementation of GASB 68. After the adjustment, the Association's net position increased by \$402,441 or 1.31% in 2015.
- The Association's net position increased by \$2,900,213 or 10.21% in fiscal year 2014.
- During fiscal year 2015, the Association's operating revenues increased by \$922,349 or 13.95%, while operating expenses increased by \$1,094,845 or 14.55%.
- During fiscal year 2014, the Association's operating revenues decreased by \$546,793 or -7.64% due to insurance proceeds received in 2013, while operating expenses increased by \$9,576 or 0.13%.
- Fair revenues in fiscal year 2015 increased to \$7,209,324 or 15.05%.
- Fair revenues in fiscal year 2014 decreased to \$6,266,364 or -0.67%.
- During fiscal year 2015, the property and equipment additions totaled \$8,030,784, which includes \$3,374,779 of construction work in progress that was placed in service during the year.
- During fiscal year 2014, the property and equipment additions totaled \$4,056,835.
- Depreciation expense for the current fiscal year 2015 totaled \$1,516,979.
- Depreciation expense for fiscal year 2014 totaled \$1,315,551.

### **Overview of the Financial Statements**

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

### **Required Financial Statements**

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

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

### Financial Analysis of the Association

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

### Net Position

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

#### Condensed Balance Sheets (In Thousands of Dollars)

	2015	2014	2013	Dollar Change	Total Percent Change
<b>Assets</b>					
Current and other assets	\$ 5,695	\$ 6,398	\$ 5,891	\$ (703)	-10.99%
Capital assets	28,301	25,378	22,651	2,923	11.52%
Total assets	<u>33,996</u>	<u>31,776</u>	<u>28,542</u>	<u>2,220</u>	6.99%
Deferred Outflows of Resources	152	-	-	152	
Total assets and deferred outflows of resources	<u>\$ 34,148</u>	<u>\$ 31,776</u>	<u>\$ 28,542</u>	<u>\$ 2,372</u>	7.46%
<b>Liabilities</b>					
Current liabilities	\$ 302	\$ 430	\$ -	\$ (128)	-29.77%
Long-term debt outstanding	1,969	-	-	1,969	0.00%
Other liabilities	718	33	129	685	2075.76%
Total liabilities	<u>2,989</u>	<u>463</u>	<u>129</u>	<u>2,526</u>	545.57%
Deferred Inflow of Resources	136	-	-	136	
<b>Net Position</b>					
Net invested in capital assets	28,301	25,378	22,651	2,923	11.52%
Unrestricted	2,722	5,935	5,762	(3,213)	-54.14%
Total net position	<u>31,023</u>	<u>31,313</u>	<u>28,413</u>	<u>(290)</u>	-0.93%
Total liabilities, deferred inflows and net position	<u>\$ 34,148</u>	<u>\$ 31,776</u>	<u>\$ 28,542</u>	<u>\$ 2,372</u>	

Due to the implementation of GASB 68 in the current year, figures may not be comparable to prior year for some areas of the financial statements. Total assets increased due to an increase in capital assets. Total liabilities increased \$463 thousand to \$3 million due to long term bond debt incurred from a Capital project.

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

	2015	2014	2013	Dollar Change	Total Percent Change
<b>Operating Revenues</b>					
Fair proceeds and other revenue	\$ 7,210	\$ 6,266	\$ 6,308	\$ 944	15.07%
Arena revenue	306	281	285	25	8.90%
Insurance proceeds	-	-	550	-	
Other revenue	19	65	16	(46)	-70.77%
	<u>7,535</u>	<u>6,612</u>	<u>7,159</u>	<u>923</u>	13.96%
<b>Nonoperating Revenues</b>					
Local grants	1,026	1,262	942	(236)	-18.70%
Interest and investment income	3	3	3	-	0.00%
(Loss)/Gain on sale of fixed assets	(125)	(1)	-	(124)	0.00%
	<u>904</u>	<u>1,264</u>	<u>945</u>	<u>(360)</u>	-28.48%
<b>Total Revenue</b>	<u>8,439</u>	<u>7,876</u>	<u>8,104</u>	<u>563</u>	7.15%
<b>Operating Expenses</b>					
General expenses	4,975	4,154	4,259	821	19.76%
Depreciation expense	1,517	1,316	1,372	201	15.27%
Salaries, wages and vacation pay	1,834	1,782	1,611	52	2.92%
Premiums, trophies and awards	296	284	275	12	4.23%
	<u>8,622</u>	<u>7,536</u>	<u>7,517</u>	<u>1,086</u>	14.41%
<b>Non Operating Expenses</b>					
Interest expense	42	-	13	42	0.00%
Bond issuance costs	128	-	-	128	0.00%
Amortization	(7)	-	-	(7)	0.00%
	<u>163</u>	<u>-</u>	<u>13</u>	<u>163</u>	0.00%
<b>Total Expenses</b>	<u>8,785</u>	<u>7,536</u>	<u>7,530</u>	<u>1,249</u>	16.57%
<b>Extraordinary Items</b>					
State Appropriations	748	2,560	939	(1,812)	-70.78%
<b>Change in Net Position</b>	402	2,900	1,513	(2,498)	
Net Position, Beginning of Year, as restated	<u>30,621</u>	<u>28,413</u>	<u>26,900</u>	<u>2,208</u>	
Net Position, End of Year	<u>\$ 31,023</u>	<u>\$ 31,313</u>	<u>\$ 28,413</u>	<u>\$ (290)</u>	-0.93%

While the Balance Sheet shows the change in financial position of net position, the Statement of Revenues, Expenses, and Changes in Net Position, provides answers as to the nature and source of these changes. As can be seen from the table above, the Beginning net position was adjusted to \$30,621 due to the implementation of GASB 68.



### **Capital Assets**

As of September 30, 2015 and September 30, 2014, the Association had invested more than \$50 and \$46 million respectively 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 exceeded \$825 thousand in 2015 and \$864 thousand in 2014, excluding payroll costs for Association employees engaged in repair and upkeep procedures.

Current year additions to the capital asset category totaled approximately \$8 million, which includes approximately \$3 million of construction work in progress that was placed in service during the year. See footnote 3 for additional details.

### **Long-Term Bond Debt**

At year end 2015, the Association had \$1,910,000 in long term debt. There was no long term debt in fiscal year 2014. See footnote 4 for additional details.

### **Net Pension Liability**

As of October 1, 2014, the Association adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. As a result of implementing this standard, the Association reported a net pension liability of \$699,082 at year end 2015. See additional information in Note 7.

### **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>2015</u>	<u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,522,423	\$ 6,003,256
Accounts receivable, net of allowance for uncollectible accounts of \$500 in 2015 and \$50,000 in 2014	118,893	294,958
FEMA receivable - due from Federal Government	-	71,408
Prepaid items	52,847	28,643
Total current assets	<u>5,694,163</u>	<u>6,398,265</u>
Noncurrent Assets		
Capital assets not being depreciated		
Land	390,816	390,816
Construction work in progress	3,000	3,377,779
Capital assets being depreciated		
Infrastructure	7,098,515	3,933,816
Buildings	40,699,873	36,554,363
Equipment	1,902,390	1,986,013
Less accumulated depreciation	<u>(21,793,108)</u>	<u>(20,865,110)</u>
Total noncurrent assets	<u>28,301,486</u>	<u>25,377,677</u>
Total assets	<u>33,995,649</u>	<u>31,775,942</u>
Deferred Outflows of Resources	<u>152,090</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 34,147,739</u>	<u>\$ 31,775,942</u>

See Notes to Financial Statements

North Dakota State Fair Association  
Balance Sheets  
September 30, 2015 and 2014

	2015	2014
<b>Liabilities, Deferred Inflow of Resources and Net Position</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 45,092	\$ 309,544
Current portion of accrued employee leave	65,000	55,000
Current portion of bonds payable	110,000	-
Retainage Payable	81,504	65,484
Total current liabilities	301,596	430,028
<b>Noncurrent Liabilities</b>		
Accrued employee leave, net of current portion	18,910	32,711
Bonds payable, net of unamortized premium of \$168,574	1,968,574	-
Net pension liability	699,082	-
Total noncurrent liabilities	2,686,566	32,711
Total liabilities	2,988,162	462,739
<b>Deferred Inflow of Resources</b>	136,464	-
<b>Net Position</b>		
Net investment in capital assets	26,222,912	25,377,677
Unrestricted	4,800,201	5,935,526
Total net position	31,023,113	31,313,203
Total liabilities, deferred inflows of resources and net position	\$ 34,147,739	\$ 31,775,942

North Dakota State Fair Association  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended September 30, 2015 and 2014

	2015	2014
Operating Revenues		
Fair proceeds and other revenue	\$ 7,209,324	\$ 6,266,364
Arena revenue	306,399	280,762
Other revenue	18,994	65,242
	7,534,717	6,612,368
Operating Expenses		
General expenses	4,975,226	4,145,334
Depreciation expense	1,516,979	1,315,551
Salaries, wages and vacation pay	1,833,741	1,781,587
Premiums, trophies and awards	295,727	284,356
	8,621,673	7,526,828
Operating Loss	(1,086,956)	(914,460)
Nonoperating Revenues (Expenses)		
Local grants	1,026,155	1,262,920
Interest and investment income	2,778	2,671
Amortization of bond premium	7,152	-
Loss on disposal of fixed assets	(125,004)	(1,138)
Interest expense	(41,944)	-
Bond issuance costs	(127,555)	-
	741,582	1,264,453
Gain (Loss) Before Extraordinary Items & Transfers	(345,374)	349,993
Extraordinary Items		
Flood expenditures	-	(9,965)
Transfers - State Appropriations	747,815	2,560,185
Change in Net Position	402,441	2,900,213
Net Position, Beginning of Year, as restated (See Note 6)	30,620,672	28,412,990
Net Position, End of Year	\$ 31,023,113	\$ 31,313,203

North Dakota State Fair Association  
Statements of Cash Flows  
Years Ended September 30, 2015 and 2014

	2015	2014
Operating Activities		
Cash received from customers	\$ 7,710,782	\$ 6,600,486
Cash payments for goods and services	(5,559,609)	(4,417,205)
Cash payments to employees	(1,846,617)	(1,706,484)
Net Cash from Operating Activities	304,556	476,797
Non-Capital Financing Activities		
Local grants received	1,026,155	1,262,920
State appropriations received	285,000	273,000
Net Cash from Non-Capital Financing Activities	1,311,155	1,535,920
Capital and Related Financing Activities		
Payments for capital acquisitions	(4,625,772)	(4,025,788)
State appropriations received	462,815	2,287,185
FEMA flood assistance received	71,408	122,657
Proceeds from sale of fixed assets	76,000	-
Payments for flood expenditures	-	(9,965)
Proceeds from bond issuance	1,945,000	-
Premium received on bonds	175,726	-
Bond issuance costs	(127,555)	-
Principal payments on bonds	(35,000)	-
Interest paid	(41,944)	-
Net Cash used for Capital and Related Financing Activities	(2,099,322)	(1,625,911)
Investing Activities		
Receipts of interest and dividends	2,778	2,671
Net Cash from Investing Activities	2,778	2,671
Net Change in Cash and Cash Equivalents	(480,833)	389,477
Cash and Cash Equivalents, Beginning of Year	6,003,256	5,613,779
Cash and Cash Equivalents, End of Year	\$ 5,522,423	\$ 6,003,256

North Dakota State Fair Association  
 Statements of Cash Flows  
 Years Ended September 30, 2015 and 2014

	2015	2014
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating loss	\$ (1,086,956)	\$ (914,460)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	1,516,979	1,315,551
Adjustment to pension expense	(9,075)	-
Provision for uncollectible accounts	(49,500)	-
Changes in operating assets and liabilities		
Customer receivables	225,565	(11,882)
Prepaid expenses	(24,204)	19,226
Trade accounts payable	(264,452)	(6,741)
Accrued leave	(3,801)	75,103
Net Cash from Operating Activities	\$ 304,556	\$ 476,797
Supplemental Disclosure of Noncash Capital Financing Activities		
Value received for trade of capital assets	\$ 14,212	\$ 13,047

North Dakota State Fair Association  
Statement of Appropriations  
Years Ended September 30, 2015 and 2014

	<u>2013-2015 Appropriation</u>	<u>7/1/2013- 9/30/2013 Expenditures</u>	<u>10/1/2013- 9/30/2014 Expenditures</u>	<u>10/1/2014- 6/30/2015 Expenditures</u>	<u>2015-2017 Appropriation</u>	<u>7/1/2015- 9/30/2015 Expenditures</u>	<u>Unexpended Appropriations at 9/30/2015</u>
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Asphalt	2,750,000	-	2,287,185	462,815	500,000	-	500,000
Premiums	546,000	273,000	273,000	-	570,000	285,000	285,000
	<u>\$ 3,296,000</u>	<u>\$ 273,000</u>	<u>\$ 2,560,185</u>	<u>\$ 462,815</u>	<u>\$ 1,070,000</u>	<u>\$ 285,000</u>	<u>\$ 785,000</u>

The following schedule shows the appropriated and non-appropriated portion of premiums, operating expenses, interest expense and bond costs for the two-year period ended September 30, 2015. Non-appropriated expenditures are made in accordance with NDCC 4-02.1-15.

	<u>FY 2015 Appropriated</u>	<u>FY 2015 Non-appropriated</u>	<u>FY 2014 Appropriated</u>	<u>FY 2014 Non-appropriated</u>	<u>Fiscal Years 2014-2015 Total</u>
Premiums	\$ 285,000	\$ 10,727	\$ 273,000	\$ 11,356	\$ 580,083
Operating expenses	-	8,325,946	-	7,242,472	15,568,418
Bond issuance costs	-	127,555	-	-	127,555
Interest expenses	-	41,944	-	-	41,944
Asphalt	462,815	32,396	2,287,185	810,763	3,593,159
	<u>\$ 747,815</u>	<u>\$ 8,538,568</u>	<u>\$ 2,560,185</u>	<u>\$ 8,064,591</u>	<u>\$ 19,911,159</u>

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

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

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

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

**Reporting Entity**

For financial reporting purposes, the North Dakota State Fair Association has included all funds, and has considered all potential component units for which the North Dakota State Fair Association is financially accountable, and other organizations for which the nature and significance of their relationship with the North Dakota State Fair Association are such that exclusion would cause the North Dakota State Fair Association's financial statements to be misleading or incomplete.

The Governmental Accounting Standards Board has set forth criteria to be considered in evaluating the nature and significance of the relationship such that exclusion would cause the financial statements to be misleading or incomplete. This criteria includes (1) being a legally separate, tax-exempt organization, (2) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, (3) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and (4) the economic resources received or held by an individual organization that the primary government is entitled to, or has the ability to otherwise access, are significant to the primary government.

Based upon the criteria of the Governmental Accounting Standards Board, the North Dakota State Fair Foundation is a component unit of the Association that should be presented discretely. It is considered part of the Association's reporting entity because of the significance of its relationship with the Association. The North Dakota State Fair Foundation's mission is to develop lifelong relationships with donors to secure philanthropic gifts that will enhance and support the work of the North Dakota State Fair.

The Association has not reported the activity of the North Dakota State Fair Foundation in its financial statements.

**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

### **Cash and Cash Equivalents**

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

### **Accounts Receivable**

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

### **Prepaid Items**

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

### **Operating Revenues**

For purposes of differentiating operating revenues from non-operating revenues, the Association considers support received from the City of Minot and Ward County to be non-operating revenues. The stated purpose of the support from the mentioned entities is to help offset the operating expenses related to the fair and 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, 2015 and 2014, is \$340,035 and \$325,908, respectively.

### **Estimates**

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

### **Subsequent Events**

The North Dakota State Fair Association has evaluated subsequent events through October 30, 2015 the date which the financial statements were available to be issued.

### **Deferred Outflows and Inflows of Resources**

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represent an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. See Note 7 for additional information.

## **Pensions**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources and pension expense, information about the fiduciary net position of the North Dakota Public Employee Retirement System (NDPERS) and additions to/deductions from NDPERS's fiduciary net position have been determined on the same basis as they are reported by the NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **Restatement – GASB Statement No. 68**

As of October 1, 2014, the Association adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. See additional information in Note 7.

## **Note 2 - Cash**

### **Custodial and Concentration of Credit Risk**

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

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

**Note 3 - Capital Assets**

The components and changes in components of capital assets at September 30, 2015 and 2014 are as follows:

	Balance 09/30/14	Additions/ Depreciation Expense	Deletions	Balance 09/30/15
Capital Assets Not Being Depreciated				
Land	\$ 390,816	\$ -	\$ -	\$ 390,816
Construction work in progress	3,377,779	-	(3,374,779)	3,000
Capital Assets Being Depreciated				
Infrastructure	3,933,816	3,732,137	(567,438)	7,098,515
Buildings	36,554,363	4,281,935	(136,425)	40,699,873
Equipment	1,986,013	16,712	(100,335)	1,902,390
	<u>46,242,787</u>	<u>8,030,784</u>	<u>(4,178,977)</u>	<u>50,094,594</u>
Less accumulated depreciation				
Infrastructure	(2,889,384)	(285,377)	407,400	(2,767,361)
Buildings	(16,437,478)	(1,144,410)	95,465	(17,486,423)
Equipment	(1,538,248)	(87,192)	86,116	(1,539,324)
	<u>(20,865,110)</u>	<u>(1,516,979)</u>	<u>588,981</u>	<u>(21,793,108)</u>
Net	<u>\$ 25,377,677</u>	<u>\$ 6,513,805</u>	<u>\$ (3,589,996)</u>	<u>\$ 28,301,486</u>
	Balance 09/30/13	Additions/ Depreciation Expense	Deletions	Balance 09/30/14
Capital Assets Not Being Depreciated				
Land	\$ 390,816	\$ -	\$ -	\$ 390,816
Construction work in progress	-	3,377,779	-	3,377,779
Capital Assets Being Depreciated				
Infrastructure	3,807,876	128,204	(2,264)	3,933,816
Buildings	36,183,786	385,755	(15,178)	36,554,363
Equipment	1,947,503	165,097	(126,587)	1,986,013
	<u>42,329,981</u>	<u>4,056,835</u>	<u>(144,029)</u>	<u>46,242,787</u>
Less accumulated depreciation				
Infrastructure	(2,782,357)	(109,291)	2,264	(2,889,384)
Buildings	(15,321,902)	(1,129,616)	14,040	(16,437,478)
Equipment	(1,575,144)	(76,644)	113,540	(1,538,248)
	<u>(19,679,403)</u>	<u>(1,315,551)</u>	<u>129,844</u>	<u>(20,865,110)</u>
Net	<u>\$ 22,650,578</u>	<u>\$ 2,741,284</u>	<u>\$ (14,185)</u>	<u>\$ 25,377,677</u>

**Note 4 - Long – Term Debt**

**Changes in Bonds Payable and Accrued Employee Leave**

The following is a summary of changes in bonds payable and accrued employee leave for the year ended September 30, 2015 and 2014:

	<u>Balance 09/30/14</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 09/30/15</u>	<u>Current Portion</u>
Bonds Payable	\$ -	\$ 1,945,000	\$ (35,000)	\$ 1,910,000	\$ 110,000
Accrued Employee Leave	87,711	64,910	(68,711)	83,910	65,000
	<u>\$ 87,711</u>	<u>\$ 2,009,910</u>	<u>\$ (103,711)</u>	<u>\$ 1,993,910</u>	<u>\$ 175,000</u>

  

	<u>Balance 09/30/13</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 09/30/14</u>	<u>Current Portion</u>
Accrued Employee Leave	\$ 78,092	\$ 65,460	\$ (55,841)	\$ 87,711	\$ 55,000
	<u>\$ 78,092</u>	<u>\$ 65,460</u>	<u>\$ (55,841)</u>	<u>\$ 87,711</u>	<u>\$ 55,000</u>

**Capital Financing Program Bonds Series 2015A**

Interest on the 2015A Series Bonds is payable semi-annually on June 1 and December 1 of each year. The bonds maturing on June 1, 2029 are not subject to optional redemption prior to maturity except under extraordinary circumstances. The bonds are presented on the balance sheet net of unamortized premium of \$168,574 for the year ended September 30, 2015. The bonds are secured by the Association’s net revenues and by the lodging tax proceeds received from the City of Minot.

Minimum principal and interest payments required on 2015A Series Bonds are as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 110,000	\$ 65,150	\$ 175,150
2017	115,000	61,850	176,850
2018	120,000	58,400	178,400
2019	120,000	54,800	174,800
2020	125,000	51,200	176,200
2021-2025	680,000	197,650	877,650
2026-2029	640,000	65,400	705,400
	<u>\$ 1,910,000</u>	<u>\$ 554,450</u>	<u>\$ 2,464,450</u>

**Note 5 - Appropriations**

The North Dakota State Fair Association receives premium appropriations from the State of North Dakota. These premium appropriations are restricted for the purpose of providing premiums to fair exhibition winners. Premium appropriations expended for the years ended September 30, 2015 and 2014, were \$285,000 and \$273,000 respectfully.

The North Dakota State Fair Association has been appropriated for the 2013-2015 biennium a total of \$2,750,000 from the State of North Dakota for the purpose of replacing asphalt. Appropriations expended for September 30, 2015 and 2014 were \$462,815 and \$2,287,185. The North Dakota State Fair Association has been appropriated an additional \$500,000 for the purpose of replacing asphalt during the 2015-2017 biennium. No appropriations were expended for September 30, 2015 relating to that appropriation.

**Note 6 - Restatement of Net Position**

As of October 1, 2014, the Association adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This implementation required the addition of four new accounts; Pension Expense, Net Pension Liability, Deferred Outflows and Deferred Inflows to the fiscal year 2015 financials. The additional disclosures required by these standards are included in Note 7.

Net position - September 30, 2014, as previously reported	\$ 31,313,203
Restatement due to implementation of GASB 68, effect on net position	<u>(692,531)</u>
Net position - September 30, 2014, as restated	<u><u>\$ 30,620,672</u></u>

\*\* In accordance with GASB Statement No. 68, the 2014 financial statements were not restated as the appropriate actuarial valuations for the prior periods were not available.

**Note 7 - Pensions**

North Dakota State Fair Association participates in the North Dakota Public Employees Retirement System (PERS) administered by the State of North Dakota. PERS is an agency of the State of North Dakota financial reporting entity and is included in the State of North Dakota's Comprehensive Annual Financial Report. The following is a brief description of the plans, for general information only. Participants should refer to NDCC Chapter 54-52 for more complete information.

**Defined Benefit Pension Plan**

PERS is a cost-sharing multiple-employer defined benefit pension plan covering most classified employees of North Dakota State Fair Association. The plan provides pension, disability and death benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan. Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor, one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the NDCC. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the main system are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The Plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the member's accumulated contributions plus interest.

### **Death and Disability Benefits**

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the NDCC. If an active member dies with less than three years of service, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payment in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's 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 member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's beneficiary.

This state statute requires contributions be made to the plan by either the employee or the employer under a "salary reduction" agreement. North Dakota State Fair Association has implemented a salary reduction agreement and is currently contributing 3% of the employees' share. 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 PERS. North Dakota State Fair Association's required and actual contributions to PERS defined benefit pension plan for fiscal years ending September 30, 2015, 2014, and 2013, totaled \$129,425, \$121,011, and \$102,310, respectively.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

### **Refunds of Member Account Balance**

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 25 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

### Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the Employer reported a liability of \$699,082 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. North Dakota State Fair Association's proportion of the net pension liability was based on North Dakota State Fair Association's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2014, the Employer's proportion was 0.110140 percent.

For the year ended September 30, 2015, the Employer recognized pension expense of \$69,171. At September 30, 2015, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 22,665	\$ -
Changes in assumption	-	-
Net difference between projected and actual earnings on pension plan investments	-	136,464
Changes in proportion and difference between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	129,425	-
Total	\$ 152,090	\$ 136,464



\$129,425 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:

2016	\$	29,294
2017		29,294
2018		29,294
2019		29,294
2020		(3,377)
Thereafter		-
Totals		\$ 113,799

**Actuarial Assumptions**

The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation		3.50%
Salary increases		3.85% per annum for four years, then 4.50% per annum
Investment rate of return		8.00%, net of investment expenses
Cost-of-living adjustments		None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.0%	6.90%
International Equity	21.0%	7.55%
Private Equity	5.0%	11.30%
Domestic Fixed Income	17.0%	1.55%
International Fixed Income	5.0%	0.90%
Global Real Assets	20.0%	5.38%
Cash Equivalents	1.0%	0.00%
Total	<u>100%</u>	

### Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

### Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents North Dakota State Fair Association's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Association's proportionate share of the net pension liability	\$ 1,078,191	\$ 699,082	\$ 382,095

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. This report may be obtained in writing to: North Dakota Public Employees Retirement System; 400 East Broadway, Suite 505; PO Box 1657, Bismarck, ND 58502-1657.

**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 2017	\$ 25,200
All Seasons Arena Ice Contract	2 years through February 2016 with renewal option	2016 - 109,100
Norsk Hostfest Contract	3 years through October 2016	2016 - 176,600 2017 - 179,000
Minot Curling Club Contract	5 years through April 2017	7,200
North Dakota Firefighter's Association	5 years through March 2020	25,600
Minot Y's Men's PRCA	3 years through October 2015	22,000
Circus Contract	5 years through May 2016	2016 - 8,350
Northwest Dakota Cellular of North Dakota	5 years through January 2019	20,000
Magic City International Dragway	5 years through March 2018	10% of Revenue

The leases are accounted for as operating leases. The Gymagic Gymnastics and the Minot Curling Club leases are noncancelable. The All Seasons Arena Ice Contract and Norsk Hostfest contracts are cancelable in the event the facilities specified within the contracts are destroyed.

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

<u>Years Ended September 30,</u>	<u>Amount</u>
2016	\$ 372,050
2017	257,000
2018	45,600
2019	45,600
2020	25,600
	\$ 745,850

**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, 2015 and 2014 was \$244,780 and \$241,194.

**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 were partially recovered from federal assistance programs. Included in the financial statements for the years ended September 30, 2015 and 2014 are \$0 and \$9,965 in expenditures incurred, respectively, and \$0 and \$71,408 in grant receivables, respectively, from the Federal Emergency Management Agency.



Required Supplementary Information  
September 30, 2015 and 2014

# North Dakota State Fair Association

**Schedules of Required Supplementary Information**

**Schedule of Employer's Share of Net Pension Liability  
 ND Public Employees Retirement System  
 Last 10 Fiscal Years\***

	2015
Employer's proportion of the net pension liability (asset)	0.110140%
Employer's proportionate share of the net pension liability (asset)	\$699,082
Employer's covered-employee payroll	\$927,789
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	75.349%
Plan fiduciary net position as a percentage of the total pension liability	77.70%

\* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Association will present information for those years for which information is available. Complete data for this schedule is not available prior to 2015.

\*Amounts presented have a measurement date of the previous fiscal year end.

**Schedule of Employer Contributions  
 ND Public Employees Retirement System  
 Last 10 Fiscal Years\***

	2015
Statutorily required contribution	\$66,059
Contributions in relation to the statutorily required contribution	(\$129,425)
Contribution deficiency (excess)	\$(63,366)
Employer's covered-employee payroll	\$1,101,162
Contributions as a percentage of covered-employee payroll	11.75%

\* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Association will present information for those years for which information is available. Complete data for this schedule is not available prior to 2015.



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the North Dakota State Fair Association as of and for the years ended September 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise North Dakota State Fair Association’s basic financial statements, and have issued our report thereon dated October 30, 2015. The report on the business type activities was qualified due to departures from generally accepted accounting principles in recording the net pension liability.

**Internal Control over Financial Reporting**

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

Our consideration of internal control 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency described in the accompanying schedule of findings and responses to be a material weakness: 2015-A.



A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

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

### **Response to the Finding**

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

### **Purpose of this Report**

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

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota  
October 30, 2015

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**Financial Statement Findings**

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**2015-A Financial Statement Presentation**  
**Material Weakness**

Condition: The North Dakota State Fair Association has not determined the net pension liability as of a measurement date no earlier than the end of the employer's prior fiscal year. The North Dakota State Fair Association also has not included the financial statements of the North Dakota State Fair Foundation, a component unit of the Association, which accounting principles generally accepted in the United States of America require to be presented as a discretely presented component unit

Criteria: GASB No. 68 paragraph 48 (Accounting and Financial Reporting for Pensions), requires that the net pension liability be determined as of a measurement date no earlier than the end of the employer's prior fiscal year. GASB codification 2100 (Defining the Financial Reporting Entity) establishes criteria in identifying component units which includes organizations for which the nature and significance of their relationship is such that exclusion would cause the primary government's financial statements to be misleading or incomplete. The North Dakota State Fair Foundation meets the criteria set forth, and as such, is a component unit of the North Dakota State Fair Association that should be discretely presented.

Cause: NDPERS has hired an actuary to complete its actuarial valuation of the NDPERS cost sharing plan using a July 1 measurement date. An actuarial valuation as of July 1, 2015 has not been completed yet and therefore, the Association is unable to record the net pension liability using the appropriate measurement date. The North Dakota State Fair Foundation's activity increased significantly during the year ended September 30, 2015 which resulted in the Foundation's activity being material to the North Dakota State Fair Association. Management of the North Dakota State Fair Association didn't complete a re-evaluation of the North Dakota State Fair Foundation as a potential component unit for the year ended September 30, 2015 which led to the exclusion in the financial statements.

Effect: These items result in departures from accounting principles generally accepted in the United States of America.

Recommendation: We understand that the measurement date used is not a result of misunderstanding or incompetence on the part of the North Dakota State Fair Association's management, but we recommend management evaluate the changes in the net pension liability in future years to determine if the net pension liability based on the previous years' measurement date is materially correct. In future periods, the North Dakota State Fair Association will have more information related to the changes in net pension liability estimation, which will allow for a more accurate valuation of the net pension liability as of October 1 for the prior fiscal year. We also recommend that management report the North Dakota State Fair Foundation as a discretely presented component unit in its financial statements and either include the Foundation in the audit of the Association or make sure the Foundation is separately audited.

Management's Response: This is the first year of implementation of GASB No. 68 for the North Dakota State Fair Association. We utilized the most current NDPERS actuary numbers that were available to us during the audit timeframe. In order to utilize the July 1, 2015 numbers, we would have to leave our September 30, 2015 financial statements open for many months until those values are determined. Since the annual meeting for the State of North Dakota is held in November, we need to finalize our financial statements in October in order to report them in November. Thus it was determined it's in the best interest of all parties to base our GASB No. 68 implementation on the only figures we had available at the time.

It is the intent of the North Dakota State Fair Association to re-evaluate the North Dakota State Fair Foundation for the year ended September 30, 2016 and include it as a component unit if it is material to the Association's financial statements. The North Dakota State Fair will urge the North Dakota State Fair Foundation to be audited annually.