



Financial Statements
September 30, 2016 and 2015

North Dakota State Fair Association

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit 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, 2016 and 2015, 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.

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Basis for Qualified Opinion-Scope Limitation

The Foundation, a discretely presented component unit of the Association, was unable to obtain support for the asset quality of the Foundation's notes receivable as of September 30, 2016. We were unable to obtain sufficient appropriate audit evidence about the asset quality of the notes receivable by other auditing procedures.

Qualified Opinion

In our opinion, except for the effects of not obtaining support for the asset quality of the Foundation's notes receivable, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the North Dakota State Fair Association, as of September 30, 2016, and the related statements of revenues, expenses and changes in net position, the statements of cash flows, and the statement of appropriations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 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, 2016 and 2015, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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. 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 November 4, 2016 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.

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

Bismarck, North Dakota
November 4, 2016

This section of the Association's annual financial report presents our analysis of the financial performance during the fiscal year that ended September 30, 2016 and certain comparative data for 2015. 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 North Dakota State Fair Foundation, a component unit of the North Dakota State Fair, was added to the financial statements in fiscal year 2016.
- The Association's net position decreased by \$25,334 or -0.08% in fiscal year 2016.
- 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.
- During fiscal year 2016, the Association's operating revenues decreased by \$584,813 or -7.76%, while operating expenses decreased by \$189,665 or -2.2%.
- 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%.
- Fair revenues in fiscal year 2016 decreased to \$6,601,947 or -8.42%.
- Fair revenues in fiscal year 2015 increased to \$7,209,324 or 15.05%.
- During fiscal year 2016, the property and equipment additions totaled \$1,180,894.
- 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.
- Depreciation expense for the current fiscal year 2016 totaled \$1,635,102.
- Depreciation expense for fiscal year 2015 totaled \$1,516,979.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis, Financial Statements, and Required 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)

	2016	2015	2014	Dollar Change
Assets				
Current and other assets	\$ 5,918	\$ 5,695	\$ 6,398	\$ 223
Capital assets	27,830	28,301	25,378	(471)
Total assets	<u>33,748</u>	<u>33,996</u>	<u>31,776</u>	<u>(248)</u>
Deferred Outflows of Resources	<u>239</u>	<u>152</u>	<u>-</u>	<u>87</u>
Total assets and deferred outflows of resources	<u>\$ 33,987</u>	<u>\$ 34,148</u>	<u>\$ 31,776</u>	<u>\$ (161)</u>
Liabilities				
Current liabilities	\$ 210	\$ 302	\$ 430	\$ (92)
Long-term debt outstanding	1,846	1,969	-	(123)
Other liabilities	734	718	33	16
Total liabilities	<u>2,790</u>	<u>2,989</u>	<u>463</u>	<u>(199)</u>
Deferred Inflow of Resources	<u>199</u>	<u>136</u>	<u>-</u>	<u>63</u>
Net Position				
Net invested in capital assets	25,874	26,223	25,378	(349)
Unrestricted	5,124	4,800	5,935	324
Total net position	<u>30,998</u>	<u>31,023</u>	<u>31,313</u>	<u>(25)</u>
Total liabilities, deferred inflows and net position	<u>\$ 33,987</u>	<u>\$ 34,148</u>	<u>\$ 31,776</u>	<u>\$ (161)</u>

The condensed balance sheet shows the categories of items that are owned and owed by the Association. Due to the implementation of GASB 68 in 2015, figures may not be comparable to the prior year for some areas of the financial statements. Total assets decreased by \$249 thousand mainly due to the depreciation of capital assets. The large capital projects that were completed in the prior year are now getting a full year's worth of depreciation. Total liabilities decreased \$108 thousand mainly due to the annual payment on the long-term bond.

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

	2016	2015	2014	Dollar Change
Operating Revenues				
Fair proceeds and other revenue	\$ 6,602	\$ 7,210	\$ 6,266	\$ (608)
Arena revenue	331	306	281	25
Other revenue	17	19	65	(2)
	<u>6,950</u>	<u>7,535</u>	<u>6,612</u>	<u>(585)</u>
Nonoperating Revenues				
Local grants	839	1,026	1,262	(187)
Interest and investment income	5	3	3	2
(Loss)/Gain on sale of fixed assets	-	(125)	(1)	125
	<u>844</u>	<u>904</u>	<u>1,264</u>	<u>(60)</u>
Total Revenue	<u>7,794</u>	<u>8,439</u>	<u>7,876</u>	<u>(645)</u>
Operating Expenses				
General expenses	4,703	4,975	4,145	(272)
Depreciation expense	1,635	1,517	1,316	118
Salaries, wages and vacation pay	1,841	1,834	1,782	7
Premiums, trophies and awards	253	296	284	(43)
	<u>8,432</u>	<u>8,622</u>	<u>7,527</u>	<u>(190)</u>
Non Operating Expenses				
Interest expense	64	42	-	22
Bond issuance costs	17	128	-	(111)
Amortization	(12)	(7)	-	(5)
	<u>69</u>	<u>163</u>	<u>-</u>	<u>(94)</u>
Total Expenses	<u>8,501</u>	<u>8,785</u>	<u>7,527</u>	<u>(284)</u>
Transfers -				
State Appropriations	<u>681</u>	<u>748</u>	<u>2,560</u>	<u>(67)</u>
Change in Net Position	(26)	402	2,909	(428)
Net Position, Beginning of Year, as restated	<u>31,023</u>	<u>30,621</u>	<u>28,413</u>	<u>402</u>
Net Position, End of Year	<u>\$ 30,997</u>	<u>\$ 31,023</u>	<u>\$ 31,322</u>	<u>\$ (26)</u>

The condensed statements of revenues, expenses and changes in net position shows both the revenue streams and expenditures associated with operating the Association. Total revenues decreased \$645 thousand mainly due to less local grant funding along with lower attendance at the Fair. The beginning net position in 2015 was adjusted to \$30,621 due to implementing GASB 68.

Capital Assets

As of September 30, 2016 and September 30, 2015, the Association had invested more than \$51 and \$50 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 \$796 thousand in 2016 and \$825 thousand in 2015, excluding payroll costs for Association employees engaged in repair and upkeep procedures.

Current year additions to the capital asset category totaled approximately \$1 million. See footnote 6 for additional details.

Long-Term Bond Debt

At year-end 2016, the Association had \$1,800,000 in long term debt down from \$1,910,000 in fiscal year 2015. See footnote 7 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 \$704,238 at year end in 2016 and \$699,082 in 2015. See additional information in Note 9.

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.

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.

North Dakota State Fair Association
Statement of Net Position
Year Ended September 30, 2016

	Primary Government Business-Type	Component Unit State Fair
Current Assets		
Cash and cash equivalents	\$ 5,767,795	\$ 121,391
Accounts receivable, net of allowance for uncollectible accounts of \$3,000 in 2016 and \$500 in 2015	97,173	-
Prepaid items	52,416	-
Total current assets	5,917,384	121,391
Noncurrent Assets		
Capital assets not being depreciated		
Land	390,816	1,000,000
Capital assets being depreciated		
Infrastructure	7,642,094	-
Buildings	41,256,011	-
Equipment	1,963,232	-
Less accumulated depreciation	(23,422,001)	-
Total noncurrent assets	27,830,152	1,000,000
Other Assets		
Restricted cash	-	34,460
Note receivable	-	925,000
Total other assets	-	959,460
Deferred Outflows of Resources		
	239,028	-
Total assets and deferred outflows of resources	\$ 33,986,564	\$ 2,080,851
Current Liabilities		
Trade accounts payable	\$ 34,731	\$ -
Current portion of accrued employee leave	65,000	-
Current portion of bonds payable	110,000	-
Total current liabilities	209,731	-
Noncurrent Liabilities		
Accrued employee leave, net of current portion	29,118	-
Bonds payable, net of unamortized premium of \$156,314 in 2016 and \$168,574 in 2015	1,846,314	-
Net pension liability	704,238	-
Total noncurrent liabilities	2,579,670	-
Deferred Inflow of Resources		
	199,384	-
Net Position		
Net investment in capital assets	25,873,838	-
Permanently Restricted Endowment		1,959,492
Unrestricted	5,123,941	121,359
Total net position	30,997,779	2,080,851
Total liabilities, deferred inflows of resources and net position	\$ 33,986,564	\$ 2,080,851

North Dakota State Fair Association
Statement of Net Position
Year Ended September 30, 2015

	Primary Government Business-Type	Component Unit State Fair
Current Assets		
Cash and cash equivalents	\$ 5,522,423	\$ 88,620
Accounts receivable, net of allowance for uncollectible accounts of \$3,000 in 2016 and \$500 in 2015	118,893	-
Prepaid items	52,847	-
Total current assets	5,694,163	88,620
Noncurrent Assets		
Capital assets not being depreciated		
Land	390,816	1,000,000
Construction work in progress	3,000	
Capital assets being depreciated		
Infrastructure	7,098,515	-
Buildings	40,699,873	-
Equipment	1,902,390	-
Less accumulated depreciation	(21,793,108)	-
Total noncurrent assets	28,301,486	1,000,000
Other Assets		
Restricted cash	-	74,500
Note receivable	-	625,000
Total other assets	-	699,500
Deferred Outflows of Resources	152,090	-
Total assets and deferred outflows of resources	\$ 34,147,739	\$ 1,788,120
Current Liabilities		
Trade accounts payable	\$ 45,092	\$ -
Current portion of accrued employee leave	65,000	-
Current portion of bonds payable	110,000	-
Retainage Payable	81,504	-
Total current liabilities	301,596	-
Noncurrent Liabilities		
Accrued employee leave, net of current portion	18,910	-
Bonds payable, net of unamortized premium of \$156,314 in 2016 and \$168,574 in 2015	1,968,574	-
Net pension liability	699,082	-
Total noncurrent liabilities	2,686,566	-
Deferred Inflow of Resources	136,464	-
Net Position		
Net investment in capital assets	26,222,912	-
Permanently Restricted Endowment		1,699,500
Unrestricted	4,800,201	88,620
Total net position	31,023,113	1,788,120
Total liabilities, deferred inflows of resources and net position	\$ 34,147,739	\$ 1,788,120

North Dakota State Fair Association
Statement of Activities
Year Ended September 30, 2016

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Position</u>	
		<u>Charges For</u>	<u>Operating</u>	<u>Capital Grants</u>	<u>Primary Business-Type</u>	<u>Component State Fair</u>
Primary Government						
Business-Type Activities						
State Fair Association	\$ 8,512,763	\$ 6,949,904	\$ 839,496	\$ -	\$ (723,363)	\$ -
Component Unit						
State Fair Foundation	<u>43,392</u>	<u>36,154</u>	<u>21,320</u>	<u>260,000</u>	<u>-</u>	<u>274,082</u>
Total Government	<u>\$ 8,556,155</u>	<u>\$ 6,986,058</u>	<u>\$ 860,816</u>	<u>\$ 260,000</u>	<u>(723,363)</u>	<u>274,082</u>
					681,126	-
State appropriations					4,643	18,649
Investment earnings					12,260	-
Amortization of bond premium					<u>698,029</u>	<u>18,649</u>
Total general revenues					(25,334)	292,731
Change in net position					<u>31,023,113</u>	<u>1,788,120</u>
Net position, October 1					<u>\$ 30,997,779</u>	<u>\$ 2,080,851</u>
Net position, September 30						

North Dakota State Fair Association
Statement of Activities
Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position	
		Charges For	Operating	Capital Grants	Primary Business-Type	Component State Fair
Primary Government						
Business-Type Activities						
State Fair Association	\$ 8,916,176	\$ 7,534,717	\$ 1,026,155	\$ -	\$ (355,304)	\$ -
Component Unit						
State Fair Foundation	<u>38,274</u>	<u>38,287</u>	<u>16,809</u>	<u>798,591</u>	<u>-</u>	<u>815,413</u>
Total Government	<u><u>\$ 8,954,450</u></u>	<u><u>\$ 7,573,004</u></u>	<u><u>\$ 1,042,964</u></u>	<u><u>\$ 798,591</u></u>	<u><u>(355,304)</u></u>	<u><u>815,413</u></u>
					747,815	-
					2,778	3,159
					<u>7,152</u>	<u>-</u>
					<u>757,745</u>	<u>3,159</u>
					402,441	818,572
					<u>30,620,672</u>	<u>969,548</u>
					<u><u>\$ 31,023,113</u></u>	<u><u>\$ 1,788,120</u></u>

	<u>2016</u>	<u>2015</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 5,767,795	\$ 5,522,423
Accounts receivable, net of allowance for uncollectible accounts of \$3,000 in 2016 and \$500 in 2015	97,173	118,893
Prepaid items	<u>52,416</u>	<u>52,847</u>
Total current assets	<u>5,917,384</u>	<u>5,694,163</u>
Noncurrent Assets		
Capital assets not being depreciated		
Land	390,816	390,816
Construction work in progress	-	3,000
Capital assets being depreciated		
Infrastructure	7,642,094	7,098,515
Buildings	41,256,011	40,699,873
Equipment	1,963,232	1,902,390
Less accumulated depreciation	<u>(23,422,001)</u>	<u>(21,793,108)</u>
Total noncurrent assets	<u>27,830,152</u>	<u>28,301,486</u>
Total assets	<u>33,747,536</u>	<u>33,995,649</u>
Deferred Outflows of Resources	<u>239,028</u>	<u>152,090</u>
	<u>\$ 33,986,564</u>	<u>\$ 34,147,739</u>

See Notes to Financial Statements

North Dakota State Fair Association
Balance Sheets
September 30, 2016 and 2015

	2016	2015
Liabilities, Deferred Inflow of Resources and Net Position		
Current Liabilities		
Trade accounts payable	\$ 34,731	\$ 45,092
Current portion of accrued employee leave	65,000	65,000
Current portion of bonds payable	110,000	110,000
Retainage Payable	-	81,504
Total current liabilities	209,731	301,596
Noncurrent Liabilities		
Accrued employee leave, net of current portion	29,118	18,910
Bonds payable, net of unamortized premium of \$156,314 in 2016 and \$168,574 in 2015	1,846,314	1,968,574
Net pension liability	704,238	699,082
Total noncurrent liabilities	2,579,670	2,686,566
Total liabilities	2,789,401	2,988,162
Deferred Inflow of Resources	199,384	136,464
Net Position		
Net investment in capital assets	25,873,838	26,222,912
Unrestricted	5,123,941	4,800,201
Total net position	30,997,779	31,023,113
	\$ 33,986,564	\$ 34,147,739

North Dakota State Fair Association
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016 and 2015

	2016	2015
Operating Revenues		
Fair proceeds and other revenue	\$ 6,601,947	\$ 7,209,324
Arena revenue	330,873	306,399
Other revenue	17,084	18,994
	6,949,904	7,534,717
Operating Expenses		
General expenses	4,702,261	4,975,226
Depreciation expense	1,635,102	1,516,979
Salaries, wages and vacation pay	1,841,097	1,833,741
Premiums, trophies and awards	253,548	295,727
	8,432,008	8,621,673
Operating Loss	(1,482,104)	(1,086,956)
Nonoperating Revenues (Expenses)		
Local grants	839,496	1,026,155
Interest and investment income	4,643	2,778
Amortization of bond premium	12,260	7,152
Loss on disposal of fixed assets	-	(125,004)
Interest expense	(64,050)	(41,944)
Bond fees	(16,705)	(127,555)
	775,644	741,582
Loss Before Transfers	(706,460)	(345,374)
Transfers - State Appropriations	681,126	747,815
Change in Net Position	(25,334)	402,441
Net Position, Beginning of Year, as restated (See Note 6)	31,023,113	30,620,672
Net Position, End of Year	\$ 30,997,779	\$ 31,023,113

North Dakota State Fair Association
 Statements of Cash Flows
 Years Ended September 30, 2016 and 2015

	2016	2015
Operating Activities		
Cash received from customers	\$ 6,971,624	\$ 7,710,782
Cash payments for goods and services	(4,965,739)	(5,559,609)
Cash payments to employees	(1,849,751)	(1,846,617)
	156,134	304,556
Net Cash from Operating Activities		
Non-Capital Financing Activities		
Local grants received	839,496	1,026,155
State appropriations received	247,665	285,000
	1,087,161	1,311,155
Net Cash from Non-Capital Financing Activities		
Capital and Related Financing Activities		
Payments for capital acquisitions	(1,245,272)	(4,625,772)
State appropriations received	433,461	462,815
FEMA flood assistance received	-	71,408
Proceeds from sale of fixed assets	-	76,000
Payments for flood expenditures	-	-
Proceeds from bond issuance	-	1,945,000
Premium received on bonds	-	175,726
Bond fees	(16,705)	(127,555)
Principal payments on bonds	(110,000)	(35,000)
Interest paid	(64,050)	(41,944)
	(1,002,566)	(2,099,322)
Net Cash used for Capital and Related Financing Activities		
Investing Activities		
Receipts of interest and dividends	4,643	2,778
	4,643	2,778
Net Cash from Investing Activities		
Net Change in Cash and Cash Equivalents	245,372	(480,833)
Cash and Cash Equivalents, Beginning of Year	5,522,423	6,003,256
Cash and Cash Equivalents, End of Year	\$ 5,767,795	\$ 5,522,423

North Dakota State Fair Association
 Statements of Cash Flows
 Years Ended September 30, 2016 and 2015

	2016	2015
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating loss	\$ (1,482,104)	\$ (1,086,956)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	1,635,102	1,516,979
Adjustment to pension expense	(18,862)	(9,075)
Provision for uncollectible accounts	2,500	(49,500)
Changes in operating assets and liabilities		
Customer receivables	19,220	225,565
Prepaid expenses	431	(24,204)
Trade accounts payable	(10,361)	(264,452)
Accrued leave	10,208	(3,801)
Net Cash from Operating Activities	\$ 156,134	\$ 304,556
Supplemental Disclosure of Noncash Capital Financing Activities		
Value received for trade of capital assets	\$ 14,125	\$ 14,212

North Dakota State Fair Association
Statement of Appropriations
Years Ended September 30, 2016 and 2015

	<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>10/1/2015- 9/30/2016 Expenditures</u>	<u>Unexpended Appropriations at 9/30/2016</u>
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Asphalt	2,750,000	-	2,287,185	462,815	467,250	-	433,461	33,789
Premiums	<u>546,000</u>	<u>273,000</u>	<u>285,000</u>	<u>-</u>	<u>532,665</u>	<u>285,000</u>	<u>247,665</u>	<u>-</u>
	<u>\$ 3,296,000</u>	<u>\$ 273,000</u>	<u>\$ 2,572,185</u>	<u>\$ 462,815</u>	<u>\$ 999,915</u>	<u>\$ 285,000</u>	<u>\$ 681,126</u>	<u>\$ 33,789</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, 2016. Non-appropriated expenditures are made in accordance with NDCC 4-02.1-15.

	<u>FY 2016 Appropriated</u>	<u>FY 2016 Non-appropriated</u>	<u>FY 2015 Appropriated</u>	<u>FY 2015 Non-appropriated</u>	<u>Fiscal Years 2015-2016 Total</u>
Premiums	\$ 247,665	\$ 5,883	\$ 285,000	\$ 10,727	\$ 549,275
Operating expenses	-	8,178,460	-	8,325,946	16,504,406
Bond issuance costs	-	16,705	-	127,555	144,260
Interest expenses	-	64,050	-	41,944	105,994
Asphalt	<u>433,461</u>	<u>32,396</u>	<u>462,815</u>	<u>32,396</u>	<u>961,068</u>
	<u>\$ 681,126</u>	<u>\$ 8,297,494</u>	<u>\$ 747,815</u>	<u>\$ 8,538,568</u>	<u>\$ 18,265,003</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.

Component Unit

In conformity with GAAP, the financial statements of the component unit have been included in the financial reporting entity as a discretely presented component unit.

Discretely Presented Component Unit-The component unit column in the government-wide financial statements includes the financial data of the Association's one component unit, North Dakota State Fair Foundation. This unit is reported in a separate column to emphasize that it is legally separate from the Association.

North Dakota State Fair Foundation, a nonprofit organization, was established to develop lifelong relationships with donors to secure philanthropic gifts that will enhance and support the work of the North Dakota State Fair Association. The Foundation's major sources of revenue include endowments and cash contributions. The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America.

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.

Unrestricted Net Assets – Foundation

This included unrestricted resources, which represents the portion of expendable funds that are available for the support of the Foundation's operations.

Permanently Restricted Net Assets – Foundation

Permanently restricted net assets represent net assets resulting from contributions, whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organizations.

Notes Receivable – Foundation

See Note 4 to the financial statements for details pertaining to notes receivable. The Foundation provides an allowance for doubtful collections, which is based upon a review of outstanding receivables. As of September 30, 2016, there was no portion of notes receivable determined to be uncollectible, and therefore, no allowance was necessary.

Restricted Cash – Foundation

This consists of cash collected as part of permanently restricted endowments that has not been invested in land or notes receivable.

Income Taxes - Foundation

North Dakota State Fair Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In Addition, the agency has been determined by the Internal Revenue Service not to be a private foundation within the Section 509(a) of the code.

The Foundation's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support with the Internal Revenue Code and Regulations, Revenue Rulings, court decisions and other evidence.

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.

Estimates

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

Subsequent Events

The North Dakota State Fair Association has evaluated subsequent events through November 4, 2016 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 9 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.

Note 2 - Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense for the years ended September 30, 2016 and 2015, is \$361,223 and \$340,035, respectively.

Note 3 - 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).

Foundation

At September 30, 2016, the State Fair Foundation, a discretely presented component unit of the State Fair Association, had a carrying amount of deposits of \$155,852 all of which was covered by Federal Depository Insurance.

Details pertaining to unrestricted cash for the year ended September 30, 2016 are as follows:

<u>Bank</u>	<u>Type</u>	<u>2016</u>	<u>2015</u>
Wells Fargo	Checking-Operations	\$ 114,621	\$ 88,620
Wells Fargo	Checking-Interest	6,770	-
		<u>\$ 121,391</u>	<u>\$ 88,620</u>

Details pertaining to restricted cash for the year ended September 30, 2016 are as follows:

<u>Bank</u>	<u>Type</u>	<u>2016</u>	<u>2015</u>
Wells Fargo	Checking-Endowment	<u>\$ 34,460</u>	<u>\$ 74,500</u>

Note 4 - Notes Receivable – Foundation

The North Dakota State Fair Foundation’s endowed notes require interest only payments with full principal due on maturity. The Foundation’s endowed notes receivable consists of the following:

<u>Payee</u>	<u>Note Balance</u>	<u>Rate</u>	<u>Due</u>	<u>Collateral</u>
Golf Minot, Inc.	\$ 500,000	2.50%	July 1, 2025	Unsecured
Golf Minot, Inc.	125,000	2.50%	August 10, 2025	Unsecured
Golf Minot, Inc.	50,000	2.50%	November 1, 2025	Unsecured
Golf Minot, Inc.	100,000	2.50%	December 31, 2025	Unsecured
Golf Minot, Inc.	100,000	2.50%	June 16, 2026	Unsecured
Golf Minot, Inc.	<u>50,000</u>	2.50%	September 30, 2026	Unsecured
	<u>\$ 925,000</u>			

Note 5 - Endowments - Foundation

The Foundation’s endowment consists of a fund established as a permanent endowment for such purposes as the Foundation determines prudent. Its endowment includes donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to be appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundations investment policies.

The Board of Directors has authorized the spending of all prior accumulated interest and dividend earnings from donor-restricted endowment funds as allowed. All earnings from donor-restricted funds are classified as temporarily restricted until they are spent.

North Dakota State Fair Association
Notes to Financial Statements
September 30, 2016 and 2015

Endowment net asset composition by type of fund as of September 30, 2016 is as follows:

	Permanently Restricted 2016	Permanently Restricted 2015
Beginning Endowment Net Assets	\$ 1,699,500	\$ 900,901
Endowment Contributions	260,000	798,591
Interest	19	8
Ending Endowment Net Assets	<u>\$ 1,959,492</u>	<u>\$ 1,699,500</u>

Note 6 - Capital Assets

The components and changes in components of capital assets of the Association at September 30, 2016 and 2015 are as follows:

	Balance 09/30/15	Additions/ Depreciation Expense	Deletions	Balance 09/30/16
Capital Assets Not Being Depreciated				
Land	\$ 390,816	\$ -	\$ -	\$ 390,816
Construction work in progress	3,000	-	(3,000)	-
Capital Assets Being Depreciated				
Infrastructure	7,098,515	543,579	-	7,642,094
Buildings	40,699,873	557,007	(869)	41,256,011
Equipment	1,902,390	80,308	(19,466)	1,963,232
	50,094,594	1,180,894	(23,335)	51,252,153
Less accumulated depreciation				
Infrastructure	(2,767,361)	(295,120)	-	(3,062,481)
Buildings	(17,486,423)	(1,254,157)	869	(18,739,711)
Equipment	(1,539,324)	(85,825)	5,340	(1,619,809)
	(21,793,108)	(1,635,102)	6,209	(23,422,001)
Net	<u>\$ 28,301,486</u>	<u>\$ (454,208)</u>	<u>\$ (17,126)</u>	<u>\$ 27,830,152</u>

North Dakota State Fair Association
Notes to Financial Statements
September 30, 2016 and 2015

	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>42,865,008</u>	<u>11,408,563</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>\$ 21,999,898</u>	<u>\$ 9,891,584</u>	<u>\$ (3,589,996)</u>	<u>\$ 28,301,486</u>

The components and changes in components of capital assets of the Foundation at September 30, 2016 and 2015 is as follows:

	Balance 09/30/15	Additions/ Depreciation Expense	Deletions	Balance 09/30/16
Capital Assets Not Being Depreciated				
Land	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>

Note 7 - 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, 2016 and 2015:

	Balance 09/30/15	Additions	Retirements	Balance 09/30/16	Current Portion
Bonds Payable	\$ 1,910,000	\$ -	\$ (110,000)	\$ 1,800,000	\$ 110,000
Accrued Employee Leave	83,910	73,654	(63,446)	94,118	65,000
	<u>\$ 1,993,910</u>	<u>\$ 73,654</u>	<u>\$ (173,446)</u>	<u>\$ 1,894,118</u>	<u>\$ 175,000</u>

North Dakota State Fair Association
Notes to Financial Statements
September 30, 2016 and 2015

	<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>

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 \$156,314 and \$168,574, for the year ended September 30, 2016 and 2015, respectively. 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>
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	130,000	47,450	177,450
2022-2026	700,000	175,800	875,800
2027-2030	490,000	39,800	529,800
	<u>\$ 1,800,000</u>	<u>\$ 489,300</u>	<u>\$ 2,289,300</u>

Note 8 - 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, 2016 and 2015, were \$247,665 and \$285,000 respectfully.

The North Dakota State Fair has been appropriated \$467,250 for the purpose of replacing asphalt during the 2015-2017 biennium. Asphalt appropriations expended for the year ended September 30, 2016 was \$433,461. No appropriations were expended for September 30, 2015 relating to that appropriation.

Note 9 - 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 4% 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, 2016, 2015, and 2014, totaled \$132,691, \$129,425, and \$121,011, 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, 2016 and 2015, the Employer reported a liability of \$704,238 and \$699,082, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 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, 2015 and 2014, the Employer's proportion was 0.103567% and 0.110140%, respectively.

For the years ended September 30, 2016 and 2015, the Employer recognized pension expense of \$67,132 and \$69,171, respectively. At September 30, 2016 and 2015, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016	2015
Deferred Outflows of Resources		
Difference between expected and actual experience	\$ 20,431	\$ 22,665
Net difference between projected and actual earnings on pension plan investments	81,373	
Changes in proportion and difference between Association contributions and proportionate share of contributions	4,533	-
Association contributions subsequent to the measurement date	132,691	129,425
	\$ 239,028	\$ 152,090
Deferred Inflows of Resources		
Changes in assumption	\$ 62,744	\$ -
Net difference between projected and actual earnings on pension plan investments	96,240	136,464
Changes in proportion and difference between Association contributions and proportionate share of contributions	40,400	-
	\$ 199,384	\$ 136,464

\$132,691 and 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 years ended September 30, 2017 and 2016, respectively.

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:

2017	\$ 26,270
2018	26,270
2019	26,270
2020	(4,450)
2021	18,670
Thereafter	-
Totals	\$ 93,030

Actuarial assumptions

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50% per annum
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses, including inflation
Cost-of-living adjustments	None

The actuarial assumptions used in the July 1, 2015 valuation were approved by the Board of Trustees and were based on the results of an experience study for the period July 1, 2009 to June 30, 2014.

As of July 1, 2015, mortality rates for active members, inactive members and healthy retirees were based on the RP-2000 Combined Healthy Mortality Table, set back 2 years for males and 3 years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table, set back one year for males (no setback for females) multiplied by 125%. The underlying tables with the generational projection to the ages of participants as of the measurement date reasonably reflect the mortality experience of the Plan as of the measurement date.

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%	1.52%
International Fixed Income	5.0%	0.45%
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, 2015. 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, 2015, 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, 2015. 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, 2015.

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:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Association's proportionate share of the net pension liability	\$ 1,079,914	\$ 704,238	\$ 396,867

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 10 - 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	1 years through February 2017 with renewal option	2017 - 111,038
Norsk Hostfest Contract	3 years through October 2016	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	2 years through October 2017	22,000
Circus Contract	5 years through April 2021	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 non-cancelable. 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>
2017	\$ 398,388
2018	53,950
2019	53,950
2020	33,950
2021	8,350
	<u>\$ 548,588</u>

Foundation

The North Dakota State Fair Foundation leases land to Golf Minot, Inc. for an annual lease payment of \$25,000. The term of the lease is 49 years, expiring October 31, 2063.

Note 11 - Risk Management

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

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

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

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

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

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

Note 12 - 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, 2016 and 2015 was \$217,631 and \$244,780.



Required Supplementary Information
September 30, 2016 and 2015

North Dakota State Fair Association

North Dakota State Fair Association
 Required Supplementary Information
 Schedules of Employer's Share of Net Pension Liability and Employer Contributions
 September 30, 2016 and 2015

Schedules of Required Supplementary Information

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

	2016	2015
Employer's proportion of the net pension liability (asset)	0.103567%	0.110140%
Employer's proportionate share of the net pension liability	\$704,238	\$699,082
Employer's covered-employee payroll	\$922,657	\$927,789
Employer's proportionate share of the net pension liability	76.33%	75.349%
Plan fiduciary net position as a percentage of the total pension	77.70%	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.

North Dakota State Fair Association
 Required Supplementary Information
 Schedules of Employer's Share of Net Pension Liability and Employer Contributions
 September 30, 2016 and 2015

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

	2016	2015
Statutorily required contribution	\$70,083	\$66,059
Contributions in relation to the statutorily required contribution	(\$75,526)	(\$129,425)
Contribution deficiency (excess)	(\$5,443)	(\$63,366)
Employer's covered-employee payroll	\$922,657	\$1,101,162
Contributions as a percentage of covered-employee payroll	7.60%	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 and the discretely presented component unit of the North Dakota State Fair Association as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise North Dakota State Fair Association’s basic financial statements, and have issued our report thereon dated November 4, 2016. 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: 2016-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
November 4, 2016

Financial Statement Findings

2016-A Financial Statement Presentation
Material Weakness

Condition: The North Dakota State Fair Foundation (Foundation), a discretely presented component unit of the North Dakota State Fair Association (Association), was not able to obtain support for the asset quality of their notes receivable. During the year-ended September 30, 2016 the Foundation had \$925,000 of notes receivable to Golf Minot, Inc. The Foundation had no allowance set up for these notes receivable and the notes were unsecured.

Criteria: AU-C section 705 paragraph 7 (Modifications to the Opinion in the Independent Auditor's Report), requires that the auditor should modify the opinion in the auditor's report when the auditor is unable to obtain sufficient appropriate evidence to conclude that the financial statements as a whole are free from material misstatement.

Cause: The Foundation was unable to obtain financial statements for Golf Minot, Inc. in order to test their repayment capacity, and were unable to obtain any other information that would provide assurance on the asset quality of the \$925,000 of notes receivable.

Effect: This item result in a scope limitation and a modification in the independent auditor's report.

Recommendation: We recommend that the Foundation should closely monitor the financial position of Golf Minot, Inc. during the life of the aforementioned notes receivable. We believe it would be best practice for the Foundation to obtain financial statements at least annually of Golf Minot, Inc. and include this as terms of the notes receivable going forward.

Management's Response: The Foundation will continue to closely monitor the financial position of Golf Minot, Inc. The Association and Foundation's management realize that Golf Minot, Inc. is a new organization and the first few years of operations may not project a strong financial position. That being the case, we realize it may take a few years for Golf Minot Inc. to show profitability, so it will be the Foundation's duty to ensure payments on the notes are being made timely. Further, the Foundation will require Golf Minot, Inc. to provide annual financial statement.

It is the intent of the North Dakota State Fair Foundation to re-evaluate the notes receivable to Golf Minot, Inc. annually and will provide an allowance on these notes, if necessary, for the year ended September 30, 2017.