

Nebraska State Fair Board

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016



Nebraska State Fair Board
December 31, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Nebraska State Fair Board
Grand Island, Nebraska

We have audited the accompanying financial statements of the Nebraska State Fair Board, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Nebraska State Fair Board'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nebraska State Fair Board as of December 31, 2017 and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Nebraska State Fair Board's basic financial statements. The schedules of fair operations as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

Lincoln, Nebraska
August 1, 2018

Nebraska State Fair Board
Balance Sheets
December 31, 2017 and 2016

Assets

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash	\$ 1,608,219	\$ 823,760
Accounts receivable	185,089	347,995
Accounts receivable - intergovernmental	1,081,251	1,089,934
Certificate of deposit	9,864	9,864
Prepaid expenses	<u>54,619</u>	<u>32,132</u>
Total current assets	<u>2,939,042</u>	<u>2,303,685</u>
Noncurrent Assets		
Capital assets, net	13,512,036	13,951,710
Other prepaid expenses	<u>66,667</u>	<u>-</u>
Total noncurrent assets	<u>13,578,703</u>	<u>13,951,710</u>
Total assets	<u><u>\$ 16,517,745</u></u>	<u><u>\$ 16,255,395</u></u>

Liabilities and Net Position

Current Liabilities		
Accounts payable	\$ 150,790	\$ 206,343
Accrued liabilities	163,626	252,352
Unearned revenue	298,613	341,305
Current portion - long-term debt	<u>350,633</u>	<u>336,876</u>
Total current liabilities	<u>963,662</u>	<u>1,136,876</u>
Noncurrent Liabilities		
Compensated absences	877	33,691
Long-term debt, net of current portion	<u>5,750,664</u>	<u>6,102,073</u>
Total noncurrent liabilities	<u>5,751,541</u>	<u>6,135,764</u>
Total liabilities	<u>6,715,203</u>	<u>7,272,640</u>
Net Position		
Net investment in capital assets	7,410,739	7,492,761
Unrestricted	<u>2,391,803</u>	<u>1,489,994</u>
Total net position	<u>9,802,542</u>	<u>8,982,755</u>
Total liabilities and net position	<u><u>\$ 16,517,745</u></u>	<u><u>\$ 16,255,395</u></u>

Nebraska State Fair Board
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Admissions/fair	\$ 1,448,800	\$ 1,426,502
Carnival	337,395	345,222
Entertainment	1,219,302	851,480
Food/beverage service	333,271	336,415
Campgrounds	54,302	51,465
Departmental receipts	301,552	265,931
Departmental sponsorships	17,041	30,085
Space rental and storage	717,971	693,474
Livestock fees	61,043	-
Other commissions	33,023	17,865
Sponsorships (nondepartmental)	668,950	645,950
Non-cash sponsorships	188,500	202,300
Miscellaneous	3,564	44,212
Total operating revenues	<u>5,384,714</u>	<u>4,910,901</u>
Operating Expenses		
Department premiums/awards	366,442	365,475
Taxes	342,163	301,101
Insurance	293,460	283,680
Wages	1,399,156	1,323,991
Professional services	1,051,640	1,034,953
Equipment rental	399,247	406,379
Material/supplies	243,088	216,451
Administrative	426,571	440,120
Entertainment	2,126,816	2,031,778
Food/beverage service	102,826	103,451
Livestock show	-	970
Advertising/promotion	561,593	598,108
Fair department expenses	427,863	485,775
Utilities	210,201	253,221
Depreciation expense	897,005	958,832
In-kind sponsorship expenses (non-cash)	188,500	202,300
Miscellaneous	2,914	32,205
Total operating expenses	<u>9,039,485</u>	<u>9,038,790</u>
Operating Loss	<u>(3,654,771)</u>	<u>(4,127,889)</u>
Nonoperating Revenues (Expenses)		
Intergovernmental revenues	4,706,309	4,972,722
Interest income	8,051	6,827
Interest expense	(250,602)	(264,569)
Gain on sale of capital assets	-	107
Other income	800	200
Net nonoperating revenues	<u>4,464,558</u>	<u>4,715,287</u>
Income Before Capital Contributions	809,787	587,398
Capital contributions	<u>10,000</u>	<u>10,000</u>
Increase in Net Position	819,787	597,398
Net Position, Beginning of Year	<u>8,982,755</u>	<u>8,385,357</u>
Net Position, End of Year	<u>\$ 9,802,542</u>	<u>\$ 8,982,755</u>

Nebraska State Fair Board
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from customers	\$ 5,316,428	\$ 4,701,560
Payments to employees	(1,377,458)	(1,309,301)
Payments to suppliers	(6,832,769)	(6,805,253)
Net cash used in operating activities	(2,893,799)	(3,412,994)
Noncapital Financing Activities		
Intergovernmental revenue	4,714,992	4,871,396
Capital and Related Financing Activities		
Purchase of capital assets	(457,331)	(944,181)
Proceeds from sale of capital assets	-	200
Principal payments on capital leases and long-term debt	(337,652)	(321,568)
Interest payments	(250,602)	(264,569)
Net cash used in capital and related financing activities	(1,045,585)	(1,530,118)
Investing Activities		
Interest receipts	8,051	6,827
Other receipts	800	200
Net cash provided by investing activities	8,851	7,027
Increase (Decrease) in Cash	784,459	(64,689)
Cash, Beginning of Year	823,760	888,449
Cash, End of Year	\$ 1,608,219	\$ 823,760
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (3,654,771)	\$ (4,127,889)
Depreciation	897,005	958,832
Changes in operating assets and liabilities		
Accounts receivable	162,906	88,199
Prepaid expenses	(89,154)	1,299
Accounts payable	(55,553)	49,838
Accrued liabilities and compensated absences	(121,540)	(288,033)
Unearned revenue	(32,692)	(95,240)
Net Cash Used in Operating Activities	\$ (2,893,799)	\$ (3,412,994)
Supplemental Cash Flows Information		
Gain on sale of capital assets	\$ -	\$ 107
In-kind contribution of capital assets	\$ 10,000	\$ 10,000

Nebraska State Fair Board
Notes to Financial Statements
December 31, 2017 and 2016

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

Nature of Operations

Nebraska State Fair Board (the Board) is a not-for-profit corporation created by the State of Nebraska for the purpose of deliberating and consulting as to the needs and conditions of agricultural interests throughout the State of Nebraska. The Board supervises the state fair located in Grand Island, Nebraska.

Basis of Accounting and Presentation

The Board prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). The financial statements of the Board have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally intergovernmental revenues) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific (such as intergovernmental revenues), investment income and contributions are included in nonoperating revenues and expenses. The Board first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable consist primarily of amounts due from operations and reimbursements from the Nebraska State Fair Park Foundation. Amounts due from the Foundation in 2017 and 2016 were for reimbursement on expenditures related to the open arena project. Accounts receivable – intergovernmental represents quarterly lottery proceeds due to the Board from the Nebraska State Lottery. No allowance is recorded as management believes all amounts are collectible.

Nebraska State Fair Board
Notes to Financial Statements
December 31, 2017 and 2016

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

Capital Assets

Capital assets are reported at original cost. Donated capital assets are valued at their acquisition value at the date donated. Leasehold improvements consist of amounts paid by the Board for construction of the fair facilities in Grand Island. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

Buildings and leasehold improvements	3 – 50 years
Equipment	3 – 10 years

Unearned Revenue

Unearned revenue consists of prepaid ticket sales, in-kind revenue being recognized over the term of the agreement and sponsorship revenue being recognized over the term of the agreement. There was \$285,459 and \$339,687 of sponsorship revenue remaining at December 31, 2017 and 2016, respectively, which is to be recognized between 2018 and 2023.

Net Position

Net position of the Board is classified into three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Board. The Board has no components of net position that meet the restricted definition at December 31, 2017 and 2016. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

In-kind Revenues and Expenses

The Board receives in-kind contributions of services and assets from various donors. It is the policy of the Board to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase revenue by a like amount for exchange and exchange-like transactions. For the years ended December 31, 2017 and 2016, \$198,500 and \$212,300, respectively, was received in in-kind contributions and recognized as noncash sponsorships and capital contributions. For the years ended December 31, 2017 and 2016, \$188,500 and \$202,300, respectively, was recognized as expenses.

Nebraska State Fair Board
Notes to Financial Statements
December 31, 2017 and 2016

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

Compensated Absences

Board policies permit most employees to accumulate managed time off (MTO) that may be realized as paid time off. Expense and the related liability are recognized as MTO benefits are earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date.

Revenue Recognition

Revenues are derived primarily from admissions to the State Fair, rental of facilities and related activities and intergovernmental sources. Revenues from the State Fair are recognized when earned. Revenues from intergovernmental sources are recognized when all eligibility requirements have been met.

Classification of Revenues

The Board has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) fair admissions and (2) facilities rental.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues, such as contributions, intergovernmental revenues and investment income.

Income Taxes

The Board is a not-for-profit corporation and is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(5). However, the Board is subject to federal income tax on any unrelated business taxable income.

Nebraska State Fair Board
Notes to Financial Statements
December 31, 2017 and 2016

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

Taxes Collected from Customers and Remitted to Governmental Authorities

Taxes collected from customers and remitted to governmental authorities are presented in the accompanying statement of revenues, expenses and changes in net position on a gross basis. The amount of taxes presented on a gross basis in the accompanying financial statements was \$222,828 and \$192,048 for the years ended December 31, 2017 and 2016, respectively.

Note 2: Deposits

Deposits

Custodial credit risk is the risk that in the event of a bank failure, an entity's deposits may not be returned to it. The Board's deposit policy for custodial credit risk requires compliance with the provisions of state law.

At December 31, 2017, the Board's cash accounts exceeded federally insured limits by approximately \$1,355,000.

Nebraska state law does not allow for collateralization of deposits in excess of FDIC limits for entities other than political subdivisions.

Summary of Carrying Values

The carrying values of deposits are included in the balance sheets as follows:

	2017	2016
Carrying value		
Deposits	\$ 1,618,083	\$ 833,624
	2017	2016
Included in the following balance sheet captions		
Cash	\$ 1,608,219	\$ 823,760
Certificate of deposit	9,864	9,864
	\$ 1,618,083	\$ 833,624

Nebraska State Fair Board
Notes to Financial Statements
December 31, 2017 and 2016

Note 4: Long-term Liabilities

Long-term Debt

Long-term debt included the following at December 31, 2017 and 2016:

	2017	2016
Note payable, bank (A)	\$ 6,101,297	\$ 6,438,949
Less current maturities	350,633	336,876
	\$ 5,750,664	\$ 6,102,073

- (A) Provides for borrowings up to \$8,000,000 and is secured by property, equipment and rights to the lottery proceeds. Interest is payable monthly beginning June 10, 2013. Principal and interest are payable in monthly installments of \$49,024 beginning October 10, 2013. Interest is payable at a fixed rate of 4% through June 10, 2018. Beginning June 10, 2018, interest is payable monthly at the New York prime rate plus a margin of .75% with a floor of 4% and a ceiling of 6%. Beginning June 10, 2023, interest is payable monthly at the weekly average yield on 10 year United States treasury securities plus a margin of 2% with a floor of 4%. The rate will reset every five years thereafter until maturity on May 10, 2033. Based on the amount borrowed, final payment will be due May 10, 2031.

Aggregate annual maturities of long-term debt at December 31, 2017, are:

	Long-term Debt		
	Total to be Paid	Principal	Interest
2018	\$ 588,321	\$ 350,633	\$ 237,688
2019	588,289	364,885	223,404
2020	588,289	379,732	208,557
2021	588,289	395,222	193,067
2022	588,289	411,418	176,871
2023-2027	2,941,445	2,322,598	618,847
2028-2031	2,010,908	1,876,809	134,099
	\$ 7,893,830	\$ 6,101,297	\$ 1,792,533

Nebraska State Fair Board
Notes to Financial Statements
December 31, 2017 and 2016

Note 4: Long-term Liabilities - Continued

The following is a summary of long-term liability transactions of the Board for the years ended December 31, 2017 and 2016:

2017	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note payable	\$ 6,438,949	\$ -	\$ 337,652	\$ 6,101,297	\$ 350,633
2016					
Note payable	\$ 6,760,517	\$ -	\$ 321,568	\$ 6,438,949	\$ 336,876

Other Long-term Liabilities

Other changes in long-term liabilities include the payments and accrual of compensated absences.

Note 5: Intergovernmental Revenues

Effective January 1, 2005, the Nebraska State Constitution was amended to authorize an appropriation of 10% of the net State Lottery proceeds to the Nebraska State Fair Board, as long as the City of Grand Island matches 10% of those funds. The Board recognized revenues of \$4,706,309 and \$4,972,722 classified as intergovernmental revenue during the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, approximately \$1,081,000 and \$1,090,000, respectively, was recorded as a receivable for fourth quarter lottery activity.

Note 6: Related Party Transactions

As of December 31, 2017 and 2016, accounts receivable includes \$178,908 and \$270,200, respectively, due from the Nebraska State Fair Park Foundation and the Grand Island Livestock Complex Authority. These accounts receivable related to commitments for an outdoor arena and general marketing of the fairgrounds.

Nebraska State Fair Board
Notes to Financial Statements
December 31, 2017 and 2016

Note 7: Pension Plan

The Board has a defined contribution pension plan for substantially all full-time employees that meets the requirements of Section 401(a) of the Internal Revenue Code and is administered by Union Bank & Trust. Employees may contribute up to 20% of their compensation each pay period. The Board may elect to make discretionary contributions. Forfeitures are distributed to participants in proportion of their compensation to total compensation. For each of the years ended December 31, 2017 and 2016, the Board made contributions of 3% of qualifying wages. In addition, the Board has a deferred compensation plan that meets the requirements of Section 457(b) of the Internal Revenue Code administered by Union Bank & Trust. Employees may contribute up to 20% of their compensation each pay period. The Board may elect to make discretionary contributions. For each of the years ended December 31, 2017 and 2016, the Board made contributions of 3% of qualifying wages. Total employer contributions to both plans were \$18,088 and \$16,499 for the years ended December 31, 2017 and 2016, respectively, and were fully funded at the end of each year.

Note 8: Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Note 9: Commitments and Contingencies

Litigation

The Board is subject to various claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net position and cash flows of the Board. Events could occur that would change this estimate materially in the near term.

Unemployment Taxes

The Board pays unemployment taxes on a reimbursement basis. The Board has estimated accruals as of December 31, 2017 and 2016; however, events could occur that would change these estimates materially in the near term.

Nebraska State Fair Board
Notes to Financial Statements
December 31, 2017 and 2016

Note 10: Subsequent Events

Subsequent events have been evaluated through August 1, 2018, which is the date the financial statements were available to be issued.

Supplementary Information

Nebraska State Fair Board
Schedules of Fair Operations
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues		
Admissions/fair	\$ 1,448,800	\$ 1,426,502
Carnival	337,395	345,222
Entertainment	1,219,302	851,480
Food/beverage service	333,271	336,415
Campgrounds	54,302	51,465
Departmental receipts	301,552	265,931
Departmental sponsorships	17,041	30,085
Space rental and storage	717,971	693,474
Livestock fees	61,043	-
Other commissions	33,023	17,865
Sponsorships (nondepartmental)	668,950	645,950
Non-cash sponsorships	188,500	202,300
Miscellaneous	3,564	44,212
Intergovernmental revenues	4,706,309	4,972,722
	<u>10,091,023</u>	<u>9,883,623</u>
Expenses		
Department premiums/awards	366,442	365,475
Taxes	342,163	301,101
Insurance	293,460	283,680
Wages	1,399,156	1,323,991
Professional services	1,051,640	1,034,953
Equipment rental	399,247	406,379
Material/supplies	243,088	216,451
Administrative	426,571	440,120
Entertainment	2,126,816	2,031,778
Food/beverage service	102,826	103,451
Livestock show	-	970
Advertising/promotion	561,593	598,108
Fair department expenses	427,863	485,775
Utilities	210,201	253,221
In-kind sponsorship expenses (non-cash)	188,500	202,300
Miscellaneous	2,914	32,205
	<u>8,142,480</u>	<u>8,079,958</u>
Net Income Before Depreciation, Interest Expense and Other Income (Expenses)	<u>1,948,543</u>	<u>1,803,665</u>
Depreciation, Interest Expense and Other Income (Expenses)		
Depreciation expense	(897,005)	(958,832)
Interest expense	(250,602)	(264,569)
Gain on sale of capital assets	-	107
Other income	8,851	7,027
Capital contributions	10,000	10,000
	<u>(1,128,756)</u>	<u>(1,206,267)</u>
Change in Net Position	<u>\$ 819,787</u>	<u>\$ 597,398</u>