

Nebraska State Fair Board

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017



Nebraska State Fair Board
December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 schedules of fair operations are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BKD, LLP

Lincoln, Nebraska
July 9, 2019

Nebraska State Fair Board
Balance Sheets
December 31, 2018 and 2017

Assets

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash	\$ 446,440	\$ 1,608,219
Accounts receivable	556,216	185,089
Receivable - intergovernmental	1,527,474	1,081,251
Certificate of deposit	9,864	9,864
Prepaid expenses	<u>28,761</u>	<u>54,619</u>
Total current assets	<u>2,568,755</u>	<u>2,939,042</u>
Noncurrent Assets		
Capital assets, net	13,562,979	13,512,036
Other prepaid expenses	<u>50,001</u>	<u>66,667</u>
Total noncurrent assets	<u>13,612,980</u>	<u>13,578,703</u>
Total assets	<u>\$ 16,181,735</u>	<u>\$ 16,517,745</u>

Liabilities and Net Position

Current Liabilities		
Accounts payable	\$ 346,685	\$ 150,790
Accrued liabilities	192,881	163,626
Unearned revenue	207,187	298,613
Line of credit	96,797	-
Long-term debt, current portion	<u>354,428</u>	<u>350,633</u>
Total current liabilities	<u>1,197,978</u>	<u>963,662</u>
Noncurrent Liabilities		
Compensated absences	20,920	877
Long-term debt, net of current portion	<u>5,184,462</u>	<u>5,750,664</u>
Total noncurrent liabilities	<u>5,205,382</u>	<u>5,751,541</u>
Total liabilities	<u>6,403,360</u>	<u>6,715,203</u>
Net Position		
Net investment in capital assets	8,024,089	7,410,739
Unrestricted	<u>1,754,286</u>	<u>2,391,803</u>
Total net position	<u>9,778,375</u>	<u>9,802,542</u>
Total liabilities and net position	<u>\$ 16,181,735</u>	<u>\$ 16,517,745</u>

Nebraska State Fair Board
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Admissions/fair	\$ 1,215,840	\$ 1,448,800
Carnival	267,135	337,395
Entertainment	541,189	1,219,302
Food/beverage service	237,331	333,271
Campgrounds	52,579	54,302
Departmental receipts	473,962	301,552
Departmental sponsorships	12,759	17,041
Space rental and storage	730,260	717,971
Livestock fees	97,622	61,043
Other commissions	12,778	33,023
Sponsorships (nondepartmental)	1,040,337	668,950
Non-cash sponsorships	205,350	188,500
Miscellaneous	2,640	3,564
Total operating revenues	<u>4,889,782</u>	<u>5,384,714</u>
Operating Expenses		
Department premiums/awards	384,748	366,442
Taxes	279,013	342,163
Insurance	311,187	293,460
Wages	1,667,914	1,399,156
Professional services	1,350,791	1,051,640
Equipment rental	495,819	399,247
Materials/supplies	262,710	243,088
Administrative	455,764	426,571
Entertainment	1,910,021	2,126,816
Food/beverage service	114,769	102,826
Advertising/promotion	615,716	561,593
Fair department expenses	731,421	427,863
Utilities	220,756	210,201
Depreciation expense	813,411	897,005
In-kind sponsorship expenses (non-cash)	205,350	188,500
Miscellaneous	4,944	2,914
Total operating expenses	<u>9,824,334</u>	<u>9,039,485</u>
Operating Loss	<u>(4,934,552)</u>	<u>(3,654,771)</u>
Nonoperating Revenues (Expenses)		
Intergovernmental revenues	5,152,405	4,706,309
Interest income	9,857	8,051
Interest expense	(261,877)	(250,602)
Other income	-	800
Net nonoperating revenues	<u>4,900,385</u>	<u>4,464,558</u>
Income (Loss) Before Capital Contributions	(34,167)	809,787
Capital contributions	<u>10,000</u>	<u>10,000</u>
Increase (Decrease) in Net Position	(24,167)	819,787
Net Position, Beginning of Year	<u>9,802,542</u>	<u>8,982,755</u>
Net Position, End of Year	<u>\$ 9,778,375</u>	<u>\$ 9,802,542</u>

Nebraska State Fair Board
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Receipts from customers	\$ 4,231,879	\$ 5,316,428
Payments to employees	(1,706,579)	(1,377,458)
Payments to suppliers	(6,817,098)	(6,832,769)
Net cash used in operating activities	<u>(4,291,798)</u>	<u>(2,893,799)</u>
Noncapital Financing Activities		
Proceeds from line of credit	96,797	-
Intergovernmental revenue	4,706,182	4,714,992
Net cash provided by financing activities	<u>4,802,979</u>	<u>4,714,992</u>
Capital and Related Financing Activities		
Purchase of capital assets	(774,467)	(457,331)
Principal payments on capital leases and long-term debt	(652,294)	(337,652)
Interest payments	(256,056)	(250,602)
Net cash used in capital and related financing activities	<u>(1,682,817)</u>	<u>(1,045,585)</u>
Investing Activities		
Interest receipts	9,857	8,051
Other receipts	-	800
Net cash provided by investing activities	<u>9,857</u>	<u>8,851</u>
Increase (Decrease) in Cash	<u>(1,161,779)</u>	<u>784,459</u>
Cash, Beginning of Year	<u>1,608,219</u>	<u>823,760</u>
Cash, End of Year	<u>\$ 446,440</u>	<u>\$ 1,608,219</u>
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (4,934,552)	\$ (3,654,771)
Depreciation	813,411	897,005
Changes in operating assets and liabilities		
Accounts receivable	(371,127)	162,906
Prepaid expenses	42,524	(89,154)
Accounts payable	195,895	(55,553)
Accrued liabilities and compensated absences	43,477	(121,540)
Unearned revenue	(81,426)	(32,692)
Net Cash Used in Operating Activities	<u>\$ (4,291,798)</u>	<u>\$ (2,893,799)</u>
Supplemental Cash Flows Information		
In-kind contribution of capital assets	\$ 10,000	\$ 10,000
Acquisition of leased capital assets	\$ 89,887	\$ -

Nebraska State Fair Board
Notes to Financial Statements
December 31, 2018 and 2017

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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is 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.

Receivables

Accounts receivable consist primarily of amounts due from operations and reimbursements from the Nebraska State Fair Park Foundation. Amounts due from the Foundation in 2018 and 2017 were for reimbursement of expenditures related to the open arena project. 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, 2018 and 2017

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 \$207,187 and \$285,459 of sponsorship revenue remaining at December 31, 2018 and 2017, respectively, which is to be recognized between 2019 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, 2018 and 2017. 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, 2018 and 2017, \$215,350 and \$198,500, respectively, was received as in-kind contributions and recognized as noncash sponsorships and capital contributions. For the years ended December 31, 2018 and 2017, \$205,350 and \$188,500, respectively, was recognized as expenses.

Nebraska State Fair Board
Notes to Financial Statements
December 31, 2018 and 2017

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, 2018 and 2017

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 \$149,646 and \$222,828 for the years ended December 31, 2018 and 2017, 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, 2018, the Board's cash accounts exceeded federally insured limits by approximately \$381,000.

Nebraska state law does not require 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:

	2018	2017
Carrying value		
Deposits	\$ 456,304	\$ 1,618,083
	2018	2017
Included in the following balance sheet captions		
Cash	\$ 446,440	\$ 1,608,219
Certificate of deposit	9,864	9,864
	\$ 456,304	\$ 1,618,083

Nebraska State Fair Board
Notes to Financial Statements
December 31, 2018 and 2017

Note 4: Long-term Liabilities

Line of Credit

In December 2018, the Board entered into a revolving line of credit agreement with a local financial institution, which provided for maximum borrowings of \$500,000 through maturity of the agreement on January 31, 2019. Borrowings under the agreement bear interest at a fixed rate of 5.25% and are collateralized by substantially all assets of the Board. During 2018, \$96,797 was drawn against this agreement and remained outstanding as of December 31, 2018.

Long-term Debt

Long-term debt included the following at December 31, 2018 and 2017:

	2018	2017
Note payable, bank (A)	\$ 5,469,003	\$ 6,101,297
Capital lease obligation (B)	69,887	-
	5,538,890	6,101,297
Less: current maturities	354,428	350,633
	\$ 5,184,462	\$ 5,750,664

- (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.
- (B) The capital lease obligation includes a lease covering equipment for 3 years expiring May 2021.

Nebraska State Fair Board
Notes to Financial Statements
December 31, 2018 and 2017

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, 2018 and 2017:

2018	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligation	\$ -	\$ 89,887	\$ 20,000	\$ 69,887	\$ 21,371
Note payable	6,101,297	-	632,294	5,469,003	333,057
Total	<u>\$ 6,101,297</u>	<u>\$ 89,887</u>	<u>\$ 652,294</u>	<u>\$ 5,538,890</u>	<u>\$ 354,428</u>
2017					
Note payable	<u>\$ 6,438,949</u>	<u>\$ -</u>	<u>\$ 337,652</u>	<u>\$ 6,101,297</u>	<u>\$ 350,633</u>

Aggregate annual maturities of long-term debt at December 31, 2018, are:

	Principal	Interest	Total to be Paid
2019	\$ 354,428	\$ 261,347	\$ 615,775
2020	372,618	243,157	615,775
2021	391,819	223,957	615,776
2022	384,531	203,758	588,289
2023	403,400	184,889	588,289
2024-2028	2,334,025	607,419	2,941,444
2029-2031	1,298,069	76,719	1,374,788
	<u>\$ 5,538,890</u>	<u>\$ 1,801,246</u>	<u>\$ 7,340,136</u>

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 \$5,152,405 and \$4,706,309 classified as intergovernmental revenue during the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, approximately \$1,527,000 and \$1,081,000, respectively, was recorded as a receivable for fourth quarter lottery activity.

Nebraska State Fair Board
Notes to Financial Statements
December 31, 2018 and 2017

Note 6: Related Party Transactions

As of December 31, 2018 and 2017, accounts receivable includes \$27,950 and \$178,908, 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.

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, 2018 and 2017, 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, 2018 and 2017, the Board made contributions of 3% of qualifying wages. Total employer contributions to both plans were \$11,460 and \$18,088 for the years ended December 31, 2018 and 2017, respectively.

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.

Supplementary Information

Nebraska State Fair Board
Schedules of Fair Operations
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues		
Admissions/fair	\$ 1,215,840	\$ 1,448,800
Carnival	267,135	337,395
Entertainment	541,189	1,219,302
Food/beverage service	237,331	333,271
Campgrounds	52,579	54,302
Departmental receipts	473,962	301,552
Departmental sponsorships	12,759	17,041
Space rental and storage	730,260	717,971
Livestock fees	97,622	61,043
Other commissions	12,778	33,023
Sponsorships (nondepartmental)	1,040,337	668,950
Non-cash sponsorships	205,350	188,500
Miscellaneous	2,640	3,564
Intergovernmental revenues	5,152,405	4,706,309
	<u>10,042,187</u>	<u>10,091,023</u>
Expenses		
Department premiums/awards	384,748	366,442
Taxes	279,013	342,163
Insurance	311,187	293,460
Wages	1,667,914	1,399,156
Professional services	1,350,791	1,051,640
Equipment rental	495,819	399,247
Materials/supplies	262,710	243,088
Administrative	455,764	426,571
Entertainment	1,910,021	2,126,816
Food/beverage service	114,769	102,826
Advertising/promotion	615,716	561,593
Fair department expenses	731,421	427,863
Utilities	220,756	210,201
In-kind sponsorship expenses (non-cash)	205,350	188,500
Miscellaneous	4,944	2,914
	<u>9,010,923</u>	<u>8,142,480</u>
Net Income Before Depreciation, Interest Expense and Other Income (Expenses)	<u>1,031,264</u>	<u>1,948,543</u>
Depreciation, Interest Expense and Other Income (Expenses)		
Depreciation expense	(813,411)	(897,005)
Interest expense	(261,877)	(250,602)
Other income	9,857	8,851
Capital contributions	10,000	10,000
	<u>(1,055,431)</u>	<u>(1,128,756)</u>
Change in Net Position	<u>\$ (24,167)</u>	<u>\$ 819,787</u>