

CENTRAL STATES FAIR

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
SEPTEMBER 30, 2023 AND 2022**

DRAFT

CENTRAL STATES FAIR

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Central States Fair
Rapid City, South Dakota

Report on the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Central States Fair (the Organization), which comprise the consolidated statements of financial position as of September 30, 2023 and 2022, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements were available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and there is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as a fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

Central States Fair

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain other internal control matters that we identified during the audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Statements of Financial Position, Consolidating Statements of Activities and Changes in Net Assets and Supplemental Schedules of Central States Fair Foundation Revenues and Expenses are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

KETEL THORSTENSON, LLP
Certified Public Accountants

_____, 2024

CENTRAL STATES FAIR

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2023 AND 2022

<u>ASSETS</u>	<u>2023</u>	<u>2022</u>
Current Assets		
Cash and Cash Equivalents	\$ 629,190	\$ 352,761
Accounts Receivable	301,933	266,073
Grant Receivable	171,300	387,276
Inventory	37,909	10,188
Prepaid Expenses and Other Assets	44,595	29,837
Total Current Assets	1,184,927	1,046,135
Property and Equipment		
Buildings and Leasehold Improvements	9,255,304	7,991,959
Land Improvements	1,841,312	1,841,312
Maintenance and Concession Equipment	842,654	663,463
	11,939,270	10,496,734
Less Accumulated Depreciation	5,921,728	5,729,501
Construction in Progress	9,623	327,012
	6,027,165	5,094,245
Other Assets		
Investments	375,058	493,327
Amounts Held by Black Hills Area Community Foundation	195,282	124,980
	570,340	618,307
TOTAL ASSETS	\$ 7,782,432	\$ 6,758,687
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable	\$ 320,094	\$ 56,771
Accrued Expenses	99,902	79,886
Deferred Revenue	29,286	10,000
Total Current Liabilities	449,282	146,657
Net Assets Without Donor Restriction		
<i>Designated:</i>		
Property and Equipment	6,027,165	5,094,245
Emergency Operation Funds	553,736	611,223
Fundraising Activities - Foundation	299,258	289,872
Board Designated Endowment - Foundation	195,282	124,980
<i>Undesignated</i>	96,409	361,970
Total Net Assets Without Donor Restriction	7,171,850	6,482,290
Time Restriction - Pennington County Subsidy	161,300	129,740
Total Net Assets	7,333,150	6,612,030
TOTAL LIABILITIES AND NET ASSETS	\$ 7,782,432	\$ 6,758,687

The accompanying notes are an integral part of these consolidated statements.

CENTRAL STATES FAIR

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
Net Assets Without Donor Restriction		
<i>Support and Revenue</i>		
<i>Events:</i>		
Fair	\$ 2,046,854	\$ 1,833,082
Black Hills Stock Show	1,640,001	1,523,439
Events Center	602,322	524,228
Summer Events	-	17,891
<i>General:</i>		
Government Grants	1,317,282	481,678
Stalling	341,278	256,129
Contributions	140,217	100,171
In-Kind Contributions	107,450	-
Campground	93,957	72,001
Rentals	82,798	102,415
Gain (Loss) on Sale of Property and Equipment	62,090	(66,874)
Net Investment Return (Loss)	26,890	(21,894)
Other	22,498	49,814
Raffle	6,629	6,732
Memberships	1,270	3,295
Storage	-	15,375
Net Assets Released from Restriction	77,370	75,000
Total Support and Revenue	6,568,906	4,972,482
<i>Expenses</i>		
<i>Program:</i>		
Fair	2,157,716	1,870,123
Black Hills Stock Show	1,585,578	1,370,748
Events Center	718,290	620,578
Other	-	18,098
Management and General	1,407,282	961,450
Fundraising	10,480	8,498
Total Expenses	5,879,346	4,849,495
Change in Net Assets Without Donor Restriction	689,560	122,987
Net Assets With Donor Restriction		
<i>Support and Revenue</i>		
Government Grants	108,930	104,740
Net Assets Released from Restriction	(77,370)	(75,000)
Change in Net Assets With Donor Restriction	31,560	29,740
Change in Net Assets	721,120	152,727
Net Assets -- Beginning of Year	6,612,030	6,459,303
Net Assets -- End of Year	\$ 7,333,150	\$ 6,612,030

The accompanying notes are an integral part of these consolidated statements.

CENTRAL STATES FAIR

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Expenses	Program			Total Program Expenses
	Fair Event	BH Stock Show	Events Center	
Payroll	\$ 416,311	\$ 363,811	\$ 217,445	\$ 997,567
Payroll Taxes	35,790	31,277	18,694	85,761
Employee Benefits	24,099	21,060	12,587	57,746
Total Payroll Expenses	476,200	416,148	248,726	1,141,074
Event Fees and Awards	545,219	472,639	-	1,017,858
Event Entertainment	455,852	161,112	1,800	618,764
Repairs	22,764	7,444	35,948	66,156
Utilities	62,646	45,040	159,022	266,708
Rent	74,410	259,559	360	334,329
Beverage Inventory	101,045	-	167,373	268,418
Depreciation	65,360	65,360	65,360	196,080
Event Consulting and Services	167,864	42,009	-	209,873
Equipment Purchases	-	-	-	-
Other	27,862	24,610	-	52,472
Supplies	62,849	30,741	22,812	116,402
Advertising	61,361	20,854	4,801	87,016
Insurance	7,111	7,111	7,111	21,333
Travel, Meals, Entertainment	6,320	18,122	-	24,442
Professional Fees	-	-	-	-
Interest and Bank Charges	11,613	11,613	4,977	28,203
Postage and Shipping	9,240	3,216	-	12,456
Licenses and Subscriptions	-	-	-	-
Conferences and Meetings	-	-	-	-
Total Expenses	\$ 2,157,716	\$ 1,585,578	\$ 718,290	\$ 4,461,584

The accompanying notes are an integral part of this consolidated statement.

Support Service

<u>Management and</u>		<u>Total</u>
<u>General</u>	<u>Fundraising</u>	<u>Expenses</u>
\$ 201,837	\$ -	\$ 1,199,404
17,352	-	103,113
11,684	-	69,430
<u>230,873</u>	<u>-</u>	<u>1,371,947</u>
-	9,030	1,026,888
-	-	618,764
433,328	-	499,484
132,092	-	398,800
20,797	-	355,126
-	-	268,418
65,360	-	261,440
-	-	209,873
187,193	-	187,193
121,075	-	173,547
43,819	-	160,221
7,485	-	94,501
49,777	-	71,110
32,806	-	57,248
51,503	1,450	52,953
7,237	-	35,440
8,304	-	20,760
8,318	-	8,318
7,315	-	7,315
<u>\$ 1,407,282</u>	<u>\$ 10,480</u>	<u>\$ 5,879,346</u>

CENTRAL STATES FAIR

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Expenses	Program				Total Program Expenses
	Fair Event	BH Stock Show	Events Center	Other	
Payroll	\$ 340,959	\$ 264,018	\$ 167,947	\$ -	\$ 772,924
Payroll Taxes	28,012	21,691	13,798	-	63,501
Employee Benefits	19,751	15,294	9,729	-	44,774
Total Payroll Expenses	388,722	301,003	191,474	-	881,199
Event Fees and Awards	537,595	494,549	-	18,098	1,050,242
Event Entertainment	392,415	60,958	60	-	453,433
Repairs	6,606	-	31,792	-	38,398
Utilities	67,552	56,258	149,111	-	272,921
Rent	40,116	214,363	1,500	-	255,979
Beverage Inventory	87,370	-	132,086	-	219,456
Depreciation	60,724	60,724	60,724	-	182,172
Event Consulting and Services	176,349	38,948	-	-	215,297
Equipment Purchases	-	-	-	-	-
Other	6,981	25,767	-	-	32,748
Supplies	23,419	35,225	36,301	-	94,945
Advertising	52,030	54,116	224	-	106,370
Insurance	5,912	5,912	5,912	-	17,736
Travel, Meals, Entertainment	14,172	13,196	8,391	-	35,759
Professional Fees	-	-	-	-	-
Interest and Bank Charges	7,007	7,007	3,003	-	17,017
Postage and Shipping	3,153	2,722	-	-	5,875
Licenses and Subscriptions	-	-	-	-	-
Conferences and Meetings	-	-	-	-	-
Total Expenses	\$ 1,870,123	\$ 1,370,748	\$ 620,578	\$ 18,098	\$ 3,879,547

The accompanying notes are an integral part of this consolidated statement.

Support Service

<u>Management and</u>		<u>Fundraising</u>	<u>Total</u>
<u>General</u>			<u>Expenses</u>
\$ 158,183	\$ -	\$ 931,107	
12,996	-	76,497	
9,163	-	53,937	
<u>180,342</u>	<u>-</u>	<u>1,061,541</u>	
-	7,178	1,057,420	
-	-	453,433	
198,155	-	236,553	
154,967	-	427,888	
15,428	-	271,407	
-	-	219,456	
60,724	-	242,896	
-	-	215,297	
16,791	-	16,791	
102,070	-	134,818	
62,981	-	157,926	
12,447	-	118,817	
41,382	-	59,118	
51,400	-	87,159	
41,912	1,320	43,232	
5,033	-	22,050	
7,821	-	13,696	
7,944	-	7,944	
2,053	-	2,053	
<u>\$ 961,450</u>	<u>\$ 8,498</u>	<u>\$ 4,849,495</u>	

CENTRAL STATES FAIR

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
Cash Flows From Operating Activities		
Change in Net Assets	\$ 721,120	\$ 152,727
<i>Adjustments to Reconcile Change in Net Assets to Net Cash Flows Provided by Operating Activities:</i>		
Depreciation	261,440	242,896
Unrealized (Gain) Loss on Investments	545	(2,178)
Unrealized (Gain) Loss in Amounts Held by Black Hills Area Community Foundation	(21,552)	25,140
Black Hills Area Community Foundation Match Donation	(9,750)	-
(Gain) Loss on Sale of Property and Equipment	(62,090)	66,874
<i>Working Capital Change Increasing (Decreasing) Cash:</i>		
Accounts Receivable	(35,860)	(80,488)
Grant Receivable	215,976	(225,125)
Inventory	(27,721)	9,748
Prepaid Expenses and Other Assets	(14,758)	(5,490)
Accounts Payable and Accrued Expenses	273,339	21,685
Deferred Revenue	19,286	1,000
Net Cash Flows Provided by Operating Activities	1,319,975	206,789
Cash Flows From Investing Activities		
Purchases of Property and Equipment	(1,188,103)	(462,313)
Proceeds from Sales of Property and Equipment	65,833	-
Purchases of Amounts Held by Black Hills Area Community Foundation	(39,000)	(20,000)
Redemption of Certificates of Deposit	117,724	103,765
Purchases of Investments	-	(100,524)
Cash Flows Used in Investing Activities	(1,043,546)	(479,072)
Net Increase (Decrease) in Cash and Cash Equivalents	276,429	(272,283)
Cash and Cash Equivalents -- Beginning of Year	352,761	625,044
Cash and Cash Equivalents -- End of Year	\$ 629,190	\$ 352,761
Non-Cash Operating and Investing Activities		
Purchase of Property Included in Accounts Payable	\$ 10,000	\$ -

The accompanying notes are an integral part of these consolidated statements.

CENTRAL STATES FAIR

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

(1) Nature of Business, Use of Estimates and Summary of Significant Accounting Policies

Nature of Business

Central States Fair (the Fair) is a not-for-profit entity organized under the laws of the State of South Dakota primarily to conduct an annual fair and stock show in Rapid City, South Dakota. The Fair also rents the Event Center throughout the year for various functions.

The financial statements have been consolidated for the years ended September 30, 2023 and 2022 and include the accounts of the Central States Fair Foundation (the Foundation), an organization whose purpose is to support the Fair through promoting and improving the vitality of the Fair's projects and events. The Foundation is consolidated into the financial statements of the Fair as the Fair controls the Foundation's board appointments. All significant intercompany balances and transactions have been eliminated between the two entities (collectively the Organization).

The Organization derives its revenue primarily from fees charged to the public for admissions and participation in events at the annual fair and stock show. Additional support is received from contributions and grants. The Organization's events are dependent on weather and attendance.

Use of Estimates

The preparation of the consolidated 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 amounts and disclosures reported in the consolidated financial statements. Actual results could differ from those estimates.

Basis of Accounting and Financial Statement Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the financial position and activities of the Organization are reported in the following net asset categories:

Net Assets with Donor Restriction – Net assets of the Organization that are subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Amounts that originate and expire in the same fiscal year are reported as net assets without donor restrictions.

Net Assets without Donor Restriction – Net assets of the Organization that are not subject to donor-imposed restrictions and are available for general operations. In addition, the Board of Directors may designate net assets without donor restriction for specific purposes.

Cash and Cash Equivalents

For consolidated financial statement purposes, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Organization maintains its checking accounts in financial institutions which are insured by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

CENTRAL STATES FAIR

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022**

(1) Nature of Business, Use of Estimates and Summary of Significant Accounting Policies

Accounts Receivable

Accounts receivable are recorded at the time the revenue is earned and are billed monthly. Any receivable not paid within 60 days is considered past due. As of year-end, there are no significant delinquent receivables. Management considers accounts receivable to be fully collectible based on their knowledge of current environmental conditions and historical losses. Accordingly, no allowance for doubtful accounts has been recorded. Receivables will be charged off as uncollectible when management feels they have exhausted all reasonable collection efforts. The accounts receivable balance at October 1, 2021 was \$185,585.

Inventory

Inventory, consisting of liquor, is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method.

Property and Equipment

The Organization capitalizes assets valued over \$5,000 with a useful life greater than one year. Depreciation is computed using the straight-line method. The estimated useful lives used in computing depreciation are as follows:

Buildings and Leasehold Improvements	5-50 Years
Land Improvements	20-30 Years
Equipment	5-30 Years

At September 30, 2023 the Organization had construction in progress related to renovations to the Soule Building (see Note 5).

Leases

Lessee

All of the Organization's leases have terms of 12 months or less or are cancelable by the lessee and lessor without significant penalties. As such, they are not capitalized as right-of-use assets and lease liabilities but are expensed on a straight-line basis over the lease term. The majority of the Organization's short-term leases relate to lease spaces for the Stock Show, equipment used at events, and office equipment. These leases are entered into at periodic rental rates for an unspecified duration and typically have a termination for convenience provision.

Lessor

The Organization determines if an arrangement is or contains a lease at inception or modification of the agreement and classifies such leases as operating, direct financing, or sales-type leases. Direct financing and sales-type leases meet certain criteria that have the economic characteristics of transferring ownership of the underlying asset and are accounted for similar to financing arrangements. A lease is classified as an operating lease if it does not qualify as a sales-type or direct financing lease. The Organization acts as lessor in operating leases only. Operating lease revenue is recognized on a straight-line basis over the term of the lease.

Amounts Held by Foundation

The Amounts Held by Black Hills Area Community Foundation (BHACF) (Note 3) are invested in accordance with the BHACF's internal investment policies and are recorded at net asset value per share. Investment earnings, including unrealized and realized gains/losses, benefit general operations unless donor stipulation states otherwise.

CENTRAL STATES FAIR

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

(1) Nature of Business, Use of Estimates and Summary of Significant Accounting Policies

Investments

Certificates of deposits are valued at cost plus accrued interest. The Organization accounts for its investments in common stock at fair value with changes in fair value accounted for in the Consolidated Statements of Activities and Changes in Net Assets. Net investment return includes interest, dividends, realized and unrealized gains and losses, net of investment fees. Realized gains and losses from sales of investments are determined on a specific identity basis. Unrealized gains and losses are recognized in the Consolidated Statements of Activities and Changes in Net Assets to the extent of the change in aggregate market value of investments at the end of each accounting period.

Contributed Services

Various members of the community contribute their time to the Organization. The value of these services is not recorded in the financial statements as it does not meet the recognition requirements under generally accepted accounting principles.

Revenue Recognition

Black Hills Stock Show (Stock Show) revenue consists primarily of livestock and horse sales commissions, sponsorships, booth rentals, entrance fees and ticket sales. Revenue for admissions and ticket sales are recorded when attendance occurs or the tickets expire (end of the Stock Show). Participant fees are recognized when the event takes place. Livestock and horse sales commissions are recorded when the event has taken place, based on the percentage of sales. Booth rental is recognized over the term of the Stock Show, approximately one week.

Fair revenue consists mostly of grandstand button/VIP passes, ticket sales, carnival ticket sales, gate admissions, liquor sales, concessions, sponsorships, booth rentals and entrance fees. Revenue for entrance fees, gate admissions, grandstand button/VIP passes, and ticket sales are recorded when attendance occurs or the tickets/passes expire (end of the Central States Fair). Liquor and concession sales are recognized when merchandise is transferred to the purchaser, with no right of return. Booth rental is recognized over the term of the Fair, approximately one week.

Sponsorships for the Stock Show and Fair are treated as unconditional contributions and are recorded when received, which is usually the same year as the event. Sponsorships may contain an exchange element, but the value of such benefits is limited. All sponsorship revenue is recognized by the end of the event.

Revenue from the Events Center is for private party rentals of the building. The Organization also receives money for concessions, alcohol sales and sign advertising. All revenue except for sign advertising is recognized at the point of sale or the conclusion of the event. Sign advertising is recognized evenly over the yearly agreement term.

Summer Events revenue consists of horse sale commissions, entrance fees and ticket sales. Revenue for entrance fees and ticket sales are recorded when attendance occurs. Horse sales commissions are recorded when the event has taken place, based on a percentage of the sales.

Contributions of cash and other assets are recognized as revenue in the period received at their fair values. Unconditional promises to give are recognized as revenues in the period pledged. Contributions are distinguished between those that increase net assets with and without donor restriction. Conditional promises to give – that is, those with a measurable performance or other barrier and right of return – are not recognized until the conditions on which they depend have been met.

CENTRAL STATES FAIR

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2023 AND 2022

(1) Nature of Business, Use of Estimates and Summary of Significant Accounting Policies

Revenue Recognition

Contributions of supplies, materials, and advertising are recorded at the estimated fair value on the date of the contribution. Contributed services that create or enhance non-financial assets or those that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not contributed are recorded at their fair value in the period received. The Organization does not sell contributed in-kind contributions.

Grants are received from government agencies. Each grant is analyzed to determine whether it is deemed an exchange transaction (where both the grantee and grantor receive commensurate benefits) or a contribution. No grants were recognized as exchange transactions during 2023 or 2022. Some grants are deemed to be conditional contributions and are recognized as revenue when allowable costs are incurred. Such revenues follow a simultaneous release policy and are recorded as net assets without restriction. Grants receivable at September 30, 2023 and 2022 represent unconditional promises to give. Amounts were collected after year-end, resulting in no allowance for uncollectible amounts.

Stalling and Campground revenue are charges for stalling livestock and campground usage. Revenue is recognized as the stay occurs.

Other revenue consists of miscellaneous items, to include amounts charged for credit card processing fees, which are recognized upon receipt.

Deferred revenue received in advance was \$9,000 at October 1, 2021.

Income Tax

The Fair is exempt from federal income tax under Section 501(c)(5) of the Internal Revenue Code. The Foundation is exempt under Section 501(c)(3) of the Internal Revenue Code, and is not considered a private foundation. At September 30, 2023 and 2022, the Fair and the Foundation believe that no significant uncertain tax positions or liabilities exist. No federal income tax is paid unless net income is derived from activities that are unrelated to its exempt activities. No such activities are conducted.

Expense Allocation

The costs of providing program and other support activities have been summarized on a functional basis in the Consolidated Statements of Activities and Changes in Net Assets. The Consolidated Statements of Functional Expenses present the natural classification detail of expenses by function. Most expenses can be directly allocated to program or supporting functions. Certain categories of expenses that are attributable to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. Specifically, salaries and other employee driven expenses are allocated based on average time spent, utilities and depreciation are allocated based on estimated usage and items such as credit card fees are allocated equally as all programs benefit from the costs.

Advertising

The Organization follows the policy of charging the costs of advertising to expenses as incurred. Included in the Consolidated Statements of Activities and Changes in Net Assets is \$94,501 and \$118,817 of advertising expense for the years ended September 30, 2023 and 2022, respectively.

CENTRAL STATES FAIR

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022**

Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*, which provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of classification. If the available accounting election is made, leases with a term of 12 months or less can be accounted for similar to existing guidance for operating leases. Furthermore, the new standard requires lessors to classify leases as sales-type, direct financing, or operating leases based on whether the lessee, in effect, obtains control of the underlying asset as a result of the lease. The classification determines the timing and presentation of income recognition. Implementation had no effect on the financial statements as the Organization maintains no material leases.

Subsequent Events

The Organization has evaluated subsequent events through , 2024, the date which the financial statements were available to be issued.

(2) Cash and Cash Equivalents

Cash and cash equivalents consist of the following at September 30:

	2023	2022
Checking	\$ (898,998)	\$ 74,389
Savings (Note 3)	1,447,369	237,071
Cash on Hand	104,068	123,902
	<u>\$ 652,439</u>	<u>\$ 435,362</u>

(3) Investments, Fair Value, Net Asset Designations, and Endowed Funds

Investments consist of the following at September 30:

	2023	2022
Certificates of Deposit*	\$ 355,329	\$ 473,053
Common Stock at Fair Value	19,729	20,274
	<u>\$ 375,058</u>	<u>\$ 493,327</u>

*At September 30, 2023 and 2022, \$553,736 and \$611,223, respectively, of these certificates, valued at cost, and savings (Note 2) have been designated as emergency operation funds by the Board of Directors.

The Organization defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three-level fair value hierarchy is defined as follows:

Level One: observable inputs such as quoted market prices for identical assets or liabilities in active markets. The types of assets and liabilities included in Level One are highly liquid and actively traded instruments with quoted market prices.

Level Two: inputs include quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. The types of assets and liabilities included in Level Two are typically either comparable to actively traded securities or priced with models using observable inputs.

Level Three: inputs are based on prices or valuation techniques that are unobservable. These types of assets and liabilities require significant management judgment or estimation.

CENTRAL STATES FAIR

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022**

(3) Investments, Fair Value, Net Asset Designations, and Endowed Funds

In accordance with the fair value hierarchy, the following table shows the fair value as of September 30, 2023 and 2022, of those financial assets that are measured at fair value on a recurring basis, according to the valuation techniques the Organization used to determine their fair value. No other financial assets or liabilities are measured at fair value on a recurring or nonrecurring basis at September 30, 2023 and 2022.

September 30, 2023

	Level One	Net Asset Value Per Share	Total
Principal Financial Group, Inc. Stock	\$ 19,729	\$ -	\$ 19,729
Amounts Held by Black Hills Area Community Foundation	-	195,282	195,282
	<u>\$ 19,729</u>	<u>\$ 195,282</u>	<u>\$ 215,011</u>

September 30, 2022

	Level One	Net Asset Value Per Share	Total
Principal Financial Group, Inc. Stock	\$ 20,274	\$ -	\$ 20,274
Amounts Held by Black Hills Area Community Foundation	-	124,980	124,980
	<u>\$ 20,274</u>	<u>\$ 124,980</u>	<u>\$ 145,254</u>

The Organization contributed board designated assets to the BHACF to establish, on the books of BHACF, an endowment fund in the name of Central States Fair Foundation, with earnings available for general operations. These funds are invested and distributed in accordance with the investment and spending policies of BHACF. The Organization annually elects whether to receive earnings available for distribution based on current operational needs. The Organization has named itself the beneficiary of this fund. Accordingly, the amounts have been recorded as other assets on the accompanying Consolidated Statement of Financial Position in accordance with accounting principles generally accepted in the United States of America.

The Amounts Held by BHACF have been valued, as a practical expedient, at the net asset value of the Organization's share of BHACF's investment pools as of the measurement date. BHACF values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of BHACF, which include private placements and other securities for which prices are not readily available, are determined by the management of BHACF and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The amounts held by BHACF are not redeemable by the Organization.

Changes in board designated endowment funds are as follows.

Balance - September 30, 2021	\$ 130,120
Contributions to Endowment	20,000
Net Investment Loss	(25,140)
Balance - September 30, 2022	124,980
Contributions to Endowment	48,750
Net Investment Return	21,552
Balance - September 30, 2023	\$ 195,282

CENTRAL STATES FAIR

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022**

(4) Leases

Lessee

The Organization leases space for the Stock Show, equipment used at events, and office equipment under short term lease agreements of 12 months or less. Total lease costs under these short-term leases was \$353,485 and \$271,407 for the years ended September 30, 2023 and 2022, respectively.

Lessor

The Organization subleases its grounds, buildings, and spaces at the Fair and Stock Show to individuals and organizations under short-term (normally less than one year) operating leases. Total lease revenue was \$749,555 and \$765,904 for the years ended September 30, 2023 and 2022, respectively. Lease revenue is included in Fair, Stock Show, Events Center, Rental, and Storage on the consolidated statements of activities and changes in net assets (Note 8). The leases are for portions of the Organization's property, with the majority being land and subleases on a property not owned by the Organization, which are not depreciable assets.

(5) Support from Pennington County and Other Grants

The Organization receives support from Pennington County each year which is reported in Government Grants. As such, one member of the Pennington County Commissioners acts as a liaison to the Board of Directors of the Fair. In addition, management presents a quarterly activity report to the Commissioners at their meeting.

The support from the county totaled \$579,903 and \$452,727 for the years ended September 30, 2023 and 2022, respectively. The county support includes \$0- and \$193,321 related to the renovation of buildings for the years ended September 30, 2023 and 2022, respectively.

Pennington County has budgeted \$544,648 in cash support for the Organization for the calendar year 2024, which includes a quarterly subsidy and a repair and maintenance allotment. The quarterly subsidy portion is considered to be an unconditional contribution. The repair and maintenance allotment is considered a conditional contribution based on incurring qualifying expenses. The quarterly subsidy of \$108,930 has been included in Government Grants for the year ended September 30, 2023 as it is an unconditional promise to give and is recorded as a Grant Receivable.

During the year ended September 30, 2023 the Organization received Vision Funds for the renovation of buildings for \$980,000. As the Organization is required to incur eligible expenses for Vision Funds reimbursement, the grant is conditional. A total of \$846,309 of this grant was included in the Government Grant revenue in 2023.

(6) In-Kind Contributions

For the year ended September 30, 2023, contributed nonfinancial assets include the following:

Rental Equipment	\$67,500
Prizes	39,950
	<u>\$107,450</u>

The Organization does not sell contributed in-kind contributions. The Organization had no significant contributions during the year ended September 30, 2022. Items typically received consist of the equipment for their events and the prizes to be awarded at events. Amounts are not donor restricted. The fair value is estimated based on comparative rental rates for similar equipment and actual costs of prizes received.

CENTRAL STATES FAIR

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022**

(7) Employee Benefits

The Organization has a SIMPLE plan that is available to all full-time employees. Employees who have received at least \$5,000 annual salary over a two calendar year period are eligible. Contributions made by employees are matched by the Organization up to a maximum of three percent of each participant's annual salary. Contributions for the years ended September 30, 2023 and 2022 totaled \$21,616 and \$11,339, respectively.

(8) Disaggregation of Revenue

September 30, 2023

	Stock Show	Fair	Events Center
Admission, Fees, Tickets and Sales Commissions	\$ 872,720	\$ 1,294,039	\$ -
Sponsorships	316,668	391,551	-
Rental	450,613	66,060	150,084
Liquor Sales and Concessions		295,204	381,679
Sign Advertising		-	70,559
	\$ 1,640,001	\$ 2,046,854	\$ 602,322

September 30, 2022

	Stock Show	Fair	Events Center
Admission, Fees, Tickets and Sales Commissions	\$ 848,388	\$ 1,150,659	\$ -
Sponsorships	243,570	346,408	-
Rental	431,481	67,191	149,442
Liquor Sales and Concessions	-	268,824	303,537
Sign Advertising	-	-	71,249
	\$ 1,523,439	\$ 1,833,082	\$ 524,228

(9) Liquidity

The Organization's main source of funding is from the Black Hills Stock Show and Central States Fair. All board-designated net assets can be made available to meet operating needs, if necessary. The following reflects the Organization's financial assets available for general use within one year as of September 30:

	2023	2022
Cash	\$ 629,190	\$ 352,761
Accounts Receivable	301,933	266,073
Grant Receivable	171,300	387,276
Investments	375,058	493,327
Total Financial Assets	1,477,481	1,499,437
Less Designated Net Assets:		
Emergency Operation Funds	(553,736)	(611,223)
Fundraising Activities - Foundation	(299,258)	(289,872)
Donor Restricted	(161,300)	(129,740)
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	\$ 463,187	\$ 468,602

CENTRAL STATES FAIR

**COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS
SEPTEMBER 30, 2023**

DRAFT



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COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS

_____, 2024

CONFIDENTIAL

Board of Directors and Management
Central States Fair
Rapid City, South Dakota

In planning and performing our audit of the financial statements of Central States Fair (the Organization) as of and for the year ended September 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing auditing 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies presented in **Exhibit I** as Findings 1 and 2 to be material weaknesses.

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. We consider the deficiency presented in **Exhibit I** as Finding 3 to be a significant deficiency.

Prior year comments and current year update are summarized at **Exhibit II**.

This communication is intended solely for the information and use of management, the Board of Directors and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Note that this letter, by its nature, is critical in that it contains only our comments and recommendations on deficiencies and inefficiencies. It does not include our observations of the many strong features of the Organization's operation.

We would like to take this opportunity to express our appreciation for the cooperation and assistance provided to us during our audit. If you have any questions concerning the matters discussed in this letter or wish to discuss any other phase of our audit, please feel free to contact us.

Very truly yours,

KETEL THORSTENSON, LLP
Certified Public Accountants

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Material Weaknesses

Finding 1: Preparation of the Consolidated Financial Statements

Finding, Analysis and Effect: The Organization does not have an internal control system designed to provide for the preparation of the consolidated financial statements being audited, including the related footnote disclosures. As auditors, we were requested to draft the consolidated financial statements and accompanying notes to the consolidated financial statements. This circumstance is not unusual in an organization of your size.

Effect: This control deficiency could result in a material misstatement to the consolidated financial statements that would not be prevented or detected by your Organization's internal control system.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Finding 2: Audit Adjustments

Finding and Analysis: Adjustments increasing the change in net assets by approximately \$802,000 were made during the audit process. Additionally, other adjustments were not posted, by management request, which were immaterial to the overall consolidated financial statements. The significant posted adjustments are summarized as follows:

- 1) We adjusted accounts payable for debit balances.
- 2) We adjusted net assets to roll forward net asset balances from the prior fiscal year.
- 3) We adjusted depreciation expense, fixed asset accounts, recorded fixed asset purchases, and recorded disposal activity.
- 4) We adjusted revenue and accounts receivable for Vision Funds, Pennington County grants and sponsorship revenue.
- 5) We adjusted accounts payable for retainage on the building contract.
- 6) We adjusted gift in-kind income and corresponding expenses. We notice a lack of documentation supporting the valuation of in-kind donations.

Effect: This deficiency could have resulted in a material misstatement to the consolidated financial statements that would not have been prevented or detected by the Organization's internal control system.

Recommendations: We recommend the Organization implement the following:

- 1) Debit balances in accounts payable should be reclassified to assets.
- 2) Record all audit adjustments.
- 3) Fixed asset accounts and repairs and maintenance accounts should be reviewed to properly capitalize items. Remodels or large construction projects should be tracked in separate accounts so all expenses are in one place and easier to track.
- 4) Review grants and sponsorships received, and record revenue based on revenue recognition guidance.
- 5) All liabilities of the Organization should be recorded at the end of the year.
- 6) Review all sponsorship agreements for gifts in-kind. Establish methods for valuing in-kind donations and maintain supporting documentation.

Significant Deficiency

Finding 3: Segregation of Duties

Finding and Analysis: The Organization is subject to internal control weaknesses from time to time due to a small number of individuals having the primary responsibility for performing the account and financial duties. Segregation of duties issues are included in the following areas:

- 1) Parking admissions did not have adequate segregation of duties.
- 2) At the conclusion of the Stock Show and Central States Fair, no one reviewed the bank validated deposit slip.
- 3) After checks are signed, they are all returned to the check preparer before mailing.

Effect: Ideal segregation of duties entails separating custody of assets, and recording of transactions in order to promote accuracy of financial statements and honesty among all personnel. This could lead to misappropriation which would not be prevented or detected by the Organization's existing internal control system.

Recommendations: The Organization should continue to work on implementing the following:

- 1) Developing procedures to reconcile parking admissions during the Central States Fair to cash received. We recommend the use of tickets to help in the reconciliation process.
- 2) The person who deposits the cash should not be the one to verify it matches the bank deposit.
- 3) After checks are signed, someone other than the check preparer should mail the checks.

DRAFT

, 2024

Prior Year Comments:

- **Finding 1: Preparation of the Consolidated Financial Statements**
The Organization did not have an internal control system designed to provide for the preparation of the consolidated financial statements being audited, including the related footnote disclosures. As auditors, we were requested to draft the consolidated financial statements and accompanying notes to the consolidated financial statements. This circumstance is not unusual in an organization of your size. This control deficiency could result in a material misstatement to the consolidated financial statements that would not be prevented or detected by your Organization's internal control system. *This comment is repeated in Finding 1 in Exhibit I.*
- **Finding 2: Audit Adjustments**
During the course of our engagement, we proposed material audit adjustments which resulted in material changes to the Organization's net assets by approximately \$27,000. *This comment is updated and repeated in Finding 2 in Exhibit I.*
- **Finding 3: Segregation of Duties**
The Organization is subject to internal control weaknesses from time to time due to a small number of individuals having the primary responsibility for performing the accounting and financial duties.

Specific Deficiencies:
 - A.) The Organization should continue to work on developing procedures to reconcile parking during the Central States Fair to cash received. The supervision and periodic review procedures currently in place help mitigate the lack of proper segregation of duties and should be continued. *This comment was updated and repeated in Finding 3 in Exhibit I.*
 - B.) After deposits are prepared and taken to the bank, no one reviewed the bank validated deposit slip. *This comment was updated and repeated in Finding 3 in Exhibit I.*
 - C.) After checks are signed, they are returned to the check preparer before mailing. *This comment was updated and repeated in Finding 3 in Exhibit I.*
 - D.) No review of bank statements, bank reconciliations or manual journal entries occurs. There is a heavy reliance on budget to actual comparison to detect unusual activity. *This comment was updated and repeated in Finding 3 in Exhibit I.*