

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE  
AUDIT OFFICE



32ND DISTRICT AGRICULTURAL ASSOCIATION  
OC FAIR & EVENT CENTER  
COSTA MESA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #18-003  
FOR THE YEARS ENDED  
DECEMBER 31, 2017 AND 2016

32ND DISTRICT AGRICULTURAL ASSOCIATION  
OC FAIR & EVENT CENTER  
COSTA MESA, CALIFORNIA

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FOR THE YEARS ENDED  
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AUDIT STAFF

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Auditor

AUDIT REPORT NUMBER

#18-003

32ND DISTRICT AGRICULTURAL ASSOCIATION  
OC FAIR & EVENT CENTER  
COSTA MESA, CALIFORNIA

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE  
Karen Ross, Secretary

Mr. Robert Ruiz, Chair  
Board of Directors  
32nd DAA, OC Fair & Event Center  
88 Fair Drive  
Costa Mesa, California 92626

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying statements of financial statements of the 32nd District Agricultural Association (DAA), OC Fair & Event Center, Costa Mesa, California, as of December 31, 2017 and 2016, and the related statements of operations and changes in net positions, and cash flows-regulatory basis for the years then ended, and the related notes to the financial statements.

#### **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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in 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 procedures that are appropriate in the circumstances, but not for the purposes 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 32nd DAA, OC Fair & Event Center, as of December 31, 2017 and 2016, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

The 32nd DAA, OC Fair & Event Center has not presented the Management's Discussion and Analysis that governmental 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 statement is not affected by this missing information.

The Management Report #18-003, on the 32nd DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 32nd DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



Ron Shackelford, CPA  
Chief, Audit Office

May 4, 2018

**32nd D A A - OC Fair & Event Center**  
**Balance Sheet (Unaudited)**  
**December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash	\$ 1,393,825	\$ 2,330,871
Investments	42,183,671	35,876,117
Accounts Receivable	660,763	331,026
Reserve for Bad Debt	(22,192)	(19,379)
Prepaid Expenses	72,914	44,858
Deferred Outflows - Pension	4,332,393	2,061,693
<b>Total Assets</b>	<b>48,621,374</b>	<b>40,625,186</b>
Capital Projects in Process	1,643,369	4,045,961
Land	133,553	133,553
Buildings and Improvements	93,071,569	87,752,033
Equipment	7,326,656	7,340,068
Accumulated Depreciation	(51,018,981)	(47,717,850)
<b>Total Capital</b>	<b>51,156,166</b>	<b>51,553,765</b>
<b>Total Assets</b>	<b>\$ 99,777,540</b>	<b>\$ 92,178,951</b>
<b>Liabilities</b>		
Accounts Payable	757,259	1,076,813
Deferred Revenue	537,039	746,407
Payroll Liabilities	439,855	397,168
Deposits	32,102	5,000
Other Liabilities	436,674	436,674
Compensated Absences Liability	987,550	936,362
Deferred Inflows - Pension	36,550	437,969
Pension Liability	15,917,666	14,175,597
<b>Total Liabilities</b>	<b>19,144,695</b>	<b>18,211,990</b>
<b>Net Resources</b>	<b>80,632,845</b>	<b>73,966,963</b>
Investment in Capital Assets	0.00	*
Net Resources - Designated Use	0.00	*
Net Resources - Available for Operations	33,468,979	27,667,630
Unrestricted Net Assets - Pension	(11,621,823)	(13,761,357)
Net Resources - Audit Fund	4,299	13,502
Net Proceeds from Operations	73,966,962	66,332,881
<b>Total Net Resources</b>	<b>80,632,845</b>	<b>73,966,963</b>
<b>Total Liabilities and Net Resources</b>	<b>\$ 99,777,540</b>	<b>\$ 92,178,953</b>
004		
294,723.80	*	

32nd D A A - OC Fair & Event Center  
 Statement of Operations - Detailed (Unaudited)  
 December 31, 2017 and 2016

	2017 Year to Date Amount	Budget Year to Date Amount	Budget Variance	2016 Year to Date Amount	Year over Year Variance	Full 2017 Budget
<b>OTHER OPERATING REVENUES</b>						
Discounts Earned	32,597	24,000	8,597	27,975	4,622	24,000
Miscellaneous	400,620	95,761	304,859	204,090	196,530	95,761
Subtotal	433,216	119,761	313,455	232,064	201,152	119,761
<b>TOTAL RENTAL REVENUE</b>	<b>10,592,999</b>	<b>9,551,447</b>	<b>1,041,552</b>	<b>9,567,324</b>	<b>1,025,674</b>	<b>9,551,447</b>
<b>TOTAL OPERATING REVENUE</b>	<b>45,668,048</b>	<b>45,719,165</b>	<b>(51,117)</b>	<b>43,770,501</b>	<b>1,897,547</b>	<b>45,719,165</b>
<b>NON-OPERATING REVENUE</b>						
Interest Earnings	374,189	143,000	231,189	190,893	183,297	143,000
Grants	159,423	95,308	64,114	8,970	150,453	95,308
Other Non-Operating Revenue	4,125	-	4,125	112,500	(108,375)	-
Prior Year Revenue	12,794	-	12,794	2,191	10,603	-
<b>TOTAL NON-OPERATING REVENUE</b>	<b>550,531</b>	<b>238,308</b>	<b>312,223</b>	<b>314,554</b>	<b>235,978</b>	<b>238,308</b>
<b>TOTAL REVENUE</b>	<b>46,218,579</b>	<b>45,957,473</b>	<b>261,106</b>	<b>44,085,055</b>	<b>2,133,525</b>	<b>45,957,473</b>
<b>OPERATING EXPENSES</b>						
Payroll and Related:						
Salaries/Wages - Permanents	5,678,432	5,994,323	315,891	5,247,469	(430,962)	5,994,323
Salaries/Wages - Overtime	113,228	68,660	(44,568)	103,122	(10,106)	68,660
Salaries/Wages - Temporaries	5,134,775	5,055,935	(78,840)	4,696,230	(438,544)	5,055,935
Employee Benefits	3,835,671	4,169,876	334,205	3,536,223	(299,448)	4,169,876
Travel Expense	65,545	116,505	50,960	52,396	(13,149)	116,505
Training and Recruiting Expense	81,003	109,341	28,338	69,561	(11,443)	109,341
Subtotal	14,898,921	15,514,640	615,719	13,701,737	(1,197,183)	15,514,640
Professional Services:						
Professional Services	4,776,036	4,500,000	(276,036)	3,356,007	(1,420,028)	4,500,000
Judges	36,470	29,993	(6,477)	33,559	(2,911)	29,993
Subtotal	4,812,505	4,529,993	(282,513)	3,389,566	(1,422,939)	4,529,993
Directors Expense:						
Directors Expense	10,161	7,000	(3,161)	3,568	(6,593)	7,000
Directors Mtg Expense	13,873	12,000	(1,873)	14,969	1,095	12,000
Subtotal	24,034	19,000	(5,034)	18,537	(5,497)	19,000
Insurance Expense	266,187	406,053	139,866	297,267	31,081	406,053
Telephone & Postage	196,875	185,646	(11,229)	182,300	(14,574)	185,646
Supplies and Equipment:						
Office Supplies	291,505	158,010	(133,495)	199,982	(91,523)	158,010
Signs/Banners	261,640	130,436	(131,204)	97,931	(163,708)	130,436
Decorations/Props	222,220	225,247	3,028	160,626	(61,594)	225,247
Small Equipment	54,669	38,552	(16,118)	43,641	(11,029)	38,552
Audio Visual	25,100	43,560	18,460	12,989	(12,112)	43,560
Software	43,377	55,691	12,314	61,473	18,095	55,691
Computer Hardware & Peripherals	44,380	40,455	(3,925)	26,558	(17,822)	40,455
Farm	85,757	81,748	(4,010)	81,454	(4,304)	81,748
Ticketing/Wristbands	48,929	53,232	4,303	91,828	42,900	53,232
Equipment Rental	2,454,403	2,628,389	173,986	2,673,983	219,581	2,628,389
Equipment Maintenance & Supplies	265,343	208,491	(56,852)	250,054	(15,290)	208,491
Uniforms & Laundry	100,021	89,654	(10,367)	63,596	(36,425)	89,654
Subtotal	3,897,345	3,753,465	(143,880)	3,764,114	(133,231)	3,753,465
Facility and Related:						
Maintenance of Buildings/Grounds	365,000	275,196	(89,804)	295,270	(69,730)	275,196
Utilities	1,250,084	1,352,814	102,730	1,145,684	(104,401)	1,352,814
Trash/Waste Removal	1,615,183	1,587,355	(27,828)	1,610,147	(5,036)	1,587,355
Rental of Facilities	-	1,000	1,000	-	-	1,000
Special Repairs	900,448	615,700	(284,748)	635,737	(264,712)	615,700
Subtotal	4,130,716	3,832,065	(298,651)	3,686,838	(443,878)	3,832,065
Publicity and Related:						
Photography	14,556	24,139	9,583	19,579	5,023	24,139
Contests	354	7,400	7,046	5,691	5,337	7,400
Printing	161,867	64,680	(97,188)	54,311	(107,557)	64,680
Advertising - Outdoor	252,980	214,250	(38,730)	216,760	(36,220)	214,250
Advertising - Radio	345,664	371,750	26,086	340,017	(5,647)	371,750
Advertising - TV	491,640	500,000	8,360	472,095	(19,545)	500,000

32nd D A A - OC Fair & Event Center  
 Statement of Operations - Detailed (Unaudited)  
 December 31, 2017 and 2016

	2017 Year to Date Amount	Budget Year to Date Amount	Budget Variance	2016 Year to Date Amount	Year over Year Variance	Full 2017 Budget
<b>OCFEC-PRODUCED EVENT REVENUE</b>						
ADMISSIONS TO GROUNDS						
Gate Admissions	\$ 7,657,350	\$ 7,971,730	\$ (314,379)	\$ 7,185,786	\$ 471,564	\$ 7,971,730
Advance Admissions	3,421,870	3,306,678	115,192	3,306,678	115,192	3,306,678
Subtotal	11,079,220	11,278,408	(199,188)	10,492,464	586,756	11,278,408
COMMERCIAL SPACE RENTALS	1,366,431	1,357,800	8,631	1,480,745	(114,314)	1,357,800
CARNIVAL & CONCESSIONS						
Carnival	3,676,213	3,900,000	(223,787)	3,800,659	(124,446)	3,900,000
Concessions	8,366,639	8,430,861	(64,222)	7,919,059	447,580	8,430,861
Subtotal	12,042,852	12,330,861	(288,008)	11,719,719	323,134	12,330,861
EXHIBITS REVENUE						
Entry Fees	80,127	69,563	10,564	76,272	3,855	69,563
Donations/Awards	4,616	5,160	(544)	5,028	(412)	5,160
Sales	20,589	42,494	(21,905)	19,919	670	42,494
Subtotal	105,332	117,217	(11,885)	101,219	4,113	117,217
ATTRACTIONS REVENUE	5,581,490	5,608,165	(26,675)	5,188,971	392,519	5,608,165
MISC OCFEC-PRODUCED EVENT REVENUE						
Parking	2,749,535	2,929,381	(179,846)	2,927,280	(177,746)	2,929,381
Sponsorships	1,642,276	1,949,745	(307,469)	1,749,457	(107,181)	1,949,745
Livestock Auction Receipts	291,846	320,663	(28,817)	319,957	(28,111)	320,663
Camping	95,178	91,780	3,398	84,565	10,613	91,780
Exhibitor Fees	45,890	28,300	17,590	38,800	7,090	28,300
Miscellaneous Other Self Produced Revenue	75,001	155,400	(80,399)	100,000	(24,999)	155,400
Subtotal	4,899,724	5,475,268	(575,544)	5,220,059	(320,335)	5,475,268
<b>TOTAL OCFEC-PRODUCED EVENT REVENUE</b>	<b>35,075,050</b>	<b>36,167,719</b>	<b>(1,092,669)</b>	<b>34,203,177</b>	<b>871,873</b>	<b>36,167,719</b>
<b>RENTAL REVENUE</b>						
RENTAL OF FACILITIES						
Facility Rental Fees	-	145,000	(145,000)	150	(150)	145,000
Grounds Wide Rentals	39,375	43,100	(3,725)	43,100	(3,725)	43,100
Building 10	350,750	315,500	35,250	309,836	40,914	315,500
Building 12	162,300	174,100	(11,800)	160,280	2,020	174,100
Building 14	122,780	109,000	13,780	122,850	(70)	109,000
Building 16	58,275	108,600	(50,325)	86,000	(27,725)	108,600
The Hangar	237,530	313,400	(75,870)	281,105	(43,575)	313,400
Parade of Products	92,725	101,400	(8,675)	95,753	(3,028)	101,400
Breezeway	34,493	73,300	(38,808)	70,800	(36,308)	73,300
Wine Courtyard	5,363	5,400	(38)	5,025	338	5,400
Silo Building	1,710	2,800	(1,090)	3,500	(1,790)	2,800
Millennium Barn	2,250	3,600	(1,350)	4,500	(2,250)	3,600
Little Theater	10,475	6,700	3,775	11,423	(948)	6,700
Baja Blues Restaurant	12,500	5,900	6,600	6,300	6,200	5,900
Livestock Office	-	-	-	5,640	(5,640)	-
Parking Lot	1,944,843	2,004,100	(59,257)	1,936,221	8,622	2,004,100
Lawns	8,750	11,400	(2,650)	46,640	(37,890)	11,400
Event Camping	84,215	56,300	27,915	66,505	17,710	56,300
Festival Grounds	35,575	36,800	(1,225)	49,885	(14,310)	36,800
Mall	53,250	45,200	8,050	51,600	1,650	45,200
Grandstand Arena	23,700	28,200	(4,500)	28,000	(4,300)	28,200
Trailer Rallies	3,490	1,700	1,790	2,230	1,260	1,700
Individual Camping	86,803	60,400	26,403	96,650	(9,847)	60,400
Pacific Amphitheater	67,075	35,100	31,975	47,750	19,325	35,100
Subtotal	3,439,026	3,687,000	(247,974)	3,531,742	(92,716)	3,687,000
OTHER RENTAL EVENT REVENUES						
Interim Admissions	317,483	273,900	43,583	274,292	43,191	273,900
Interim Parking	2,122,282	1,988,329	133,954	1,991,254	131,028	1,988,329
Revenue from Personnel Services	1,911,927	1,442,600	469,327	1,495,701	416,226	1,442,600
Equipment Rentals	830,284	770,400	59,884	836,661	(6,377)	770,400
Year-Round Concessions	1,080,836	854,000	226,836	787,800	293,035	854,000
Outside Caterers	265,149	220,500	44,649	251,676	13,472	220,500
Outdoor Signs	48,450	48,370	80	48,270	180	48,370
Subtotal	6,576,411	5,598,099	978,313	5,685,654	890,757	5,598,099
EQUESTRIAN CENTER REVENUES						
Stall Rentals	144,345	146,587	(2,242)	117,864	26,481	146,587
Subtotal	144,345	146,587	(2,242)	117,864	26,481	146,587

32nd D A A - OC Fair & Event Center  
 Statement of Operations - Detailed (Unaudited)  
 December 31, 2017 and 2016

	2017 Year to Date Amount	Budget Year to Date Amount	Budget Variance	2016 Year to Date Amount	Year over Year Variance	Full 2017 Budget
Advertising - Print	206,063	132,914	(73,149)	154,735	(51,328)	132,914
Advertising - Online	194,435	324,624	130,189	212,861	18,426	324,624
Promotional Expense	102,621	117,835	15,214	118,606	15,984	117,835
Brochure Printing	6,379	57,450	51,071	49,950	43,571	57,450
Buttons Printing	4,916	10,780	5,865	-	(4,916)	10,780
Media Relations	2,700	10,800	8,100	19,321	16,621	10,800
Public Relations Expense	106,662	109,174	2,512	80,455	(26,207)	109,174
Design & Production	6,238	16,200	9,962	492	(5,746)	16,200
Sponsorships	319,910	334,265	14,355	352,044	32,134	334,265
Special Projects	6,217	6,250	33	1,278	(4,939)	6,250
Subtotal	2,223,202	2,302,511	79,309	2,098,194	(125,008)	2,302,511
Self-Produced Events Attractions Expense:						
Arena/Hangar Acts	616,190	583,663	(32,527)	583,663	(32,527)	583,663
Grounds Acts	560,043	586,400	26,357	581,747	21,704	586,400
Major Acts	3,564,200	4,000,000	435,800	3,394,450	(169,750)	4,000,000
Attractions Hospitality	93,916	119,238	25,322	106,941	13,026	119,238
Subtotal	4,834,349	5,289,300	454,952	4,666,801	(167,547)	5,289,300
Other Self-Produced Event Expense:						
Competition Handbook	1,246	2,100	854	2,093	847	2,100
Jr. Livestock Auction Costs	277,238	299,842	22,604	300,107	22,869	299,842
Subtotal	278,484	301,942	23,458	302,200	23,716	301,942
Premium Expense:						
Cash Premiums	91,286	89,000	(2,286)	89,182	(2,104)	89,000
Trophies, Ribbons	20,985	22,752	1,767	28,482	7,497	22,752
Subtotal	112,271	111,752	(519)	117,664	5,393	111,752
Other Operating Expenses:						
Cash Shortages/(Overages)	12,232	14,468	2,236	11,669	(563)	14,468
Dues & Subscriptions	49,620	82,798	33,178	81,575	31,955	82,798
Bank Charges	403,567	386,927	(16,640)	392,690	(10,877)	386,927
Miscellaneous Expense	140,229	167,072	26,842	201,032	60,803	167,072
Subtotal	609,230	651,266	42,035	688,062	78,831	651,266
<b>TOTAL OPERATING EXPENSE</b>	<b>36,284,118</b>	<b>36,897,631</b>	<b>613,513</b>	<b>32,913,281</b>	<b>(3,370,837)</b>	<b>36,897,631</b>
<b>Non-Operating Expenses</b>						
Depreciation Expense	3,279,919	3,099,996	(179,923)	3,145,163	(134,755)	3,099,996
Major Projects	774,194	260,004	(514,190)	420,165	(354,029)	260,004
Net Pension Adjustment - GASB 68	(930,051)	900,000	1,830,051	(59,545)	870,506	900,000
Prior Year Expense	144,517	-	(144,517)	31,909	(112,608)	-
<b>TOTAL NON-OPERATING EXPENSE</b>	<b>3,268,579</b>	<b>4,260,000</b>	<b>991,421</b>	<b>3,537,692</b>	<b>269,113</b>	<b>4,260,000</b>
<b>TOTAL EXPENSES</b>	<b>39,552,697</b>	<b>41,157,631</b>	<b>1,604,934</b>	<b>36,450,973</b>	<b>(3,101,724)</b>	<b>41,157,631</b>
<b>NET PROCEEDS</b>	<b>\$ 6,665,883</b>	<b>\$ 4,799,842</b>	<b>\$ 1,866,040</b>	<b>\$ 7,634,082</b>	<b>\$ (968,199)</b>	<b>\$ 4,799,842</b>

**32nd District Agricultural Association  
OC Fair & Event Center  
Costa Mesa, CA**

**Statement of Cash Flows (Unaudited)  
For the Year Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of Expenses Over Revenues	<u>\$ 6,665,883</u>	<u>\$ 7,634,082</u>
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
Non-Cash Charges (Credits) to Net Income		
Depreciation Expense	3,279,919	3,145,163
Prior Year Depreciation Expense	21,210	0
(Increase) Decrease in Assets		
(Increase) Decrease in Accounts Receivable	(326,924)	(30,885)
(Increase) Decrease in Prepaid Expenses	(28,056)	0
(Increase) Decrease in Notes Receivable	0	253,158
(Increase) Decrease in Deferred Expenses	0	(25,275)
(Increase) Decrease in Deferred Outflows - Pension	(2,270,700)	(225,244)
Increase (Decrease) in Liabilities		
Increase (Decrease) in Accounts Payable	(319,552)	468,246
Increase (Decrease) in Deferred Revenue	(209,368)	534,048
Increase (Decrease) in Payroll Liabilities	42,687	29,079
Increase (Decrease) in Deposits	27,102	(25,127)
Increase (Decrease) in Compensated Absence Liability	51,188	519
Increase (Decrease) in Deferred Inflows - Pension	(401,419)	(1,944,682)
Increase (Decrease) in Net Pension Liability	<u>1,742,069</u>	<u>2,110,381</u>
Total Adjustments	<u>1,608,156</u>	<u>4,289,381</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>8,274,039</u>	<u>11,923,463</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) Decrease in Capital Projects in Progress	2,402,592	(3,779,084)
(Increase) Decrease in Building & Improvements	(5,319,536)	(3,017,543)
(Increase) Decrease in Equipment	<u>13,412</u>	<u>(497,368)</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>(2,903,532)</u>	<u>(7,293,995)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Cash Provided (Used) by Financing Activities	<u>0</u>	<u>0</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<u>5,370,507</u>	<u>4,629,468</u>
Cash and Cash Equivalent - Beginning of Year	<u>38,206,988</u>	<u>33,577,520</u>
<b>Cash and Cash Equivalent - End of Period</b>	<u><u>\$ 43,577,495</u></u>	<u><u>\$ 38,206,988</u></u>

**32ND DISTRICT AGRICULTURAL ASSOCIATION**  
**OC FAIR & EVENT CENTER**  
**COSTA MESA, CALIFORNIA**

**STATEMENTS OF NET POSITION**  
As of December 31, 2017 and 2016

	<b>Account Number</b>	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>			
Current Assets:			
Cash in Bank	111 - 127	\$ 43,577,495	\$ 38,206,987
Accounts Receivable, Net	131	482,856	276,190
Deferred Charges	143	78,335	15,820
Total Current Assets:		<u>44,138,686</u>	<u>38,498,997</u>
Noncurrent Assets:			
Construction In Progress	190	1,643,369	4,060,372
Land	191	133,553	133,553
Buildings and Improvements, Net	192	48,945,298	46,690,839
Equipment, Net	193	433,946	577,950
Total Noncurrent Assets:		<u>51,156,166</u>	<u>51,462,714</u>
<b>TOTAL ASSETS</b>		<u>95,294,852</u>	<u>89,961,712</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>	160	<u>4,332,393</u>	<u>2,061,693</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>		<b><u>\$ 99,627,245</u></b>	<b><u>\$ 92,023,404</u></b>
<b>LIABILITIES AND NET POSITION</b>			
Liabilities			
Current Liabilities:			
Accounts Payable and Other Liabilities	212	1,168,469	1,471,339
Payroll Liabilities and Clearing	220-227	438,220	397,168
Deferred Income	228	381,323	710,950
Guaranteed Deposits	241	32,102	5,000
Total Current Liabilities:		<u>2,020,115</u>	<u>2,584,456</u>
Noncurrent Liabilities:			
Compensated Absences Liability	245	987,550	936,362
Pension	260	15,917,666	14,175,597
Total Noncurrent Liabilities:		<u>16,905,216</u>	<u>15,111,959</u>
<b>TOTAL LIABILITIES</b>		<u>18,925,331</u>	<u>17,696,415</u>
<b>DEFERRED INFLOW OF RESOURCES</b>	256	36,550	437,969
Net Resources			
Unrestricted	291	29,504,899	22,413,223
Net Investment in Capital Assets	291.1	51,156,166	51,462,714
Unrestricted - Junior Livestock Auction	251	4,299	13,083
<b>Total Net Resources Available</b>		<u>80,665,364</u>	<u>73,889,020</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET RESOURCES</b>		<b><u>\$ 99,627,245</u></b>	<b><u>\$ 92,023,404</u></b>

**32ND DISTRICT AGRICULTURAL ASSOCIATION**  
**OC FAIR & EVENT CENTER**  
**COSTA MESA, CALIFORNIA**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
For the Years Ended December 31, 2017 and 2016

	<b>Account Number</b>	<b>2017</b>	<b>2016</b>
<b>REVENUE</b>			
Admissions	410	\$ 11,079,220	\$ 10,492,464
Commercial Space	415	1,366,431	1,480,745
Carnival	421	3,676,213	3,800,659
Concessions	422	8,203,278	7,919,059
Exhibits	430	266,988	100,900
Attractions - Fairtime	460	4,140,313	3,965,673
Interim Attractions	46009	507,633	361,648
Miscellaneous Fair	470	5,393,588	5,631,896
Miscellaneous Non-Fair	47005	130,365	63,491
Junior Livestock Auction	476	18,740	23,924
Interim	480	10,579,128	9,605,764
Other Operating	495	570,333	340,337
<b>Total Operating Revenue</b>		<b>45,932,230</b>	<b>43,786,561</b>
<b>OPERATING EXPENSES</b>			
Administration	500	5,097,332	5,332,121
Maintenance and Operations	520	12,207,939	11,064,869
Publicity	540	2,755,950	2,559,685
Attendance Operations	560	4,140,213	3,273,144
Miscellaneous Fair	570	648,903	559,562
Miscellaneous Non-Fair	57005	494,253	449,303
Junior Livestock Auction	576	27,943	24,344
Premiums	580	112,271	117,664
Exhibits	630	2,316,531	1,630,926
Fair Entertainment	660	6,706,276	6,284,851
Interim Entertainment	66009	587,487	556,265
Depreciation	900	3,279,919	3,144,619
Pension	960	714,855	1,149,939
<b>Total Operating Expenses</b>		<b>39,089,872</b>	<b>36,147,291</b>
<b>Operating Income</b>		<b>6,842,357</b>	<b>7,639,271</b>
<b>NONOPERATING REVENUES AND EXPENSES</b>			
Prior Year Adjustments	490 & 800	(53,781)	(9,502)
Cash Over/Short	850	(12,232)	(11,669)
<b>Total Nonoperating Revenue</b>		<b>(66,013)</b>	<b>(21,172)</b>
<b>RESOURCES</b>			
Net Change - Income/(Loss)		6,776,344	7,618,099
Resources Available, January 1		73,889,020	66,270,921
<b>Resources Available, December 31</b>		<b>\$ 80,665,364</b>	<b>\$ 73,889,020</b>

**32ND DISTRICT AGRICULTURAL ASSOCIATION**  
**OC FAIR & EVENT CENTER**  
**COSTA MESA, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS**  
For the Years Ended December 31, 2017 and 2016

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Proceeds from Customers	\$ 45,725,564	\$ 44,044,291
Payments to and on Behalf of Employees	(11,988,013)	(11,407,109)
Payments to Suppliers for Goods and Services	(22,655,540)	(18,585,490)
Net Cash Provided (Used) by Operating Activities	<u>11,082,011</u>	<u>14,051,692</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Payments for Additions to Capital Assets	(2,973,372)	(7,232,667)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,973,372)</u>	<u>(7,232,667)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Other Non-Operating Receipts (Expenditures)	(2,738,131)	(2,189,558)
Net Cash Provided (Used) by Investing Activities	<u>(2,738,131)</u>	<u>(2,189,558)</u>
<b>NET INCREASE/(DECREASE) IN CASH</b>	<b>5,370,508</b>	<b>4,629,468</b>
<b>CASH</b>		
Beginning of Period	38,206,987	33,577,520
End of Period	<u><u>\$ 43,577,495</u></u>	<u><u>\$ 38,206,987</u></u>
<b>RECONCILIATION OF OPERATING GAIN TO CASH USED IN OPERATING ACTIVITIES</b>		
Operating Income/Loss	\$ 6,842,357	\$ 7,639,271
Adjustment to Reconcile Excess of Operating Revenue Over Expenses		
to Net Cash Provided by Operating Activities:		
Depreciation Expense	3,279,919	3,144,619
Prior Year-Depreciation		
(Increase) Decrease In Operating Assets		
(Increase) Decrease in Accounts Receivable	(206,666)	257,730
(Increase) Decrease in Deferred Charges	(62,514)	(9,919)
Increase (Decrease) in Operating Liabilities		
Increase (Decrease) in Accounts Payable & Other Liabilities	(302,869)	433,401
Increase (Decrease) in Payroll Liabilities	41,052	2,227
Increase (Decrease) in Deferred Income	(329,626)	498,591
Increase (Decrease) in Guaranteed Deposits	27,102	(25,127)
Increase (Decrease) in Compensated Absence Liability	51,188	519
Increase (Decrease) in Pension Liability	<u>1,742,069</u>	<u>2,110,381</u>
Total Adjustments	<u>4,239,654</u>	<u>6,412,422</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u><u>\$ 11,082,011</u></u></b>	<b><u><u>\$ 14,051,692</u></u></b>

32ND DISTRICT AGRICULTURAL ASSOCIATION  
OC FAIR & EVENT CENTER  
COSTA MESA, CALIFORNIA

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization – The 32nd District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the OC Fair & Event Center each year in Costa Mesa, California. The State of California, Department of Food and Agriculture, through the Fairs and Expositions Branch provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Fairs and Expositions Branch.

Basis of Accounting – The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and, therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents – The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$65,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. Therefore, the DAA considers all pooled government funds with the LAIF to be cash equivalents.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment – Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 5 to 30 years, and purchases of equipment are depreciated over five years. Capitalized infrastructure assets, such as drainage systems and paving, may be depreciated over 20 to 40 years. Costs of repair and maintenance are expensed as incurred by the DAA. Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets, net of related interest income in the case of tax-exempt debt. Furthermore, donated building improvements, and equipment are

recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

The Fair periodically evaluates whether events or circumstances have occurred that may have resulted in an impairment of its property and equipment. No such impairment occurred in the years ended December 31, 2017 or 2016.

Compensated Absences – Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, state and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

Revenue Recognition – Generally the DAA recognizes revenues upon completion of services provided primarily under authorized contractual agreements. Advance payments received are deferred in accrued liabilities and other in the combined balance sheets until performance is complete. Operating lease revenue is recognized, in part, based on the combined financial statements provided by the lessee.

## NOTE 2

### NEW ACCOUNTING STANDARDS

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for fiscal years beginning after June 15, 2015. Management has not determined the effect of GASB No. 72 on the District's financial statements.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions of this statement are effective for periods beginning after June 15, 2017. Management has not yet determined the effect of GASB 75 on the District's financial statements.

In June 2015, the GASB issued GASB Statement No. 76, *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of accounting principles general accepted in the United States of America (U.S. GAAP). This statement reduces the U.S. GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified with a source of authoritative U.S. GAAP. The provisions of this statement are effective for periods beginning after June 15, 2016. Management has not yet determined the effect of GASB 76 on the District's financial statements.

In June 2015 the GASB issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes criteria for an external investment pool to qualify for making the elections to measure all of its investments at amortized cost for financial reporting purposes. The provisions of this Statement are effective for periods beginning after June 15, 2016. Management has not yet determined the effect of GASB 79 on the District's financial statements.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of Statement No. 14. The requirements of this Statement enhance the comparability of financial statements among governments. The provisions of this Statement are effective for periods beginning after December 15, 2016. Management has not yet determined the effect of GASB 80 on the District's financial statements.

In March 2016, the GASB Issued GASB Statement No. 82, *Pension Issues – An Amendment to GASB Statements No. 67, 68, and 73*. This statement addresses certain issues that have been raised with the implementation of the listed GASBs. The Provisions of this Statement are effective for periods beginning after June 15, 2016, except for the selection of assumptions in certain circumstances, which is effective for the employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Management has not yet determined the effect of GASB 82 on the District's financial statements.

NOTE 3

**CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2017</u>	<u>2016</u>
Cash in Bank – Operating	\$ 1,393,824	\$ 2,330,870
Cash in Bank – Investment & Savings	42,183,671	35,876,117
Total Cash and Cash Equivalents	<u>\$ 43,577,495</u>	<u>\$ 38,206,987</u>

NOTE 4

**ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2017</u>	<u>2016</u>
Accounts Receivable	\$ 505,048	\$ 295,569
Allowance for Doubtful Accounts	(22,192)	(19,379)
Accounts Receivable - Net	<u>\$ 482,856</u>	<u>\$ 276,190</u>

NOTE 5

**PROPERTY AND EQUIPMENT**

Buildings and improvements and equipment at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Building & Improvements	\$ 93,071,569	\$ 87,751,295
Less: Accumulated Depreciation	(44,126,271)	(41,060,456)
Building & Improvements - Net	<u>\$ 48,945,298</u>	<u>\$ 46,690,839</u>
Equipment	\$ 7,326,656	\$ 7,256,555
Less: Accumulated Depreciation	(6,892,710)	(6,678,605)
Equipment - Net	<u>\$ 433,946</u>	<u>\$ 577,950</u>

NOTE 6

**GASB Statement No. 68**

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement is effective for financial statements beginning after June 15, 2014.

The DAA participates in the California Public Employee's Retirement System (CalPERS) – Miscellaneous Plan, a multi-employer defined benefit pension plan. See Note 7 for detailed information on Retirement Plans description.

The net pension liability was measured as of June 30, 2016, with the total pension liability used to calculate this liability determined by an actuarial valuation as of June 30, 2015. The DAA's portion of net pension liability was based on the total amount of CalPERS covered wages when compared to other participating employers, as reported to CalPERS.

When determining the DAA's net pension liability, the June 30, 2016 measurement date and DAA's portion of covered wages projects the DAA's portion of net pension liability as \$15,917,665.70.

The actuarial valuation used a 7.65% discount rate and 2.75% inflation rate when computing the total pension liability.

#### NOTE 7

#### **RETIREMENT PLANS**

##### **California Public Employees' Retirement System**

The DAA's defined benefit pension plan, California Public Employees' Retirement System (the "Plan"), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan, part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), is an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating member agencies within the State of California. A menu of benefits provisions, as well as other requirements, is established by state statutes within the Public Employees' Retirement Law. The DAA selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS's annual financial report may be obtained by contacting the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

Current Tier I Plan members are required to contribute 8% or 10% of their monthly salary, depending on bargaining unit, minus a \$513 exemption. Starting on July 1, 2013, Tier II Plan members are required to contribute 1.5% of their monthly salary. On July 1, 2014, Tier II Plan members contributions increased to 3.0% of their monthly salary. On July 1, 2015, Tier II Plan members are required to contribute 3.75% of their monthly salary. In addition to member's contributions, the DAA is required to make additional contributions based on actuarially determined remaining amount necessary to fund benefits for its members. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration.

DAA's contribution rates vary year to year and change July 1 of every year. The new rates become effective with the first payroll period that ends in July. The contribution rate at the end of December 31, 2017 was 28.423%. The contribution rates at the end of December 31, 2016 were 26.728% and 26.984%, depending on the tier of the employee. For the years ended December 31, 2017 and 2016, the annual pension cost paid by the District was \$1,481,686, and \$1,395,297 respectively. Wages for eligible employees for the years ended December 31, 2017 and 2016 were \$5,349,966, and \$5,472,387, respectively.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation.

#### **Part-Time, Seasonal, Temporary Retirement Plan**

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory retirement savings program authorized by federal law for employees who are not covered by a retirement system under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund. If the temporary employee works over 1,000 in a fiscal year (July 1 – June 30), PST deduction is stopped and PERS deduction started.

#### **NOTE 8**

#### **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**32ND DISTRICT AGRICULTURAL ASSOCIATION  
OC FAIR & EVENT CENTER  
COSTA MESA, CALIFORNIA**

**REPORT DISTRIBUTION**

<u>Number</u>	<u>Recipient</u>
1	Chair, 32nd DAA Board of Directors
1	Chief Executive Officer, 32nd DAA
1	Branch Chief, Fairs and Expositions Branch
1	General Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE  
AUDIT OFFICE



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32ND DISTRICT AGRICULTURAL ASSOCIATION  
OC FAIR & EVENT CENTER  
COSTA MESA, CALIFORNIA

MANAGEMENT REPORT #18-003

YEAR ENDED DECEMBER 31, 2017

32ND DISTRICT AGRICULTURAL ASSOCIATION  
OC FAIR & EVENT CENTER  
COSTA MESA, CALIFORNIA

MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2017

AUDIT STAFF

Ron Shackelford, CPA  
Shakil Anwar, CPA  
Jason Jones, CPA  
Visha Prakash

Audit Chief  
Assistant Audit Chief  
Auditor  
Auditor

MANAGEMENT REPORT NUMBER  
#18-003

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## EXECUTIVE SUMMARY

At the request of the management of the 32nd District Agriculture Association (DAA), OC Fair & Event Center, Costa Mesa, California, for the year ended December 31, 2017, the California Department of Food and Agriculture (CDFA), Audit Office, conducted a compliance audit of the 32<sup>nd</sup> DAA. Our audit objectives were crafted to ensure the 32<sup>nd</sup> DAA complied with state laws and regulations applicable to a state entity.

During the audit, we identified two areas of reportable noncompliance. We have provided four recommendations to improve the operations of the 32<sup>nd</sup> DAA. The 32<sup>nd</sup> DAA must respond in writing on how these recommendations will be implemented.

We suggest the 32<sup>nd</sup> DAA implement the recommendations as soon as practicable.

## SCOPE

The management of the 32<sup>nd</sup> DAA, OC Fair & Event Center, requested the CDFA Audit Office, to conduct a compliance audit of the 32<sup>nd</sup> DAA. Our audit objectives were as follows:

- Personnel practices are in compliance with policies issued by California Department of Human Resources (CalHR) and applicable union bargaining contracts.
- Internal controls over fixed assets, bank accounts, cash receipt and disbursements, and revenue collection are correctly utilized.
- Contracting practices are in compliance with Board of Directors' policies and procedures, applicable rules, and regulation.

The audit period was January 2017 through December 2017.

## METHODOLOGY

To address the audit objectives, we performed the following procedures:

- Performed pre-audit analytical procedures to analyze variances in year-over-year reported figures.
- Reviewed prior audit reports and other information provided by F&E.
- Discussed audit planning with audit manager.
- Reviewed applicable laws, regulations, policies and procedures significant to the audit objectives.
- Interviewed key personnel to gain an understanding of the overall operations and policies of the DAA.
- Reviewed DAA records and source documentation to ensure appropriate records are maintained by the DAA..

Management Report #18-003

Costa Mesa, California

In conducting our audit of the 32<sup>nd</sup> DAA, we obtained an understanding of its internal control structure in order to determine our auditing procedures, as they relate to and that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the course of our audit are included in this report.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

## REPORTABLE CONDITIONS

### PAYMENTS FOR OUTSIDE LEGAL COUNSEL

The 32<sup>nd</sup> DAA paid outside legal counsel for professional services rendered without prior approval from the California Attorney General's office. According to the Accounting Procedures Manual (APM) section 2.81, "...Government Code Section 11042 states that no State agency shall employ any legal counsel other than the Attorney General, or one of his assistants or deputies, in any matter in which the agency is interested. This provision applies to all DAAs. Any questions regarding legal matters should be referred to F&E immediately. The fair is liable for the cost of the attorney's time, overhead, telephone, travel, and ancillary expenses. On occasion, the California Attorney General will grant permission for outside counsel..."

*Recommendation:*

1. *The 32<sup>nd</sup> DAA should not hire outside legal counsel unless these professional services are approved by the Attorney General's office.*

### FOOD & BEVERAGE EXPENDITURES

The 32<sup>nd</sup> DAA improperly provided catered food for two staff meetings in the amount of \$4,286 as well as smaller employee related purchases in the amount of \$513. The APM Section 2.77 states, "...purchases of food and beverages, other than business meals reimbursed in accordance with the Department of Personnel Administration (DPA) rules and regulations, will be questioned as to necessity and benefit to the State." The State Administrative Manual also states that for meals to qualify as business-related it must be clearly shown that it was impractical to conduct the State's business during working hours and that the meal took place in conditions beyond the employee's control.

In addition to the above noted expenditures, the Fair also purchased food for various meetings without providing additional support needed to determine their appropriateness. It's typical for a fair to purchase food for public relations, however the 32<sup>nd</sup> DAA did not provide adequate documentation as stated in the APM. Specifically, the APM section 2.76 states, "...Claims for payment of promotional or public relations expenses must include the names of all recipients of the item or benefit and the purpose of the expenditure. A claim must justify providing food or a meal by specifying the topics discussed during the event and the necessity of or the benefits expected to accrue to the fair by entertaining state officials, patrons, or others at a restaurant, hospitality booth, or elsewhere..."

*Recommendation:*

2. *The 32<sup>nd</sup> DAA should adhere to State rules regarding the purchasing of food. Improper purchases may be deemed a gift of public funds which are prohibited.*

## **INTERNAL CONTROL WEAKNESSES IN CONTRACTING POLICIES AND PROCEDURES**

In 2017, the 32<sup>nd</sup> DAA did not establish updated written policies and procedures regarding its contracting process in accordance with Food and Agriculture Code (FAC) 4051, which requires updated written policies and procedures for contracting to be developed internally and maintained by the Fair's Board of Directors.

*Recommendation:*

3. *The 32<sup>nd</sup> DAA should comply with FAC 4051 by establishing written policies and procedures over its contracting processes.*

### DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between April 16, 2018 and May 4, 2018. My staff met with management on May 4, 2018 to discuss the findings, recommendations, as well as other issues.

Please respond directly to this office, within 30 days, stating your plans for implementing each recommendation requiring a response from you. The response should indicate how and when the implementation will take place (maximum six-month timetable). In addition, please provide an information copy to the Fairs and Expositions Branch.

State of California  
Department of Food and Agriculture  
1220 N Street  
Sacramento, CA 95814

This report is intended for the information of the Board of Directors, management, and the Fairs and Expositions Branch. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA  
Chief, Audit Office

May 4, 2018

**REPORT DISTRIBUTION**

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