



Board of Directors Agenda Report

MEETING DATE: JUNE 25, 2020 ITEM NUMBER: 10D

SUBJECT: **Review of 2018 Audit and Vote on Whether or Not to Approve Audit & Compliance Committee's Response Letter**

DATE: June 19, 2020

FROM: Audit and Compliance Committee (Vice Chair Rubalcava-Garcia and Director La Belle)

PRESENTATION BY: Audit and Compliance Committee (Vice Chair Rubalcava-Garcia and Director La Belle)

RECOMMENDATION

At the Board of Directors' discretion.

BACKGROUND

On June 4, 2020 the California Department of Food & Agriculture (CDFA) emailed copies of the 32nd DAA's preliminary 2018 management report and preliminary audit report to CEO Michele Richards, Audit Committee Chair Natalie Rubalcava-Garcia and Committee Member Doug La Belle.

Copies of the preliminary management report and audit report for 2018 are attached.

The Committee met by teleconference on June 8, 2020 to review the preliminary reports and discuss the findings. The Committee will review the audit with the full Board and present a draft of the response letter for the Board's consideration and vote.

A copy of the draft letter is attached.

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 #19-012

YEAR ENDED DECEMBER 31, 2018

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

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2018

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AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Jason Jones, CPA
Sanford Lim
Leo Aguilar

Audit Chief
Assistant Audit Chief
Auditor
Auditor
Auditor

MANAGEMENT REPORT NUMBER
#19-012

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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, 2018, the California Department of Food and Agriculture (CDFA), Audit Office, conducted a performance audit of the 32nd DAA. Our audit objectives were crafted to ensure the 32nd DAA complied with state laws and regulations applicable to a state entity.

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

We suggest the 32nd DAA implement the recommendations as soon as practicable.

SCOPE

The management of the 32nd DAA, OC Fair & Event Center, requested the CDFA Audit Office to conduct a performance audit of the 32nd 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 regulations.

The audit period was January 2018 through December 2018.

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.

In conducting our audit of the 32nd 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 conclusions 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.

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REPORTABLE CONDITIONS**LACK OF NOTIFICATION TO PROPER CONTROL AGENCIES**

The 32nd DAA did not report a suspected theft to the California Department of Finances' (DOF) Office of State Audits and Evaluations (OSAE) and the California State Auditor (State Auditor) as required by the State Administrative Manual (SAM) section 20080. Under section 20080, the entity must notify OSAE and the State Auditor in writing no later than 30 days following the discovery of the incident.

The suspected theft involved a temporary employee working as a ticket seller during the annual fair. The amounts collected for ticket sales by the employee were greater than the amount deposited by \$9,845. The ticket seller reports were not reviewed in a timely manner by a supervisor to ensure this did not continue from day to day. The 32nd DAA contacted the Sheriff's office and the employee has been charged for grand theft by embezzlement. The case is ongoing.

DRAFT*Recommendations:*

1. *The 32nd DAA should report all actual or suspected fraud, theft, or irregularities in a timely manner to the appropriate control agencies.*
2. *The 32nd DAA should review all ticket seller reports in a timely manner to ensure all cash discrepancies are analyzed to determine the reason.*

IMPROPER TRAVEL TO PROHIBITED STATES

The 32nd DAA improperly allowed employees to travel to two states, Kentucky and Tennessee, that were placed on a prohibition for state travel by the California Attorney General. In May 2018, two employees attended the International Association of Fairs & Exposition's (IAFE) Institute of Fair Management Summit in Kentucky and in September 2018 one employee attended a conference conducted by the International Entertainment Buyers Association (IEBA) in Tennessee. Travel costs for these two events amounted to \$3,576.

Recommendation:

3. *The 32nd DAA should disallow travel to prohibited states.*

UNAPPROVED HIRING OF LEGAL COUNSEL

The 32nd DAA improperly hired outside legal counsel in the amount of \$7,090 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:

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

LACK OF INTERNAL CONTROLS OVER FOOD & BEVERAGE EXPENDITURES

The 32nd DAA provided catered food for multiple events throughout the year without proper documentation. The 32nd DAA paid their master concessionaire roughly \$223,913 for food and beverage purchases throughout 2018 for various types of events. However, the 32nd DAA did not maintain a list of individuals who received food and beverages paid for by the 32nd DAA, the topics discussed, or the benefit received. Our office reviewed \$174,067 or 77% of the \$223,913. 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 meals took place in conditions beyond the employee's control.

In addition to the above noted expenditures, the 32nd DAA 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 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:

5. *The 32nd DAA should review the above-mentioned expenditures for appropriateness. Furthermore, the 32nd DAA should adhere to State rules regarding the purchasing of food. Improper purchases may be deemed a gift of public funds which are prohibited.*

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between April 8, 2019 and April 26, 2019. My staff met with management on April 25, 2019 to discuss the findings and 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

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April 26, 2019

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
3	CDFA Executive Office
1	Board 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

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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 #19-012
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

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

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
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Sanford Lim	Auditor
Leo Aguilar	Auditor

AUDIT REPORT NUMBER

#19-012

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

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE
Karen Ross, Secretary

Ms. Sandra Cervantes, Chair
Board of Directors
32nd DAA, OC Fair & Event Center
88 Fair Drive
Costa Mesa, California 92626

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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, 2018 and 2017, 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.

Basis for Qualified Opinion

For the year-ended December 31, 2018, the Fair has excluded from assets, liability, and expenses in the accompanying statements of financial conditions and statements of operations/changes in accountability certain post-employment benefit plans other than pensions that, in our opinion, should be included to conform with generally accepted government auditing standards. See accompanying notes for more details about GASB Statement No. 75 and Other Post-Employment Benefits (OPEB).

Qualified Opinion

In our opinion, except for the matters discussed in the Basis for Qualified Opinion paragraph, 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, 2018 and 2017, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the year 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 #19-012, 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

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May 4, 2019

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

STATEMENTS OF NET POSITION
 As of December 31, 2018 and 2017

		Account Number	2018	2017
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ASSETS				
Current Assets:				
Cash in Bank	111-127	\$ 50,230,752	\$ 43,577,495	
Accounts Receivable, Net	131	867,625	482,856	
Deferred Charges	143	140,471	78,335	
Total Current Assets:		<u>51,238,848</u>	<u>44,138,686</u>	
Noncurrent Assets:				
Construction In Progress	190	140,946	1,643,369	
Land	191	133,553	133,553	
Buildings and Improvements, Net	192	48,533,099	48,945,298	
Equipment, Net	193	402,324	433,946	
Total Noncurrent Assets:		<u>49,209,923</u>	<u>51,156,166</u>	
TOTAL ASSETS		<u>100,448,770</u>	<u>95,294,852</u>	
DEFERRED OUTFLOW OF RESOURCES	160	<u>5,488,718</u>	<u>4,332,393</u>	
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES		<u>\$105,937,488</u>	<u>\$ 99,627,245</u>	
LIABILITIES AND NET POSITION				
Liabilities				
Current Liabilities:				
Accounts Payable and Other Liabilities	212	1,195,666	1,168,469	
Payroll Liabilities and Clearing	220-227	704,475	438,220	
Deferred Income	228	691,309	381,323	
Guaranteed Deposits	241	151,300	32,102	
Total Current Liabilities:		<u>2,742,750</u>	<u>2,020,115</u>	
Noncurrent Liabilities:				
Compensated Absences Liability	245	1,078,416	987,550	
Pension	260	<u>17,556,172</u>	<u>15,917,666</u>	
Total Noncurrent Liabilities:		<u>18,634,588</u>	<u>16,905,216</u>	
TOTAL LIABILITIES		<u>21,377,338</u>	<u>18,925,331</u>	
DEFERRED INFLOW OF RESOURCES	256	<u>163,845</u>	<u>36,550</u>	
Net Resources				
Unrestricted	291	35,192,205	29,504,899	
Net Investment in Capital Assets	291.1	49,209,923	51,156,166	
Unrestricted - Junior Livestock Auction	251	(5,822)	4,299	
Total Net Resources Available		<u>84,396,305</u>	<u>80,665,364</u>	
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET RESOURCES		<u>\$105,937,488</u>	<u>\$ 99,627,245</u>	

**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, 2018 and 2017

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	Account Number	2018	2017
OPERATING REVENUE			
Admissions	410	\$ 11,180,900	\$ 11,079,220
Commercial Space	415	1,397,229	1,366,431
Carnival	421	3,898,744	3,676,213
Concessions	422	8,477,936	8,203,278
Exhibits	430	120,953	266,988
Attractions - Fairtime	460	4,810,443	4,140,313
Interim Attractions	46009	1,604,646	507,633
Miscellaneous Fair	470	5,582,077	5,393,588
Miscellaneous Non-Fair	47005	89,702	130,365
Junior Livestock Auction	476	18,201	18,740
Interim	480	11,467,361	10,579,128
Other Operating	495	1,072,946	570,333
Total Operating Revenue		49,721,137	45,932,230
OPERATING EXPENSES			
Administration	500	8,219,757	5,097,332
Maintenance and Operations	520	12,847,187	12,207,939
Publicity	540	2,967,340	2,755,950
Attendance Operations	560	5,588,456	4,140,213
Miscellaneous Fair	570	776,870	648,903
Miscellaneous Non-Fair	57005	422,295	494,253
Junior Livestock Auction	576	28,322	27,943
Premiums	580	147,259	112,271
Exhibits	630	2,643,572	2,316,531
Fair Entertainment	660	7,963,888	6,706,276
Interim Entertainment	66009	142,652	587,487
Depreciation	900	3,446,526	3,279,919
Pension	960	609,476	714,855
Total Operating Expenses		45,803,600	39,089,872
Operating Income		3,917,537	6,842,357
NONOPERATING REVENUES AND EXPENSES			
Prior Year Adjustments	490 & 800	(165,352)	(53,781)
Cash Over/Short	850	(20,269)	(12,232)
Gain / (Loss) on Disposal of Asset	940	(975)	-
Total Nonoperating Revenue		(186,596)	(66,013)
RESOURCES			
Net Change - Income (Loss)		3,730,941	6,776,344
Resources Available, January 1		80,665,364	73,889,020
Resources Available, December 31		\$ 84,396,305	\$ 80,665,364

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

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STATEMENTS OF CASH FLOWS - REGULATORY BASIS
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Customers	\$ 52,782,895	\$ 45,725,564
Payments to and on Behalf of Employees	(15,450,115)	(11,988,013)
Payments to Suppliers for Goods and Services	(27,963,615)	(22,655,540)
Net Cash Provided (Used) by Operating Activities	<u>9,369,165</u>	<u>11,082,011</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for Additions to Capital Assets	(1,484,758)	(2,973,372)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,484,758)</u>	<u>(2,973,372)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Other Non-Operating Receipts (Expenditures)	(1,231,152)	(2,738,131)
Net Cash Provided (Used) by Investing Activities	<u>(1,231,152)</u>	<u>(2,738,131)</u>
NET INCREASE/(DECREASE) IN CASH	6,653,257	5,370,508
CASH		
Beginning of Period	43,577,495	38,206,987
End of Period	<u>\$ 50,230,752</u>	<u>\$ 43,577,495</u>
RECONCILIATION OF OPERATING GAIN TO CASH USED IN OPERATING ACTIVITIES		
Operating Income/(Loss)	\$ 3,917,537	\$ 6,842,357
Adjustment to Reconcile Excess of Operating Revenue Over Expenses to Net Cash Provided by Operating Activities:		
Depreciation Expense	3,446,526	3,279,919
Prior Year-Depreciation		
(Increase) Decrease In Operating Assets		
(Increase) Decrease in Accounts Receivable	(384,769)	(206,666)
(Increase) Decrease in Deferred Charges	(62,137)	(62,514)
Increase (Decrease) in Operating Liabilities		
Increase (Decrease) in Accounts Payable & Other Liabilities	27,196	(302,869)
Increase (Decrease) in Payroll Liabilities	266,255	41,052
Increase (Decrease) in Deferred Income	309,986	(329,626)
Increase (Decrease) in Guaranteed Deposits	119,198	27,102
Increase (Decrease) in Compensated Absentee Liability	90,865	51,188
Increase (Decrease) in Pension Liability	1,638,506	1,742,069
Total Adjustments	<u>5,451,628</u>	<u>4,239,654</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 9,369,165</u>	<u>\$ 11,082,011</u>

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018 and 2017

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, 2018 or 2017.

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 June 2017, the GASB issued GASB Statement No. 87, *Leases*. The Object of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The provisions of this Statement are effective for periods beginning after December 15, 2019. Management has not yet determined the effect of GASB 87 on the District's financial statements.

In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this Statement are effective for periods beginning after June 15, 2018. Management has not yet determined the effect of GASB 88 on the District's financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end

of a construction period. The provisions of this Statement are effective for periods beginning after December 15, 2019. Management has not yet determined the effect of GASB 89 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:

	2018	2017
Cash in Bank – Operating	\$ 1,279,738	\$ 1,393,824
Cash in Bank – Investment & Savings	48,951,014	42,183,671
Total Cash and Cash Equivalents	<u>\$ 50,230,752</u>	<u>\$ 43,577,495</u>

NOTE 4

ACCOUNTS RECEIVABLE

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

	2018	2017
Accounts Receivable	\$ 894,404	\$ 505,048
Allowance for Doubtful Accounts	(26,779)	(22,192)
Accounts Receivable - Net	<u>\$ 867,625</u>	<u>\$ 482,856</u>

NOTE 5

PROPERTY AND EQUIPMENT

Buildings and improvements and equipment at December 31, 2018 and 2017 consist of the following:

	2018	2017
Building & Improvements	\$ 95,875,663	\$ 93,071,569
Less: Accumulated Depreciation	(47,342,564)	(44,126,271)
Building & Improvements - Net	<u>\$ 48,533,099</u>	<u>\$ 48,945,298</u>
Equipment	\$ 7,509,743	\$ 7,326,656
Less: Accumulated Depreciation	(7,107,419)	(6,892,710)
Equipment - Net	<u>\$ 402,324</u>	<u>\$ 433,946</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, 2017, with the total pension liability used to calculate this liability determined by an actuarial valuation as of June 30, 2016. 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 \$17,556,172.

The actuarial valuation used a 7.15% 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, 2018 was 29.298%. The contribution rate at the end of December 31, 2017 was 28.423%. For the years ended December 31, 2018 and 2017, the annual pension cost paid by the District was \$1,845,747, and \$1,609,440 respectively. Wages for eligible employees for the years ended December 31, 2018 and 2017 were \$6,538,725 and \$5,844,113, 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, 125-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

GASB Statement No. 75

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 were effective for periods beginning after June 15, 2017.

The measurement of other post-employment benefits was not forwarded to the Fair before issuance of this report, causing the opinion to be qualified for noncompliance with GASB 75.

NOTE 9

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

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1	Branch Chief, Fairs and Expositions Branch
1	General Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office



June 25, 2020

California Department of Food & Agriculture
Audit Office
Attn: Ron Shackelford, Chief
1220 N Street
Sacramento, California 95814

RE: Audited Financial Statements for the Years Ended December 31, 2018
and Management Report #19-012

Dear Mr. Shackelford,

I write to you on behalf of the Board of Directors (the “Board”) of the 32nd District Agricultural Association (the “District”) to acknowledge receipt by the Board of the Independent Auditor’s Report of the District’s financial position for the year ending December 31, 2018 (the “Audited Financial Statements”), prepared by the California Department of Food & Agriculture (“CDFA”) Audit Office, as well as the results of your compliance review set forth in Management Report #19-012 (the “Management Report”).

Sandra Cervantes, Chair of the Board, appointed Director Doug LaBelle and myself to serve as the District’s Audit Committee. In our capacity as such and following our review of the Audited Financial Statements and the Management Report, Director Labelle and I have been asked to communicate to your office the following information in response to the findings set forth in the Management Report.

1. LACK OF NOTIFICATION TO PROPER CONTROL AGENCIES

With respect to reporting suspected theft to the California Department of Finances’ office of State Audits and Evaluations and the California State Auditor. In the future the 32nd DAA will report all actual or suspected fraud, theft, or irregularities in a timely manner to the appropriate control agencies. Furthermore, the 32nd DAA will review all ticket seller reports in a timely manner to ensure all cash discrepancies are analyzed to determine the reason. The Board of Directors has reviewed this issue and referred to the Governance Committee to ensure this policy is documented.

2. IMPROPER TRAVEL TO PROHIBITED STATES

With respect to improper travel to prohibited States, the 32nd DAA learned from the California Department of Food & Agriculture that the travel ban to certain States was in effect only after 32nd DAA employees had traveled to Kentucky in May, 2018 and Tennessee in September, 2018. Since being notified, the 32nd DAA has complied with the ban and the Board of Directors upheld the ban at its September, 2018 Board meeting by voting to deny a request for travel to the annual International Association of Festivals and Expositions (IAFE) Convention in San Antonio, Texas, November 25–28, 2018. The 32nd DAA will not approve any travel to States currently on the banned list.

3. PAYMENTS FOR OUTSIDE LEGAL COUNSEL

With respect to securing outside legal counsel, at its meeting of May 23, 2019, the Board adopted a policy prohibiting the District from engaging outside legal counsel unless these professional services are approved by the Attorney General's office in writing and the District's Board of Directors.

4. FOOD & BEVERAGE EXPENDITURES

In response to the finding in the Management Report—that the District should adhere to State rules regarding the purchasing of food and beverages. Improper purchases may be deemed a gift of public funds which are prohibited. For any future mandatory staff training functions where it is deemed necessary that training include all shifts and the time associated with conducting this training is during a meal period, staff will ensure that a copy of the training materials and an employee sign-in sheet for all staff participating along with a cover memo will be attached to the event's billing invoice.

In addition, regarding food expenditures for public relations, the District will ensure staff provides adequate details and documentation for this expenditure. Staff has created an expense capturing all the required information that will be included in the submission of any food and beverage public relations expenditure. The Board of Directors has referred this issue to the Governance Committee so this policy can be included in future policy updates.

Director LaBelle and I have been charged by Chair Sandra Cervantes on an ongoing basis with oversight of the District's participation in and response to your office's annual audits and compliance reviews. Accordingly, I ask that the CDFA Audit Office please copy Director LaBelle and myself on all written correspondence to the District (via email to nrubalcava-garcia@ocfairboard.com and dlabelle@ocfairboard.com). One or both of us also plan to participate in significant meetings related to the audit process, including entry, exit, and/or

other meetings as necessary. Jason Jones from your office has already been quite kind in accommodating our requests, which enable us to fulfill the Board's oversight responsibility.

On behalf of the Board, please accept my thanks for your office's excellent work.

Sincerely,

Natalie Rubalcava-Garcia
Chair, Audit Committee
Board of Directors
32nd District Agricultural Association

cc: John Quiroz, Branch Chief, Fairs and Expositions Branch, CDFA
Josh Caplan, Deputy Attorney General, California Department of Justice