



## **Board of Directors Agenda Report**

**MEETING DATE:** JANUARY 28, 2021 **ITEM NUMBER:** 10B

**SUBJECT:** Review of 2019 Audit and Vote on Whether or Not to Approve and File with California Department of Food and Agriculture (CDFA)

**DATE:** January 22, 2021

**FROM:** Michele Richards, CEO

**PRESENTATION BY:** Michele Richards, CEO

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### **RECOMMENDATION**

At the Board of Directors' discretion.

### **BACKGROUND**

Lance, Soll & Lunghard (LSL) has completed the 2019 financial audit for the 32<sup>nd</sup> District Agricultural Association (32<sup>nd</sup> DAA), and the Finance Department has submitted the Management Discussion & Analysis (MD&A) to accompany the audit as recommended by LSL.

The audit is presented to the Board for review and approval. Once approved, the audit will be filed with the California Department of Food and Agriculture (CDFA).

The 2019 financial audit and accompanying MD&A for the 32<sup>nd</sup> DAA are attached.



January 20, 2021

To the Board of Directors and the Audit Committee  
32<sup>nd</sup> District Agricultural Association,  
OC Fair & Event Center  
Costa Mesa, California

We have audited the special purpose financial statements of the 32<sup>nd</sup> District Agricultural Association, OC Fair & Event Center ("32<sup>nd</sup> DAA") for the year ended December 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 30, 2020. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Facility are described in the notes to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed 2019.

We noted no transactions entered into by 32<sup>nd</sup> DAA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No misstatements were found.



To the Board of Directors and the Audit Committee  
32<sup>nd</sup> District Agricultural Association,  
OC Fair & Event Center  
Costa Mesa, California

### ***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated January 20, 2021.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to 32<sup>nd</sup> DAA financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management during the year as 32<sup>nd</sup> DAA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention for future years.

### **New Accounting Standards**

The following new Governmental Accounting Standards Board (GASB) pronouncements were effective for 2019 audit:

GASB Statement No. 83, *Certain Assets Retirement Obligations*.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*.

The following Governmental Accounting Standards Board (GASB) pronouncements are effective in the following fiscal year audit and should be reviewed for proper implementation by management:

2020

GASB Statement No. 84, *Fiduciary Activities*.

GASB Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statement Nos. 14 and 61*.



To the Board of Directors and the Audit Committee  
32<sup>nd</sup> District Agricultural Association,  
OC Fair & Event Center  
Costa Mesa, California

2021

GASB Statement No. 87, *Leases*.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*.

2022

GASB Statement No. 91, *Conduit Debt Obligations*.

**Restriction on Use**

This information is intended solely for the use of the management of the 32<sup>nd</sup> District Agricultural Association, OC Fair & Event Center, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lance, Soll &amp; Loughard, LLP". The signature is written in a cursive, flowing style.

Brea, California



32<sup>ND</sup> DISTRICT AGRICULTURAL ASSOCIATION  
OC FAIR & EVENT CENTER  
DECEMBER 31, 2019 AND 2018

FINANCIAL STATEMENTS

Focused  
on YOU



32<sup>ND</sup> DISTRICT AGRICULTURAL ASSOCIATION  
OC FAIR & EVENT CENTER

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

32<sup>ND</sup> DISTRICT AGRICULTURAL ASSOCIATION  
OC FAIR & EVENT CENTER

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
32<sup>nd</sup> District Agricultural Association  
OC Fair & Event Center  
Costa Mesa, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the 32<sup>nd</sup> District Agricultural Association, OC Fair & Event Center (the 32<sup>nd</sup> DAA) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the 32<sup>nd</sup> DAA's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 32<sup>nd</sup> DAA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 32<sup>nd</sup> DAA'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 opinions.





To the Board of Directors  
32<sup>nd</sup> District Agricultural Association  
OC Fair & Event Center  
Costa Mesa, California

### **Basis for Qualified Opinion**

For the year ended December 31, 2019, 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 business-type activities of the 32<sup>nd</sup> DAA as of December 31, 2019, and the changes in its financial position, and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, and the schedule of plan contributions, be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2021 on our consideration of the 32<sup>nd</sup> DAA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 32<sup>nd</sup> DAA's internal control over financial reporting and compliance.



To the Board of Directors  
32<sup>nd</sup> District Agricultural Association  
OC Fair & Event Center  
Costa Mesa, California

**Prior Period Financial Statements**

The financial statements of the 32<sup>nd</sup> DAA as of December 31, 2018, were audited by other auditors whose opinion dated May 4, 2019, on those statements was qualified because of the departure from GASB Statement No. 75 described in the Basis for Qualified Opinion paragraph.

*Lance, Soll & Lughard, LLP*

Brea, California  
January 20, 2021



## **MANAGEMENTS DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS OF OCFEC AS OF DECEMBER 31, 2019.**

This discussion and analysis is intended to offer the reader a unique insight into the OC FAIR & EVENT CENTER's basic financial statements from management's perspective. It is a review of our past performance, and our vision for the OCFEC's future.

The annual financial report is comprised of three components: management's discussion and analysis, the financial statements, and the notes to the financial statements.

The Statement of Net Position presents information of all OC FAIR & EVENT CENTER's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of December 31, 2019. The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources is reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of OC FAIR & EVENT CENTER is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing changes in OC FAIR & EVENT CENTER's net position during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused paid time off).

The Statement of Cash Flows presents information showing cash receipts and cash payments during the fiscal year, a reconciliation of operating income to net cash provided by operating activities as well as detail of noncash investing, capital and financing activities.

The following is a summary of OC FAIR & EVENT CENTER's assets, liabilities and net position comparing YEAR ENDED DECEMBER 31, 2019 with YEAR ENDED DECEMBER 31, 2018.

	2019	2018	Net Change
<b>Assets</b>			
Cash	\$ 1,497,560	\$ 1,279,738	\$ 217,822
Cash Equivalents	53,431,409	48,951,014	4,480,395
Accounts Receivable	1,646,430	894,404	752,026
Reserve for Bad Debt	(47,559)	(26,779)	(20,780)
Prepaid Expenses	159,741	140,471	19,270
<b>Total Assets</b>	<b>56,687,581</b>	<b>51,238,848</b>	<b>5,448,733</b>
Capital Projects in Process	968,807	140,946	827,861
Land	133,553	133,553	-
Buildings and Improvements	96,735,430	95,875,663	859,767
Equipment	8,053,904	7,509,743	544,161
Accumulated Depreciation	(57,866,990)	(54,449,983)	(3,417,007)
<b>Total Capital</b>	<b>48,024,704</b>	<b>49,209,922</b>	<b>(1,185,218)</b>
<b>Total Assets</b>	<b>104,712,285</b>	<b>100,448,770</b>	<b>4,263,515</b>
Deferred Outflows - Pension	4,984,585	5,488,718	(504,133)
<b>Total Assets and Deferred Outflow of Resources</b>	<b>\$ 109,696,870</b>	<b>\$ 105,937,488</b>	<b>\$ 3,759,382</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 1,117,891	\$ 1,195,666	\$ (77,775)
Deferred Revenue	1,502,852	691,309	811,543
Payroll Liabilities	637,151	704,475	(67,324)
Deposits	7,535	151,300	(143,765)
Compensated Absences Liability - current	442,849		442,849
<b>Total Current Liabilities</b>	<b>3,708,278</b>	<b>2,742,750</b>	<b>965,528</b>
<b>Non-current Liabilities</b>			
Loan Payable - SB84	1,739,579		1,739,579
Compensated Absences Liability	728,937	1,078,416	(349,479)
Pension Liability	15,722,914	17,556,172	(1,833,258)
<b>Total Non-Current Liabilities</b>	<b>18,191,430</b>	<b>18,634,588</b>	<b>(443,158)</b>
<b>Total Liabilities</b>	<b>21,899,708</b>	<b>21,377,338</b>	<b>522,370</b>
Deferred Inflows - Pension	630,841	163,845	466,996
<b>Net Position</b>			
Investment in Capital Assets	48,024,697	49,209,923	(1,185,226)
Net Resources - Designated Use	504,460	563,003	(58,543)
Net Resources - Available for Operations	50,023,649	46,860,500	3,163,149
Unrestricted Net Position - Pension	(11,369,170)	(12,231,299)	862,129
Net Resources - Auction Fund	(17,315)	(5,822)	(11,493)
<b>Total Net Resources</b>	<b>87,166,321</b>	<b>84,396,305</b>	<b>2,770,016</b>
<b>Total Liabilities and Net Resources</b>	<b>\$ 109,696,870</b>	<b>\$ 105,937,488</b>	<b>\$ 3,759,382</b>

#### *OC FAIR & EVENT CENTER's Assets*

Total assets YEAR ENDED DECEMBER 31, 2019 increased by \$3.6 million over YEAR ENDED DECEMBER 31, 2018. Cash, cash equivalents, accounts receivable and other short-term assets increased by \$5.4 million. The increase in cash and cash equivalents was due to the positive operating performance in 2019, particularly by our annual fair. However, this was offset by the decrease in capital assets of \$1.2 million; mostly from depreciation expense offset by capital additions in Building and Improvements, Equipment and CIP.

#### *OC FAIR & EVENT CENTER's Deferred Outflows of Resources*

Deferred outflows of resources decreased by \$504 thousand, based on actuarial tables as provided by our state pension administrator.

#### *OC FAIR & EVENT CENTER's Liabilities*

Current liabilities increased year over year by \$368 thousand. This increase was offset by a sharp increase in our Deferred Revenue, an indication of a strong expected start to 2020 events (pre COVID).

Our increase in payroll liabilities was immaterial overall. The current portion of our compensated absence liability is calculated at \$443 thousand. We do not have an estimate of the current portion of the same account for year-end 2018. Overall, compensated absence liabilities increased almost \$100 thousand.

In 2019, the OCFEC recorded its liability under SB84. This loan is to be paid off in 5 annual installments. At this time, the state has not issued a due date for the first payment.

#### *OC FAIR & EVENT CENTER's Deferred Inflows of Resources*

Deferred inflows of resources increased by \$466 thousand from 2018 to 2019 based on actuarial tables as provided by our state pension administrator.

#### *OC FAIR & EVENT CENTER's Net Position*

Net position represents the residual interest in OC FAIR & EVENT CENTER's assets and deferred outflows of resources after all liabilities and deferred inflows of resources are deducted. OC FAIR & EVENT CENTER's net position at YEAR ENDED DECEMBER 31, 2019, totaling over \$87 million increased \$2.8 million during the year. Net position is reported in two major categories: net investment in capital assets, restricted, and unrestricted.

The portion of net assets invested in capital assets, net of accumulated depreciation decreased \$1.2 million, primarily due to depreciation. OC FAIR & EVENT CENTER's net investment in capital assets is reported net of any related debt; however, it should be noted that OCFEC has not incurred debt to invest in any capital assets.

Unrestricted net position pension increased by \$862 thousand, again based on actuarial tables as provided by our state pension administrator. Our net position available for operations increased by \$3.2 million, primarily as a result of favorable operating results.

The following table summarizes the changes in net position for OC FAIR & EVENT CENTER comparing YEAR ENDED DECEMBER 31, 2019 with YEAR ENDED DECEMBER 31, 2018.

	2019	2018	Net Change
<b>Operating Revenue</b>			
Admissions	11,457,025	11,180,900	276,125
Commercial Space	1,431,735	1,397,229	34,506
Carnival	3,995,028	3,898,744	96,284
Concessions	8,687,309	8,477,936	209,373
Exhibits	123,940	120,953	2,987
Attractions - Fairtime	4,929,243	4,810,443	118,800
Interim Attractions	1,644,275	1,604,646	39,629
Misc fair	5,719,941	5,582,076	137,865
Misc non-fair	91,917	89,702	2,215
JLA	18,650	18,201	449
Interim Attractions	11,750,561	11,467,361	283,200
Other Operating	1,099,444	1,072,946	26,498
<b>Total Revenue</b>	<b>50,949,068</b>	<b>49,721,137</b>	<b>1,227,931</b>
<b>Operating expenses</b>			
Administration	8,663,104	8,219,757	443,347
Maintenance and Operations	13,540,122	12,847,187	692,935
Publicity	3,127,389	2,967,340	160,049
Attendance Operations	5,889,879	5,588,456	301,423
Misc Fair	887,153	776,870	110,283
Misc non-fair	445,072	422,295	22,777
JLA	29,850	28,322	1,528
Premiums	155,202	147,259	7,943
Exhibits	2,786,158	2,643,572	142,586
Fair Entertainment	8,393,434	7,963,888	429,546
Interim Entertainment	150,346	142,652	7,694
Depreciation	3,632,420	3,446,526	185,894
Pension	642,349	609,476	32,873
<b>Total Operating Expenses</b>	<b>48,342,478</b>	<b>45,803,600</b>	<b>2,538,878</b>
<b>Operating Income</b>	<b>2,606,590</b>	<b>3,917,537</b>	<b>(1,310,947)</b>
<b>Non Operating Revenue and Expenses</b>			
Prior Year Adj	163,265	(165,352)	328,617
			-
Cash over short	161	(20,269)	20,430
Gain / Loss on disposal of assets	-	(975)	975
<b>Total non Operating Revenue</b>	<b>163,426</b>	<b>(186,596)</b>	<b>350,022</b>
<b>Resources</b>			
Net Change Income (Loss)	2,770,016	3,730,941	(960,925)
Resources Avail, Jan 1	84,396,305	80,665,364	3,730,941
<b>Net Position Dec. 31</b>	<b>87,166,321</b>	<b>84,396,305</b>	<b>2,770,016</b>

*OC FAIR & EVENT CENTER's Operating Revenues*

Total operating revenues generated in YEAR ENDED DECEMBER 31, 2019 amount to \$50.9 million, a \$1.2 million increase compared to the prior year's total of \$49.7 million. OCFEC year over year revenue performance has increased steadily over the past 5 years. Revenue directly attributable to the annual Fair is:

	2019	2018
	Year to Date	Year to Date
	Amount	Amount
<b>Total Fair Revenue</b>	<b>36,524,990</b>	<b>35,516,948</b>

For the year ending December 31, 2020, we have budgeted \$36,110,877 for fair revenue. This slight decrease was aging expansion and some expected slowness in economic growth. In actuality, the pandemic of 2020 forced us to cancel the annual fair.

*OC FAIR & EVENT CENTER's Operating Expenses*

Total operating expenses incurred during the YEAR ENDED DECEMBER 31, 2019 amounted to \$48.3 million, a \$2.5 million increase over 2018. The year over year increase of expenses can be attributed to higher payroll expenses due to the increase in minimum wages paid to part time employees during our annual fair. The 2020 approved budget also reflects an increase in payroll expenses due to another increase in minimum wages.

*OC FAIR & EVENT CENTER's Non-operating Revenues and Expenses*

During the YEAR ENDED DECEMBER 31, 2019, non-operating revenues and expenses reflect a net increase in expense of \$350 thousand.

*OC FAIR & EVENT CENTER's Net Position*

Our change in Net Position is based primarily on results of operations.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### *Capital Assets*

OC FAIR & EVENT CENTER's investment in capital assets as of December 31, 2019 and 2018, amounts to \$48,024,704 and \$49,209,922 respectively (net of accumulated depreciation). This investment in capital assets includes building and improvements, equipment, furniture and fixtures, land, and construction in progress. The net decrease in OC FAIR & EVENT CENTER's investment in capital assets, net of depreciation, for the current fiscal year was \$1.2 million, and is attributed to the net of depreciation over asset additions.

32nd DAA - OC Fair & Event Center				
Schedule of Capital Assets				
	2019	2018	Change	
<b>Capital</b>				
Capital Projects in Process	968,807	140,946	827,861	
Land	133,553	133,553	-	
Buildings and Improvements	96,735,430	95,875,663	859,767	
Equipment	8,053,904	7,509,743	544,161	
Accumulated Depreciation	(57,866,990)	(54,449,983)	(3,417,007)	
<b>Total Capital</b>	<b>48,024,704</b>	<b>49,209,922</b>	<b>(1,185,218)</b>	

### *Debt Administration*

As of December 31, 2019, OC FAIR & EVENT CENTER had long-term debt outstanding of \$1,739,579, resulting from SB84. This will be paid in 5 installments, starting in the 20-21 state fiscal year. No date has been set for the 1<sup>st</sup> payment.

There is no other long term debt outstanding.

## REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of OC FAIR & EVENT CENTER's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the CEO, OC Fair & Event Center, 88 Fair Drive, Costa Mesa, California 92626.



THE 32<sup>ND</sup> DISTRICT AGRICULTURAL ASSOCIATION  
OC FAIR & EVENT CENTER

STATEMENTS OF NET POSITION  
DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 1,497,560	\$ 1,279,738
Cash Equivalents	53,431,409	48,951,014
Accounts Receivable	1,646,430	894,404
Reserve for Bad Debt	(47,559)	(26,779)
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Capital Projects in Process	968,807	140,946
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Buildings and Improvements	96,735,430	95,875,663
Equipment	8,053,904	7,509,743
Accumulated Depreciation	(57,866,990)	(54,449,983)
<b>Total Capital</b>	<b>48,024,704</b>	<b>49,209,922</b>
<b>Total Assets</b>	<b>104,712,285</b>	<b>100,448,770</b>
<b>Deferred Outflow of Resources</b>		
Deferred Outflows - Pension	4,984,585	5,488,718
<b>Total Assets and Deferred Outflow of Resources</b>	<b>\$ 109,696,870</b>	<b>\$ 105,937,488</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts Payable and Accrued Expenses	\$ 1,117,891	\$ 1,195,666
Deferred Revenue	1,502,852	691,309
Payroll Liabilities	637,151	704,475
Deposits	7,535	151,300
Current Portion of Compensated Absences Liability	442,849	-
<b>Total Current Liabilities</b>	<b>3,708,278</b>	<b>2,742,750</b>
<b>Noncurrent Liabilities</b>		
Loan Payable - SB84	1,739,579	-
Compensated Absences Liability	728,937	1,078,416
Pension Liability	15,722,914	17,556,172
<b>Total Noncurrent Liabilities</b>	<b>18,191,430</b>	<b>18,634,588</b>
<b>Total Liabilities</b>	<b>21,899,708</b>	<b>21,377,338</b>
<b>Deferred Inflow of Resources</b>		
Deferred Inflows - Pension	630,841	163,845
<b>Net Position</b>		
Investment in Capital Assets	48,024,697	49,209,923
Net Position - Designated Use	504,460	563,003
Net Position - Available for Operations	50,023,649	46,860,500
Unrestricted Net Position - Pension	(11,369,170)	(12,231,299)
Net Position - Auction Fund	(17,315)	(5,822)
<b>Total Net Position</b>	<b>87,166,321</b>	<b>84,396,305</b>
<b>Total Liabilities, Deferred Inflow of Resources and Net Position</b>	<b>\$ 109,696,870</b>	<b>\$ 105,937,488</b>

THE 32<sup>ND</sup> DISTRICT AGRICULTURAL ASSOCIATION  
OC FAIR & EVENT CENTER

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Operating Revenue</b>		
Admissions	\$ 11,457,025	\$ 11,180,900
Commercial Space	1,431,735	1,397,229
Carnival	3,995,028	3,898,744
Concessions	8,687,309	8,477,936
Exhibits	123,940	120,953
Attractions - Fairtime	4,929,243	4,810,443
Interim Attractions	1,644,275	1,604,646
Misc fair	5,719,941	5,582,076
Misc non-fair	91,917	89,702
JLA	18,650	18,201
Interim Attractions	11,750,561	11,467,361
Other Operating	1,099,444	1,072,946
<b>Total Revenue</b>	<b>50,949,068</b>	<b>49,721,137</b>
<b>Operating expenses</b>		
Administration	8,663,104	8,219,757
Maintenance and Operations	13,540,122	12,847,187
Publicity	3,127,389	2,967,340
Attendance Operations	5,889,879	5,588,456
Misc Fair	887,153	776,870
Misc non-fair	445,072	422,295
JLA	29,850	28,322
Premiums	155,202	147,259
Exhibits	2,786,158	2,643,572
Fair Entertainment	8,393,434	7,963,888
Interim Entertainment	150,346	142,652
Depreciation	3,632,420	3,446,526
Pension	642,349	609,476
<b>Total Operating Expenses</b>	<b>48,342,478</b>	<b>45,803,600</b>
<b>Operating Income</b>	<b>2,606,590</b>	<b>3,917,537</b>
<b>Non Operating Revenue and Expenses</b>		
Other Income (Expense)	163,265	(165,352)
Cash over short	161	(20,269)
Gain / Loss on disposal of assets	-	(975)
<b>Total non Operating Revenue and Expenses</b>	<b>163,426</b>	<b>(186,596)</b>
<b>Net Position</b>		
Change in Net Position	2,770,016	3,730,941
Net Position at January 1	84,396,305	80,665,364
<b>Net Position at December 31</b>	<b>\$ 87,166,321</b>	<b>\$ 84,396,305</b>

THE 32<sup>ND</sup> DISTRICT AGRICULTURAL ASSOCIATION  
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STATEMENTS OF CASH FLOWS (UNAUDITED)  
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Position	\$ 2,770,016	\$ 3,730,941
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
Non-Cash Charges (Credits) to Net Income		
Depreciation Expense	3,417,007	3,446,526
(Increase) Decrease in Assets		
(Increase) Decrease in Accounts Receivable	(731,246)	(384,769)
(Increase) Decrease in Prepaid Expenses	(19,270)	(62,137)
(Increase) Decrease in Deferred Outflows - Pension	504,133	(1,156,325)
Increase (Decrease) in Liabilities		
Increase (Decrease) in Accounts Payable	(77,775)	27,196
Increase (Decrease) in Deferred Revenue	811,543	309,986
Increase (Decrease) in Payroll Liabilities	(67,324)	266,255
Increase (Decrease) in Deposits	(143,765)	119,198
Increase (Decrease) in Loan Payable SB84	1,739,579	-
Increase (Decrease) in Compensated Absence Liability	93,370	90,865
Increase (Decrease) in Deferred Inflows - Pension	466,996	127,295
Increase (Decrease) in Net Pension Liability	(1,833,258)	1,638,506
<b>Total Adjustments</b>	<b>4,159,990</b>	<b>4,422,596</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>6,930,006</b>	<b>8,153,537</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) Decrease in Capital Projects in Progress	(2,231,789)	(1,484,758)
(Increase) Decrease in Building and Improvements	-	(15,522)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(2,231,789)</b>	<b>\$ (1,500,280)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>Net Cash Provided (Used) by Financing Activities</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>4,698,217</b>	<b>6,653,257</b>
Cash and Cash Equivalents - Beginning of Period	50,230,752	43,577,495
<b>Cash and Cash Equivalents - End of Period</b>	<b>\$ 54,928,969</b>	<b>\$ 50,230,752</b>
Cash	\$ 1,497,560	\$ 1,279,738
Cash Equivalents	53,431,409	48,951,014
<b>Total Cash and Cash Equivalents</b>	<b>\$ 54,928,969</b>	<b>\$ 50,230,752</b>

**THE 32<sup>ND</sup> DISTRICT AGRICULTURAL ASSOCIATION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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**Note 1: Summary of Significant Accounting Policies**

**General**

The 32<sup>nd</sup> District Agricultural Association (32<sup>nd</sup> DAA) was formed for the purpose of sponsoring, managing, and conducting the business of the OC Fair 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 32<sup>nd</sup> DAA. The 32<sup>nd</sup> 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 32<sup>nd</sup> DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The 32<sup>nd</sup> 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 32<sup>nd</sup> 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 32<sup>nd</sup> DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States or 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.

**Cash and Cash Equivalents**

The 32<sup>nd</sup> 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 32<sup>nd</sup> 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 32<sup>nd</sup> DAA considers all pooled government funds with the LAIF to be cash equivalents.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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**Note 1: Summary of Significant Accounting Policies (Continued)**

In accordance with the Accounting Procedures Manual, the 32<sup>nd</sup> 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.

**Accounts Receivable**

Accounts receivable consists of trade accounts arising in the normal course of business. Uncollectible accounts are written off after all attempts at collection have been pursued. Accounts receivable are periodically evaluated for collectability based on past credit history with customers and their current financial condition. The allowance for doubtful accounts is determined on the basis of loss experience, economic conditions in the industry, and financial stability of customers.

**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 32<sup>nd</sup> 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 donation. 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 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 32<sup>nd</sup> DAA 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, 2019 or 2018.

**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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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**Note 1: Summary of Significant Accounting Policies (Continued)**

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The 32<sup>nd</sup> DAA has deferred outflows relating to the net pension liability reported in the statement of net position. These outflows are the results of contributions made after the measurement period, which are expensed in the following year, the net difference between projected and actual earnings on pension plan investments, differences between expected and actual experience, adjustments due to differences in proportions, and difference in proportionate share.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The 32<sup>nd</sup> DAA has deferred inflows relating to the net pension liability are the results of the difference between expected and actual experience, changes in assumptions, adjustments due to differences in proportions, and difference in proportionate share.

**Revenue Recognition**

Generally, the 32<sup>nd</sup> 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 Statements of Net Position until performance is complete. Operating lease revenue is recognized, in part, based on the financial statements provided by the lessee.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with the 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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Date of Management's Review**

The 32<sup>nd</sup> DAA has evaluated events through January 20, 2021, the date the financial statements were available to be issued.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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**Note 2: Cash and Cash Equivalents**

The following list of cash and cash equivalents were held by the 32<sup>nd</sup> DAA as of December 31:

	2019	2018
Cash in Bank - Operating	\$ 1,497,560	\$ 1,279,738
Cash in Bank - LAIF	53,431,409	48,951,014
Total Cash and Cash Equivalents	<u>\$ 54,928,969</u>	<u>\$ 50,230,752</u>

Investment in State Investment Pool

The 32<sup>nd</sup> DAA is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the 32<sup>nd</sup> DAA's investment in this pool is reported in the accompanying financial statements at amounts based on the 32<sup>nd</sup> DAA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF does not impose limits or restrictions on participant withdrawals and the entire balance of the 32<sup>nd</sup> DAA's investment on the portfolio is available for withdrawal at any time, LAIF is not registered with the Securities and Exchange Commission and is not rated. Deposits and withdrawals in LAIF are made on the basis of \$1 and not fair value. Accordingly, the 32<sup>nd</sup> DAA's investment in this pool is measured on uncategorized inputs not defined as Level 1, 2 or 3.

Fair Value Hierarchy

The 32<sup>nd</sup> DAA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are quoted prices for similar assets in active markets; Level 3 inputs are significant unobservable inputs. At December 31, 2019 and 2018, all of the 32<sup>nd</sup> DAA's investments are LAIF and are considered uncategorized.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**Note 3: Capital Assets**

Capital Assets activity for the year ended December 31, 2019, is as follows:

	Balance at January 1, 2019	Transfers	Additions	Deletions	Balance at December 31, 2019
Capital assets being depreciated:					
Buildings and improvements	\$ 95,875,663	\$ 859,767	\$ -	\$ -	\$ 96,735,430
Equipment	7,509,743	544,161	-	-	8,053,904
Total depreciable capital assets	103,385,406	1,403,928	-	-	104,789,334
Less accumulated depreciation:					
Buildings and improvements	(47,342,564)	-	(3,143,626)	-	(50,486,190)
Machinery and equipment	(7,107,419)	-	(273,381)	-	(7,380,800)
Total accumulated depreciation	(54,449,983)	-	(3,417,007)	-	(57,866,990)
Net depreciable assets	48,935,423	1,403,928	(3,417,007)	-	46,922,344
Capital assets not depreciated:					
Construction in progress	140,946	(1,403,928)	2,231,789	-	968,807
Capital assets, net	\$ 49,076,369	\$ -	\$ (1,185,218)	\$ -	\$ 47,891,151

Capital Assets activity for the year ended December 31, 2018, is as follows:

	Balance at January 1, 2018	Transfers	Additions	Deletions	Balance at December 31, 2018
Capital assets being depreciated:					
Buildings and improvements	\$ 93,056,045	2,804,094	\$ -	\$ (15,524)	\$ 95,875,663
Equipment	7,326,656	183,087	-	-	7,509,743
Total depreciable capital assets	100,382,701	2,987,181	-	(15,524)	103,385,406
Less accumulated depreciation:					
Buildings and improvements	(44,110,747)	-	(3,231,817)	-	(47,342,564)
Machinery and equipment	(6,892,710)	-	(214,709)	-	(7,107,419)
Total accumulated depreciation	(51,003,457)	-	(3,446,526)	-	(54,449,983)
Net depreciable assets	49,379,244	2,987,181	(3,446,526)	(15,524)	48,935,423
Capital assets not depreciated:					
Construction in progress	1,643,369	(2,987,181)	1,484,758	-	140,946
Capital assets, net	\$ 51,022,613	\$ -	\$ (1,961,768)	\$ (15,524)	\$ 49,076,369

\*Land is not included in these tables.

Depreciation expense for years ended December 31, 2019 and 2018 was \$3,417,007 and \$3,446,526, respectively.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**Note 4: Defined Benefit Pension Plan**

Description of Plan

The 32<sup>nd</sup> DAA contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer defined benefit pension plan. All qualified permanent and probationary employees are eligible to participate in the 32<sup>nd</sup> DAA's Miscellaneous Plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions under the Plans are established by State statute and the 32<sup>nd</sup> DAA's Board of Directors. Copies of CalPERS' annual financial report may be obtained from its executive office at 400 P Street, Sacramento, California 95814.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans provisions and benefits in effect at December 31, 2019, are summarized as follows:

	<u>Tier I*</u>	<u>Tier II</u>
	Prior to	January 1, 2013
Hire date	January 1, 2013	and after
Benefit formula	2.5% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 and up	52 and up
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.00%	3.75%
Required employer contribution rates	10.00%	

\* Plan is closed to new entrants

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Miscellaneous Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The 32<sup>nd</sup> DAA is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended December 31, 2019, the contributions recognized as a reduction to the net pension liability were \$2,135,609.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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**Note 4: Defined Benefit Pension Plan (Continued)**

Net Pension Liability

As of June 30, 2019, the 32<sup>nd</sup> DAA reported a net pension liability for its proportionate share of the net pension liability of \$15,722,914.

The 32<sup>nd</sup> DAA's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each Plan is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The 32<sup>nd</sup> DAA's proportion of the net pension liability was based on a projection of the 32<sup>nd</sup> DAA's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The 32<sup>nd</sup> DAA's proportionate share of the net pension liability was 0.0500% as of June 30, 2018.

A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions

For the measurement period ended June 30, 2018 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2017, total pension liability. The June 30, 2017 and the June 30, 2018, total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68.
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.15% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter.

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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**Note 4: Defined Benefit Pension Plan (Continued)**

All other actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website.

Change in Assumptions

In 2017, the accounting discount rate changes from 7.65% to 7.15%. The impact is reflected in deferred outflows represented as unamortized portion of the change in assumption.

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The expected real rates of return by asset class are as followed:

<b>Asset Class (1)</b>	<b>Assumed Asset Allocation</b>	<b>Real Return Years 1 - 10 (2)</b>	<b>Real Return Years 11+ (3)</b>
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

(1) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(2) An expected inflation of 2.0% used for this period.

(3) An expected inflation of 2.92% used for this period.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**Note 4: Defined Benefit Pension Plan (Continued)**

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

The following table shows the changes in the 32<sup>nd</sup> DAA's portion of net pension liability recognized over the measurement period for the Plan.

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability/(Assets) (c)=(a)-(b)
Balance at: June 30, 2018	\$ 54,448,870	\$ 36,163,003	\$ 18,285,867
Changes Recognized for the Measurement Period:			
Service Cost	977,849	-	977,849
Interest on the Total Pension Liability	3,789,751	-	3,789,751
Changes of Assumptions	(689,461)	-	(689,461)
Difference between Expected and Actual Experience	223,093	-	223,093
Net Plan to Plan Resource Movement	-	(671)	671
Contributions from the Employer	-	3,525,671	(3,525,671)
Contributions from Employees	-	435,633	(435,633)
Net Investment Income	-	3,066,917	(3,066,917)
Benefit Payments including Refunds of Employee Contributions	(2,935,832)	(2,935,832)	-
Administrative Expense	-	(56,352)	56,352
Other Miscellaneous Expense	-	(107,013)	107,013
Net Changes During 2018/19	1,365,400	3,928,353	(2,562,953)
Balance at: June 30, 2019	\$ 55,814,270	\$ 40,091,356	\$ 15,722,914

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Plan's Net Pension Liability/(Assets)	\$ 22,540,700	\$ 15,722,914	\$ 10,009,485

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**Note 4: Defined Benefit Pension Plan (Continued)**

Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in the GASB Statement No. 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves. Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. See CalPERS website for additional information.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2017), the net pension liability was \$15,722,914. For the measurement period ending June 30, 2018, (the measurement date), the 32<sup>nd</sup> DAA incurred a pension expense of \$2,135,609 for the Plan.

As of June 30, 2018, the following were the reported deferred outflows of resources and deferred inflows of resources related to the pension plan:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Current year contributions that occurred after the measurement date of June 30, 2018	\$ 3,235,179	\$ -
Change of assumption	1,418,296	521,300
Difference between expected and actual experiences	168,680	109,541
Net difference between projected and actual earnings on pension plan investments	162,430	-
<b>Total</b>	<b>\$ 4,984,585</b>	<b>\$ 630,841</b>

Other amounts reported as deferred outflows or deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Measurement Period ended June 30:</b>	<b>Deferred Outflows/(Inflows) of Resources</b>
2019	\$ 4,256,438
2020	669,858
2021	(469,658)
2022	(102,894)

**THE 32<sup>ND</sup> DISTRICT AGRICULTURAL ASSOCIATION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**Note 5:     Loan Payable SB-84**

Chapter 50, Statutes of 2017 (SB 84), authorized the State to make a one-time \$6 billion supplemental pension payment to CalPERS in 2017-2018, in addition to the annual State contribution. The additional pension payment is funded through a loan from the Surplus Money Investment Fund (SMIF). SB 84 requires the repayment of the loan principal and the payment of interest be made from the General Fund and other funds and accounts (Funds) that are required by law to fund the state's employer contribution to the Public Employees' Retirement Fund. Pursuant to the 2018 Budget Act, the \$6 billion supplemental pension payment funded by the loan from the SMIF is estimated to result in net savings of \$4.8 billion. SB 84 requires all Funds to fully repay their principal and interest allocation by June 30, 2030. During the year ended 2019, the 32<sup>nd</sup> DAA established a loan payable to the SMIF for the principal of \$1,739,579.

Future minimum loan repayments are as follows:

<u>December 31,</u>	<u>Amount</u>
2020	\$ -
2021	316,798
2022	316,798
2023	316,798
2024	316,798
2025	472,387
Total	<u>\$ 1,739,579</u>

**Note 6:     Compensated Absences**

The 32<sup>nd</sup> DAA's policies relating to compensated absences are described in Note 1. The liability will be paid in future years as it becomes due.

	<u>Balance at December 31, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at December 31, 2019</u>	<u>Due in One Year</u>
Compensated Absences	\$ 1,078,416	\$ 103,470	\$ 10,100	\$ 1,171,786	\$ 442,849

**Note 7:     Taxation**

Because the OC Fair & Event Center is not a legal entity and is under the District Agricultural Association, which is a state agency, it is not subject to taxation by federal or state authorities. All profits and losses flow to the District Agricultural Association and are subject to the tax regulations governing that entity.

**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 the 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 32<sup>ND</sup> DISTRICT AGRICULTURAL ASSOCIATION  
OC FAIR & EVENT CENTER**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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**Note 8: GASB Statement No. 75 (Continued)**

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: Subsequent Event**

During December 2019, an outbreak of a novel coronavirus (COVID-19) originated in China and has since spread to a number of other countries, including the United States of America. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the United States of America, including California, have declared a state of emergency.

Potential adverse impacts to the 32<sup>nd</sup> DAA's operations include disruptions or restrictions on their employees' ability to work and events to take place on the premises. Although the 32<sup>nd</sup> DAA continues to monitor and assess the effects of the COVID-19 pandemic on its operations, the 32<sup>nd</sup> DAA cannot anticipate or estimate the ultimate impact of the COVID-19 outbreak or a similar health epidemic due to the high degree of uncertainty regarding the future economy.

THE 32<sup>ND</sup> DISTRICT AGRICULTURAL ASSOCIATION  
OC FAIR & EVENT CENTER

MISCELLANEOUS PLAN - AGENT MULTIPLE-EMPLOYER  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)

	2015	2016	2017	2018	2019
<b>TOTAL PENSION LIABILITY</b>					
Service Cost	\$ 739,613	\$ 789,129	\$ 835,168	\$ 964,721	\$ 977,849
Interest	3,338,770	3,488,873	3,614,059	3,694,182	3,789,751
Changes in Assumptions	149,112	(691,062)	(655,663)	2,106,895	(689,461)
Difference between Expected and Actual Experience	-	347,163	(50,741)	(193,713)	223,093
Benefit Payments, Including					
Refunds of Employee Contributions	(2,424,716)	(2,551,638)	(2,676,082)	(2,789,115)	(2,935,832)
<b>Net Change in Total Pension Liability</b>	<b>1,802,779</b>	<b>1,382,465</b>	<b>1,066,741</b>	<b>3,782,970</b>	<b>1,365,400</b>
<b>Total Pension Liability - Beginning</b>	<b>44,486,606</b>	<b>46,140,273</b>	<b>48,213,801</b>	<b>49,936,205</b>	<b>54,448,870</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 46,289,385</b>	<b>\$ 47,522,738</b>	<b>\$ 49,280,542</b>	<b>\$ 53,719,175</b>	<b>\$ 55,814,270</b>
<b>PLAN FIDUCIARY NET POSITION</b>					
Contributions - Employer	\$ 1,079,224	\$ 1,305,685	\$ 1,410,600	\$ 1,549,004	\$ 3,525,671
Contributions - Employee	383,828	385,905	400,909	422,304	435,633
Net Investment Income	5,190,558	753,267	169,962	3,668,562	3,066,917
Benefit Payments, Including					
Refunds of Employee Contributions	(2,424,716)	(2,551,638)	(2,676,082)	(2,789,115)	(2,935,832)
Administrative Expense	(43,279)	(38,377)	(20,769)	(49,258)	(56,352)
Net Plan to Plan Resource Movement	-	(177)	(578)	(1,370)	(671)
Other Miscellaneous Income/(Expense)	-	-	-	-	(107,013)
<b>Net Change in Fiduciary Net Position</b>	<b>4,185,615</b>	<b>(145,335)</b>	<b>(715,958)</b>	<b>2,800,127</b>	<b>3,928,353</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>30,038,553</b>	<b>34,224,168</b>	<b>34,078,834</b>	<b>33,362,876</b>	<b>36,163,003</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 34,224,168</b>	<b>\$ 34,078,833</b>	<b>\$ 33,362,876</b>	<b>\$ 36,163,003</b>	<b>\$ 40,091,356</b>
<b>Plan Net Pension Liability/(Assets) - Ending (a) - (b)</b>	<b>\$ 12,065,217</b>	<b>\$ 13,443,905</b>	<b>\$ 15,917,666</b>	<b>\$ 17,556,172</b>	<b>\$ 15,722,914</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>73.94%</b>	<b>71.71%</b>	<b>67.70%</b>	<b>67.32%</b>	<b>71.83%</b>
<b>Covered Payroll</b>	<b>\$ 4,865,996</b>	<b>\$ 5,274,045</b>	<b>\$ 5,616,642</b>	<b>\$ 5,828,776</b>	<b>\$ 6,023,460</b>
<b>Plan Net Pension Liability/(Asset) as a Percentage of Covered Payroll</b>	<b>247.95%</b>	<b>254.91%</b>	<b>283.40%</b>	<b>301.20%</b>	<b>261.03%</b>

(1) Historical information is required only for measurement years for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only five years are shown.

**Notes to Schedule:**

Benefit Changes:

There were no changes to benefit terms. However, the figures above do not include any liability impact that may have resulted from plan changes which occurred after the measurement dates. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions:

In 2019, there were no changes. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in discount rate in 2018. In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.



THE 32<sup>ND</sup> DISTRICT AGRICULTURAL ASSOCIATION  
OC FAIR & EVENT CENTER

MISCELLANEOUS PLAN - AGENT MULTIPLE-EMPLOYER  
SCHEDULE OF PLAN CONTRIBUTIONS  
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)

	2015	2016	2017	2018	2019
Actuarially Determined Contribution	\$ 1,074,570	\$ 1,300,281	\$ 1,404,875	\$ 1,543,196	\$ 1,717,939
Contribution in Relation to the Actuarially Determined Contribution	(1,079,224)	(1,305,685)	(1,410,600)	(1,549,004)	(2,135,609)
Contribution Deficiency (Excess)	<u>\$ (4,654)</u>	<u>\$ (5,404)</u>	<u>\$ (5,725)</u>	<u>\$ (5,808)</u>	<u>\$ (417,670)</u>
Covered Payroll	\$ 5,077,588	\$ 5,065,340	\$ 5,378,947	\$ 5,570,023	\$ 6,133,336
Contributions as a Percentage of Covered Payroll	21.25%	25.78%	26.22%	27.81%	34.82%

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only five years are shown.

**Note to Schedule:**

Valuation Date: June 30, 2018

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal Cost Method
Amortization method	Level percentage of payroll, closed
Asset valuation method	Direct rate smoothing
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.00% (net of administrative expenses)
Retirement Age	All other actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report may be accessed on the CalPERS website at <a href="http://www.calpers.ca.gov">www.calpers.ca.gov</a> under Forms and Publications.

Mortality The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using 90 percent of Society of Actuaries' Scale 2016. For more details on this table, please refer to the 2017 experience study report.



To the Board of Directors  
32<sup>nd</sup> District Agricultural Association,  
OC Fair & Event Center  
Costa Mesa, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the special purpose financial statements of the 32<sup>nd</sup> District Agricultural Association, OC Fair & Event Center ("32<sup>nd</sup> DAA") as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the 32<sup>nd</sup> DAA's financial statements, and have issued our report thereon dated January 20, 2021.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 32<sup>nd</sup> DAA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 32<sup>nd</sup> DAA's internal control. Accordingly, we do not express an opinion on the effectiveness of the 32<sup>nd</sup> DAA's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 32<sup>nd</sup> DAA's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 32<sup>nd</sup> DAA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.



To the Board of Directors  
32<sup>nd</sup> District Agricultural Association,  
OC Fair & Event Center  
Costa Mesa, California

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 32<sup>nd</sup> DAA's internal control. This information is intended solely for the use of the management of the 32<sup>nd</sup> District Agricultural Association, OC Fair & Event Center and is not intended to be and should not be used by anyone other than these specified parties.

*Lance, Soll & Lughard, LLP*

Brea, California  
January 20, 2021