



Board of Directors Agenda Report

MEETING DATE: MARCH 28, 2019 ITEM NUMBER: 9A

SUBJECT: Committee / Ad Hoc Committee / Liaison Reports

DATE: March 22, 2019

FROM: Robert Ruiz, Board Chair

PRESENTATION BY: Robert Ruiz, Board Chair

RECOMMENDATION

Information item only.

BACKGROUND

To assure compliance with the Bagley-Keene Act, Committee reports are only for the purpose of the Committee chair, Ad Hoc Committee members or Liaison to provide a verbal update. Should the Board want to discuss any Committee work item not already on the agenda; those would need to be agendaized for a future Board meeting.

- i. Heroes Hall Veterans Foundation Board (Director La Belle, Chair; Vice Chair Cervantes)
- ii. Financial Monitoring Committee (Director Pham, Committee Chair; Director Mouet)
- iii. Legislative Monitoring Committee (Director Aitken; Committee Chair; Chair Ruiz)
- iv. Tenant Liaison Committee (Director Pham, Committee Chair; Vice Chair Cervantes)
- v. Board of Directors Governing Policy Manual Review Ad Hoc Committee (Director Meyer, Committee Chair; Director Bagneris)
- vi. Safety & Security Committee (Chair Ruiz, Committee Chair; Vice Chair Cervantes)
- vii. Mater Site Plan Ad Hoc Committee (Director Aitken, Committee Chair; Director Rubalcava-Garcia)
- viii. Buildings and Maintenance Committee (Chair Ruiz, Committee Chair; Director La Belle)
- ix. Centennial Farm Foundation (Vice Chair Cervantes, Committee Chair)



Board of Directors Agenda Report

MEETING DATE: MARCH 28, 2019 ITEM NUMBER: 9B

SUBJECT: 2019 Imaginology Presentation

DATE: March 22, 2019

FROM: Kathy Kramer, CEO

PRESENTATION BY: Michele Richards, VP Business Development

INFORMATION ITEM

Imaginology update

BACKGROUND

Staff will present a preview of the 2019 Imaginology event scheduled for April 12-14, 2019.



Board of Directors Agenda Report

MEETING DATE: MARCH 28, 2019 ITEM NUMBER: 9C

SUBJECT: Update on Relocation of the A4 Skyhawk Aircraft from the County Facility in Santa Ana to the OC Fair & Event Center

DATE: March 18, 2019

FROM: Kathy Kramer, CEO

PRESENTATION BY: Ken Karns, VP Operations

INFORMATION ITEM

Director Doug LaBelle, Vice Chair Sandra Cervantes and Ken Karns, VP Operations will provide a verbal update.

BACKGROUND

Architectural Consultant proposals have been procured and reviewed. The team awarded ATI Architects & Engineers the contract to work with us on the design and construction documents. Quote was \$36,700.

The team developed and finalized an LOU with CCA for the development of construction bid documents and oversight of the design and construction documents. Quote was for \$47,791 which includes the \$36,700 for ATI, geotechnical update, contingency and fees.

The teams (County and OCFEC) along with Attorneys General Office have been working on the draft MOU between the County and OCFEC. The goal is to have the MOU on the agenda for the April 23rd County Board meeting. We anticipate approval and will also have it on the OCFEC Board of Directors meeting agenda for April 25th. The item will be at the OCFEC Board of Directors discretion for review and approval.

The insurance for the A4 Skyhawk has been reviewed by CFSA and the information has been passed onto the County. There are no issues to report.

As previously reported, the Heroes Hall Veterans Foundation is contributing to the project by taking responsibility for any of the plaques required for this project. OCFEC staff and the Heroes Hall Veterans Foundation were provided full details on plaque requirements and applicable names by the County. Staff and the Foundation will start working on this as required.

The project team, CCA, ATI and staff held a kick off meeting on March 19th to discuss next steps, schedule, etc.

A meeting with the team and the Committee (Vice Chair Cervantes, Director LaBelle) will also be set up to review a preliminary design that will then come to the full OCFEC Board of Directors.

Staff will start working on the construction LOU with CCA when appropriate.



Board of Directors Agenda Report

MEETING DATE: MARCH 28, 2019 ITEM NUMBER: 9D

SUBJECT: Video Recording Options Discussion for Monthly Board of Directors Meetings

DATE: March 22, 2019

FROM: Kathy Kramer, CEO

PRESENTATION BY: Jason Jacobsen, Director of Technology & Production

RECOMMENDATION

Provide staff direction to proceed with the purchase and installation of video recording equipment in the OC Room.

BACKGROUND

At the request of the Board, research has been done regarding video recording of the monthly Board meetings.

The new audio system recently installed and completed in the OC Room is capable of supporting video. The audio from all of the mics will be directly connected to the video feed allowing high quality audio with the video.

Staff is recommending a single PTZ (point, tilt, zoom) camera specific for the new audio system be installed on the ceiling towards the back of the room, on the west side, capturing members of the Board and speakers at the podium.

We also recommend creation of a new YouTube channel so we can live stream the meetings and record meetings. The recordings can stay on this channel for as long as we wish (six months at a minimum). The live stream and recorded video of the meetings would have links available on our website.

The estimated costs for this would be approximately \$6750:

- \$4,000 for hardware
- \$2,500 for programming.
- \$250 for annual YouTube channel storage and support



Board of Directors Agenda Report

MEETING DATE: MARCH 28, 2019 ITEM NUMBER: 9E

SUBJECT: Review of OCFEC Contracting Practices Regarding Alignment of Contracting Procedures with California Law (California Public Contracts Code, the State Contracting Manual, the Department of General Services' State Administrative Manual) and with OCFEC Board Policy

DATE: March 22, 2019

FROM: Kathy Kramer, CEO

PRESENTATION BY: Director La Belle

RECOMMENDATION

At the Board of Directors' discretion.

BACKGROUND

At the May, 2018 Board of Directors meeting, the Board approved adoption of AB 2490 to remain compliant with Food and Agricultural Code Section 4051 through the continued use of, and compliance with, all applicable provisions of the California Public Contract Code, the written policies and procedures of the California Department of General Services (DGS) Contract Manual, the written policies and procedures of the California Department of Food and Agriculture (CDFA) Contract Manual for District Agricultural Associations, and the CDFA Board of Directors Handbook. The Board of Directors Governance Policy currently states:

Policy 2.4 – ASSET PROTECTION

5. Adopt AB 2490 and continue to procure any goods or services complying with any and all applicable portions of the California Public Contracts Code, the State Contracting Manual, the Department of General Services' State Administrative Manual and guidelines for procurement.

The District follows all applicable state laws governing contracts and all policies and procedures that have been previously established for contracts and purchases, including the specific guidelines set forth in the DGS Contract Manual, the CDFA Contract Manual for District Agricultural Associations, the CDFA Board of Directors Handbook, and all applicable provisions of the California Public Contract Code.



Board of Directors Agenda Report

MEETING DATE: MARCH 28, 2019 ITEM NUMBER: 9F

SUBJECT: California Department of Food and Agriculture
Independent Auditor's Report and Financial Statements
for the Years Ended December 31, 2015 and 2016

DATE: March 22, 2019

FROM: Kathy Kramer, CEO

PRESENTATION BY: Kathy Kramer, CEO

RECOMMENDATION

At the Board of Directors' discretion.

BACKGROUND

At the February Board meeting, the Board of Directors reviewed the California Department of Food and Agriculture (CDFA) Independent Auditor's Report and Financial Statements for the Years Ended December 31, 2015 and 2016.

The Board requested that this item be placed on the agenda again, allowing for continued discussion regarding the audit findings. In addition the Board requested it be an Action Item to allow for official OCFAIR Board of Directors' communication responding to CDFA and the Audit Office, regarding the audit findings.

**Staff Report Updated 03/25/19 to include additional materials. See attached.

32nd DAA 2016 Audit Timeline

April 27, 2017

The CDFA Audit team conducted the 2016 audit in April of 2017. As a part of their onsite audit and normal protocol in their audit procedures, they hold an audit exit meeting with staff and the current Board Chair at the conclusion of their onsite audit. This audit exit meeting was held on April 27, 2017 with CEO, VP of Finance, Director of Finance, and Board Chair at the time, Nick Berardino.

The employee separation agreement was discussed as part of the audit finding and the CDFA auditor indicated that this finding would remain an open item and needed to be discussed in more detail with his supervisor.

January 16, 2018

CEO received email from CDFA auditor indicating that CDFA auditor's office leadership was in consultation with CDFA legal about the preliminary draft of the Management Report (audit report), and that they had a few more questions about the employee separation agreement.

January 24, 2018

CEO responded to CDFA auditor asking to schedule a call to discuss questions regarding the employee separation agreement. CEO and Director of HR provided information via phone to CDFA auditor.

February 16, 2018

Director of HR sent an email to CDFA auditor advising that she had contacted CalHR as requested by the CDFA auditor during the January 24th call, and CalHR indicated they would not approve the separation agreement because they were not involved in negotiating the terms of the agreement and would not approve it after the fact. In addition, the Director of HR indicated that she did not have any additional information regarding the employee separation agreement and they should move forward in closing the audit report.

April 11, 2018

CEO received an email from CDFA auditor indicating they were ready to move forward scheduling the 2017 audit as long as 32nd DAA agreed to have the contracting policies (AB 2490) approved by the Board of Directors before July of 2018. The CDFA auditor also indicated that during a meeting with his supervisor that they were going to change the status of one of the reportable 2016 audit items:

The reportable item initially was presented as -

“Lack of Written Contracting Policies and Procedures”

They were going to change it to -

“Internal Control Weaknesses in Contracting Policies and Procedures “

April 28, 2018

We received MANAGEMENT REPORT #17-018 from the CDFA auditor

Their findings were indicated on pages 1 – 5 of the 2016 audit report

Page 3 - REPORTABLE CONDITIONS

Overpayment to a Fair Employee

Internal Control Weaknesses in Contracting Policies and Procedures

This information was provided to Board Chair at the time Barbara Bagneris, CEO, VP of Finance and Director of HR.

May 23, 2018

Upon receipt of these findings, the 32nd DAA drafted and sent a letter to CDFA auditor in response to the audit report findings. The letter was signed by the CEO and the Board Chair at the time, Barbara Bagneris.

May 24, 2018

At the May 2018 32nd DAA's Board of Directors Meeting staff presented "Adoption of California State Assembly Bill/Contracting Policies and Procedures (AB2490)" as an action item to the Board of Directors. It was approved by the 32nd DAA Board of Directors at the May 2018 meeting. A copy of the board action item was sent to CDFA auditor for verification.

September 13, 2018

CEO received email from CDFA auditor to update the status of the 2016 audit report, he indicated it was being reviewed by CalHR before it could be finalized.

October 2018

The 32nd DAA received two copies of the 2016 audit report, one addressed to the CEO and the other to Barbara Bagneris, Board Chair at the time. This MANAGEMENT REPORT #17-018 contained an updated response from CDFA - "CDFA EVALUATION OF RESPONSE" (page 10 in the audit report).

1. CDFA acknowledged that the 32nd DAA in the future would follow CalHR's rules and regulations going forward for any employee settlement agreement.
(This was highlighted by the 32nd DAA in the response letter dated May 23rd to CDFA auditor)
"In the future, the 32nd DAA will seek CalHR approval prior to entering into any employee separation agreements."

2. CalHR Legal Division concluded that despite its illegality, the 32nd DAA likely cannot void the contract and recover the amount paid to the employee. CalHR does agree that 32nd DAA should contact CalPERS to determine if an adjustment is necessary for the eight months of service accrued under the employee separation agreement.

Upon receipt of the final MANAGEMENT REPORT #17-018 in October of 2018, staff advised board leadership that they would contact CalPERS to discuss the audit findings and any action CalPERS would require to satisfy the audit findings. At this time, it was only a recommendation by CDFA auditor as to contact CalPERS .

32nd DAA's HR Staff contacted CalPERS:

November 13, 2018

32nd DAA's HR Representative contacted CalPERS Representative (left a voice message)

November 19, 2018

HR Representative emailed CalPERS Representative regarding audit report of employee overpayment

November 21, 2018

CalPERS Representative replied to HR Representative's email

November 28, 2018

HR Representative spoke to CalPERS Representative regarding employee overpayment, discussed the matter and provided CalPERS with a copy of the Employee Separation Agreement

November 29, 2018

CalPERS ordered the 32nd DAA to proceed with the employee's payroll adjustment reversing the 8 months of service credit accrued. CalPERS representative stated that the agreement was placed on file.

December 03, 2018

The 32nd DAA Accounting Department was not able to proceed with adjustment in "my CalPERS" system, due to the employee's "retirement status"

December 04, 2018

HR Representative changed status in "myCalPERS" system and the 32nd DAA Accounting Department proceeded with payroll adjustments. Retiree was notified by HR

December 15, 2018

CalPERS notified HR Representative that the adjustments were keyed into their system

January 02, 2019

Reimbursement check was issued to employee for CalPERS withholdings (employee contributions) that employee had paid into CalPERS during the 8 months of the employee separation agreement.

January 03, 2019

Reimbursement check was hand delivered to employee by HR Representative

Background

As a matter of background, and was included in the 32nd DAA's response to CDFA audit findings, in the letter dated May 23, 2018; the 32nd DAA had facilitated numerous employee separation agreements dating back to 2008 to the current agreement. Some of these agreements were approved by CalHR and some approved by 32nd DAA's previous outside counsel.

The 2016 audit report was the first time that an employee separation agreement had been flagged by the CDFA auditor as part of their annual audit process or findings. The employee separation agreement template used to facilitate this agreement, was created from a previously approved CalHR separation agreement template.

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

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2016

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Jason Jones, CPA
Andrew Bradbury

Audit Chief
Assistant Audit Chief
Auditor
Auditor

MANAGEMENT REPORT NUMBER

#17-018

TABLE OF CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY, SCOPE, AND METHODOLOGY.....	1
REPORTABLE CONDITIONS.....	3
Overpayment to a Fair Employee	3
Internal control Weaknesses in Contracting Policies and Procedures	4
DISTRICT AGRICULTURAL ASSOCIATION’S RESPONSE.....	5
CDFA EVALUATION OF RESPONSE	10
DISPOSITION OF AUDIT RESULTS.....	11
REPORT DISTRIBUTION.....	12

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, 2016, the California Department of Food and Agriculture (CDFA), Audit Office, conducted a compliance audit of the DAA. Our audit objectives were crafted to ensure the DAA complied with state laws and regulations applicable to a state agency.

During the audit, we identified two areas containing reportable conditions. These conditions and accompanying recommendations are considered significant weaknesses: overpayment to an employee and lack of written policies and procedures over the fair's contracting processes. We have provided four recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We suggest the Fair implement the recommendations as soon as practicable.

SCOPE

The management of the 32nd District Agriculture Association (DAA), OC Fair & Event Center, requested the California Department of Food and Agriculture (CDFA), Audit Office, to conduct a compliance audit of the DAA. Our audit objectives were as follows:

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

The audit period was January 2016 through December 2016.

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 conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

REPORTABLE CONDITIONS

OVERPAYMENT TO A FAIR EMPLOYEE

The 32nd DAA overpaid an employee for approximately eight months in which the employee did not perform work for the Fair. The 32nd DAA entered into a separation agreement with an employee on June 27, 2016. In the agreement, the employee agreed to end their employment effective February 28, 2017. Although the employee did not work at the 32nd DAA from July 2016 through February 28, 2017, the employee continued to receive their current salary, recruitment and retention (R&R) pay differential, California public employees' retirement system (CalPERS) credit, accrue annual leave, and be enrolled in all of the 32nd DAA's benefit plans in which they were enrolled as of June 2016.

Our analysis of the Fair's payroll records indicates that from July 2016 to February 2017 the costs associated with the agreement were roughly \$74,432. This amount was determined as follows:

- \$44,468 in wages
- \$6,670 in R&R pay differential
- \$5,152 in employer share of medical insurance
- \$13,668 in employer share of PERS contributions
- \$4,474 in additional leave hours accrued and paid out after the employee's final day.

Based on the above information, the 32nd DAA overpaid the employee for work that was not performed and therefore may be considered a gift of public funds.

According to the Department of General Services, (DGS) Memorandum HR memo #03-006 (HR 03-006), the Fair is responsible for the prompt collection of an overpayment by establishing an Accounts Receivable. According to HR #03-006, the statute of limitations to recoup an overpayment is three years from the date of the overpayment.

Recommendations:

1. *The 32nd DAA should notify the employee of the overpayment and seek collection from the employee for \$74,432.*
2. *The 32nd DAA should establish an accounts receivable for this amount until collected.*
3. *The 32nd DAA should contact the CalPERS office to determine if an adjustment is necessary for the additional months of time accrued on the behalf of the employee although the employee did not work during the eight month period.*

INTERNAL CONTROL WEAKNESSES IN CONTRACTING POLICIES AND PROCEDURES

The 32nd DAA did not update established written policies and procedures regarding its contracting process in accordance with Food and Agriculture Code (FAC) 4051, which requires updated written policies and procedures for contracting to be developed internally and maintained by the Fair's Board of Directors. As of October 2017, the 32nd DAA had not complied with this requirement.

Recommendation:

- 4. The 32nd DAA should comply with FAC 4051 by establishing written policies and procedures over its contracting processes.*

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



May 2, 2018

Ron Shackelford, CPA

Chief Audit Office, CDFA

Subject: 2016 audit for the 32nd District Agricultural Association

Dear Mr. Shackelford:

The following information is in response to the audit conducted for the 32nd DAA by California Department of Food and Agriculture Audit Office for the year ending 2016.

REPORTABLE CONDITIONS: OVERPAYMENT TO A FAIR EMPLOYEE

The following summarizes the historical facts leading up to the decision being made by the 32nd DAA. We believe that by removing the employee mentioned in the audit, we avoided significant risk from other actions; loss of work from several staff that called out sick due to the stress caused by her and/or lawsuits by staff that reported to her or other co-workers because of her actions having created a hostile, intimidating and bullying work environment. This journey with the employee began almost from the beginning and escalated over the three years prior to her separation with hundreds of hours spent by OCFEC HR staff and her supervisors, including executive management, trying to remedy the situation. This created stress on this group as well as the rest of the organization.

While there was a progressive discipline path that included CalHR and their legal support, this all culminated when HR staff was approached by the employee and her ACSS representative to request a separation agreement for her. The employee acknowledged that her employment relationship with OCFEC was no longer a good fit for either party and hoped to resolve the matter without a lengthy battle.

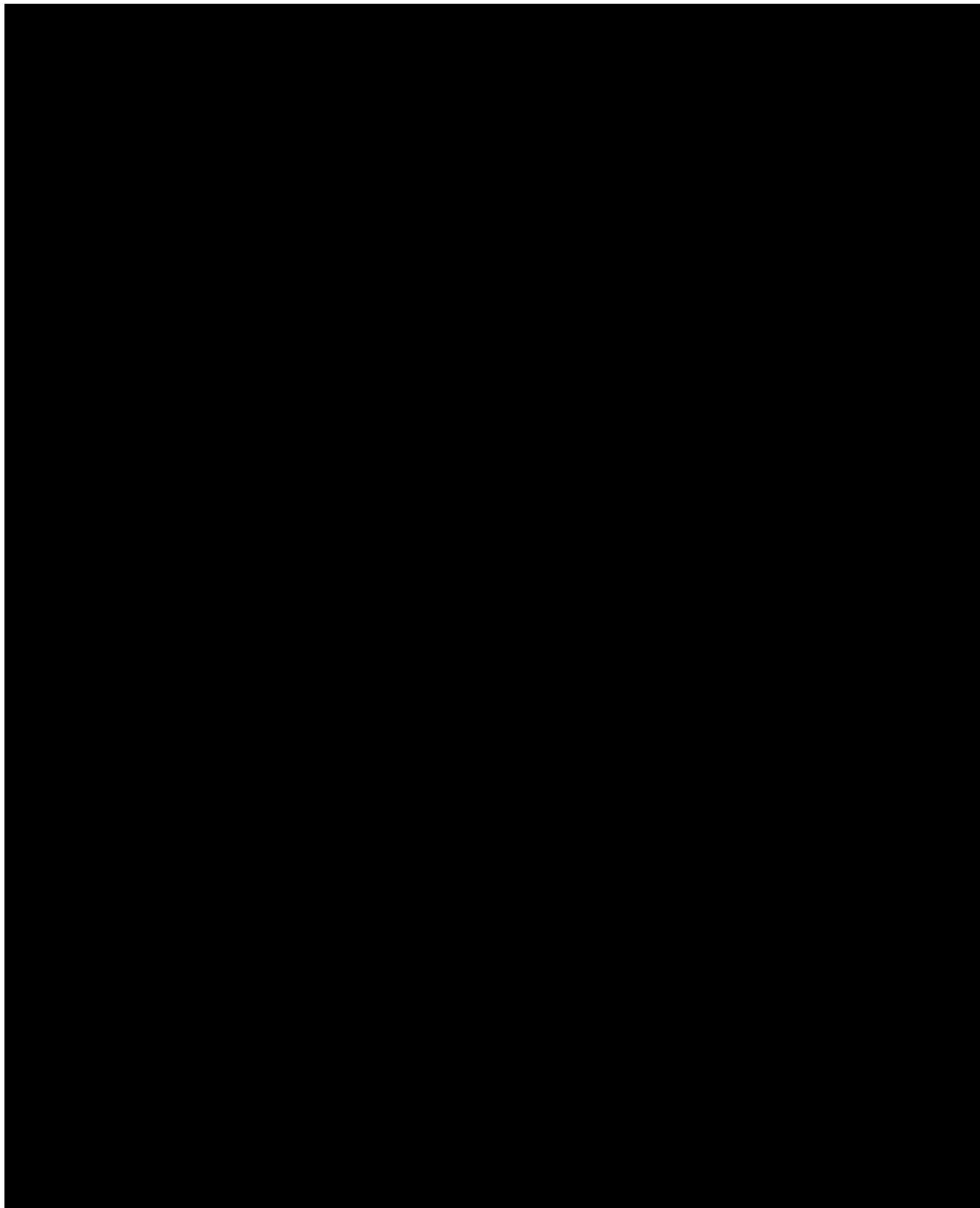
Having precedence from past employee relations situations that included working with CalHR on some instances and outside Counsel (32nd DAA was not affiliated with AG's office from approximately 2008 to late 2015).

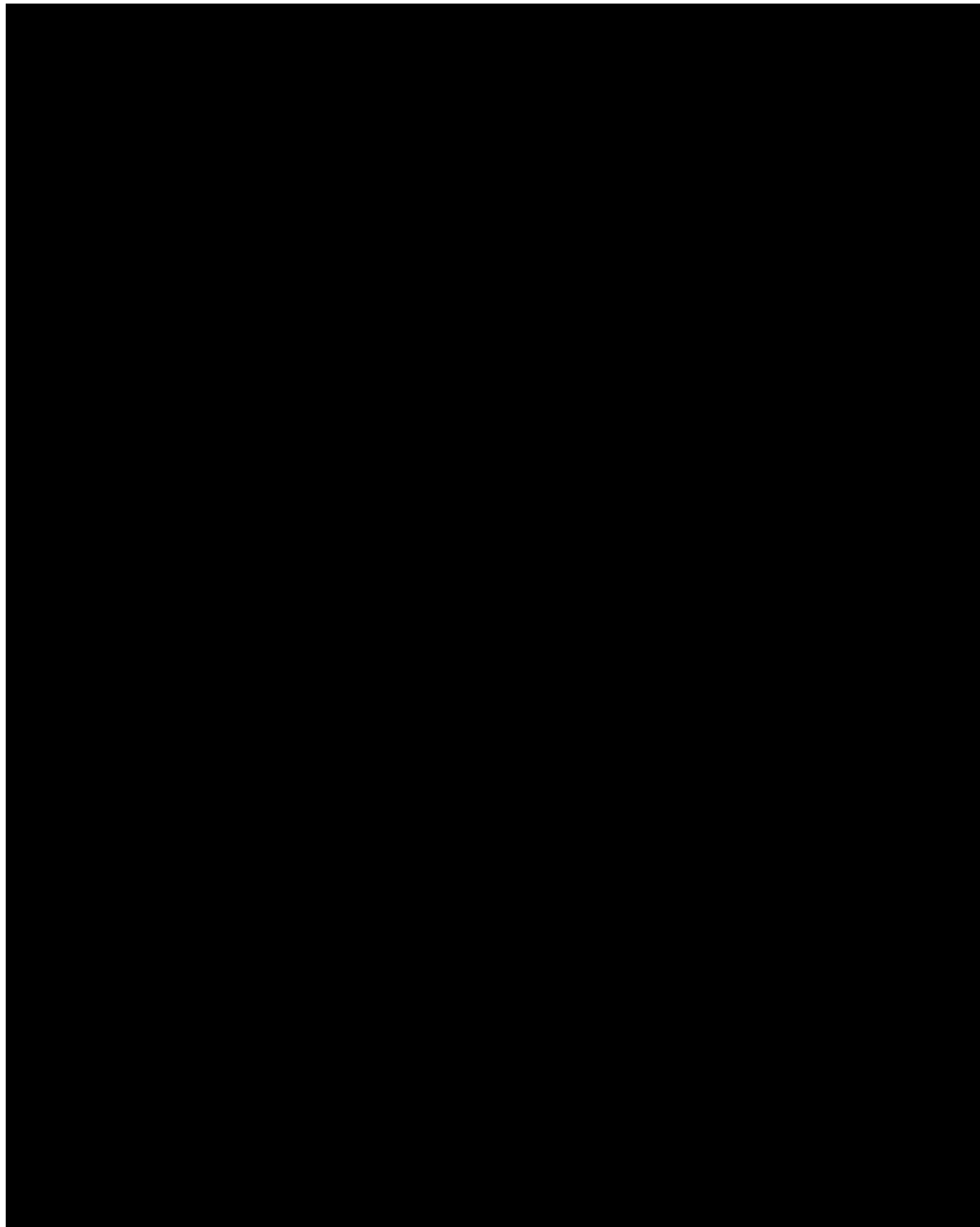
The employee's separation agreement was created from a previously approved CalHR separation agreement that we used as a template.

We had been working with a CalHR legal representative to prepare a 90-day Performance Improvement Plan on the employee prior to her resignation. The Director of HR informed the

CalHR representative verbally that we had come to a separation agreement in which the employee would resign from her employment, so we could close out the case on her.

Background:





In conclusion, because of these long standing employee relations issue with the employee that was all-consuming by those involved, we wholeheartedly believe that the benefits and costs

associated with entering into a separation agreement outweighed risks that were imminent if she was not removed from her employment with the organization. The agreement allowed us to mitigate the financial risk associated with her poor performance and errors as well as reinstating the work environment to a healthy and productive workplace.

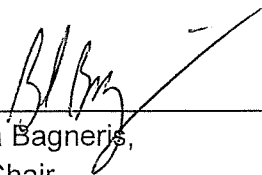
As a result of removing the employee, the work environment in the [REDACTED] Department, as well as across the organization with others who interacted with these departments, improved almost immediately. All employees impacted can now focus their time and energy towards proactive work efforts without unnecessary distractions. It also immediately eliminated the potential liability of her staff filing workman's compensation claims due to stress caused by the toxic work environment.

In the future the 32nd DAA will seek Cal HR approval prior to entering into any separation agreements.

LACK OF WRITTEN CONTRACTING POLICIES AND PROCEDURES

As a matter of background, the 32nd DAA has been and continues to utilize the current State Contract Manual. This manual provides guidelines for all contracting and purchasing requirements.

That said, the 32nd DAA has not submitted the amendment to AB2490 providing changes in contracting and purchasing policies through this new Bill. This amendment will be presented to the 32nd DAA Board of Directors on or before July of 2018 for their approval and adoption.



Barbara Bagneris,
Board Chair
32nd District Agriculture Association

Date: 5/23/2018



Kathy Kramer
Chief Executive Officer
32nd District Agriculture Association

Date: 5/23/2018

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 32nd DAA, OC Fair & Event Center, for its review and response. In their response, the 32nd DAA indicated they will follow the CalHR's rules and regulations going forward; however, the 32nd DAA does not intend to implement the recommendations for the findings reported.

Our office has since reviewed an opinion from the CalHR Legal Division that states in part that the settlement agreement is likely an illegal contract because it violates Government Code section 19991.10 and title 2, section 599.781 of the California Code of Regulations. CalHR Legal Division concluded that despite its illegality, the 32nd DAA likely cannot void the contract and recover the amount paid to the employee. CalHR does agree the DAA should contact the CalPERS to determine if an adjustment is necessary for the eight months accrued between July 2016 and February 2017 during which the employee performed no work for the DAA.

Our office cannot determine whether the 32nd DAA is likely to recover the amounts paid the former employee or if the contract can be voided. Therefore, we continue to recommend the 32nd DAA implement the recommendations as mentioned within the report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between April 7, 2017 and April 28, 2017. My staff met with management on April 27, 2017 to discuss the findings, recommendations, as well as other issues.

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

April 28, 2017

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
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

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

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Jason Jones, CPA
Andrew Bradbury

Audit Chief
Assistant Audit Chief
Auditor
Auditor

AUDIT REPORT NUMBER

#17-018

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

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report.....	1
Financial Statements.....	3
Notes to the Financial Statements	6
Report Distribution	13



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

Karen Ross, Secretary

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial statements of the 32nd District Agricultural Association (DAA), OC Fair & Event Center, Costa Mesa, California, as of December 31, 2016 and 2015, 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 32nd DAA, OC Fair & Event Center, as of December 31, 2016 and 2015; and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The 32nd DAA, OC Fair & Event Center has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statement is not affected by this missing information.

The Management Report #17-018, 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

April 28, 2017

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

STATEMENTS OF NET POSITION
As of December 31, 2016 and 2015

	Account Number	2016	2015
ASSETS			
Cash in Bank	111 - 127	\$ 38,206,987	\$ 33,577,520
Accounts Receivable, Net	131	276,190	533,920
Deferred Charges	143	15,820	5,901
Deferred Outflows-Pension	160	2,061,693	1,836,449
Construction In Progress	190	4,060,372	262,771
Land	191	133,553	133,553
Buildings and Improvements, Net	192	46,690,839	46,574,620
Equipment, Net	193	577,950	405,262
TOTAL ASSETS		92,023,404	83,329,996
 LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable and Other Liabilities	212	1,471,339	1,037,937
Payroll Liabilities	220-227	397,168	394,941
Deferred Income	228	710,950	212,359
Guaranteed Deposits	241	5,000	30,127
Compensated Absences Liability	245	936,362	935,843
Deferred Inflows-Pension	256	437,969	2,382,651
Pension	260	14,175,597	12,065,216
Total Liabilities		18,134,384	17,059,075
 Net Resources			
Net Resources - Junior Livestock Auction	251	13,083	13,921
Net Resources - Operations	291	22,413,223	18,880,793
Net Resources - Investment in Capital Assets	291.1	51,462,714	47,376,207
Total Net Resources Available		73,889,020	66,270,921
 TOTAL LIABILITIES AND NET RESOURCES		\$ 92,023,404	\$ 83,329,996

**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, 2016 and 2015

	<u>Account Number</u>	<u>2016</u>	<u>2015</u>
REVENUE			
Admissions	410	\$ 10,492,464	\$ 9,661,056
Commercial Space	415	1,480,745	1,478,345
Carnival	421	3,800,659	3,464,351
Concessions	422	7,919,059	6,946,442
Exhibits	430	100,900	119,031
Attractions - Fairtime	460	3,965,673	3,282,770
Interim Attractions	46009	361,648	-
Miscellaneous Fair	470	5,631,896	5,427,928
Miscellaneous Non-Fair	47005	63,491	21,574
Junior Livestock Auction	476	320,227	287,018
Interim	480	9,605,764	8,909,619
Prior Year Adjustments	490	2,191	333
Other Operating	495	340,337	299,412
Total Revenue		<u>44,085,055</u>	<u>39,897,880</u>
EXPENSES			
Administration	500	5,332,121	5,862,413
Maintenance and Operations	520	11,064,869	10,388,526
Publicity	540	2,559,685	2,055,854
Attendance Operations	560	3,273,144	3,443,974
Miscellaneous Fair	570	559,562	504,291
Miscellaneous Non-Fair	57005	449,303	427,171
Junior Livestock Auction	576	320,646	294,078
Premiums	580	117,664	109,971
Exhibits	630	1,630,926	1,938,600
Fair Entertainment	660	6,284,851	6,089,215
Interim Entertainment	66009	556,265	125,480
Prior Year Adjustments	800	11,693	28,807
Cash Over/Short	850	11,669	11,320
Depreciation	900	3,144,619	2,981,467
Pension	960	1,149,939	12,611,418
Total Expenses		<u>36,466,955</u>	<u>46,872,583</u>
RESOURCES			
Net Change - Income / (Loss)		7,618,099	(6,974,703)
Resources Available, January 1		66,270,921	73,245,625
Resources Available, December 31		<u>\$ 73,889,020</u>	<u>\$ 66,270,921</u>

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

STATEMENTS OF CASH FLOWS - REGULATORY BASIS
For the Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 7,618,099	\$ (6,974,703)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
Non-Cash Charges (Credits) to Net Income		
Depreciation and Amortization	3,144,619	2,981,467
(Increase) Decrease In Current Assets		
(Increase) Decrease in Accounts Receivable	257,730	64,360
(Increase) Decrease in Deferred Charges	(9,919)	12,898
(Increase) Decrease in Deferred Outflows-Pension	(225,244)	(1,836,449)
Increase (Decrease) in Current Liabilities		
Increase (Decrease) in Deferred Income	498,591	(42,279)
Increase (Decrease) in Accounts Payable & Other Liabilities	433,401	542,737
Increase (Decrease) in Payroll Liabilities	2,227	81,052
Increase (Decrease) in Compensated Absence Liability	519	(26,426)
Increase (Decrease) in Guaranteed Deposits	(25,127)	127
Increase (Decrease) in Deferred Inflows-Pension	(1,944,682)	2,382,651
Increase (Decrease) in Pension Liability	2,110,381	12,065,216
Total Adjustments	4,242,496	16,225,354
Net Cash Provided (Used) by Operating Activities	11,860,595	9,250,650
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	(3,797,600)	11,421,281
(Increase) Decrease in Buildings & Improvements	(3,019,672)	(15,733,981)
(Increase) Decrease in Equipment	(413,855)	(179,761)
Net Cash Provided (Used) by Investing Activities	(7,231,127)	(4,492,462)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Cash Provided (Used) by Financing Activities	-	-
NET INCREASE (DECREASE) IN CASH	4,629,468	4,758,188
Cash at Beginning of Year	33,577,520	28,819,332
CASH AT END OF YEAR	\$ 38,206,987	\$ 33,577,520

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

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, 2016 or 2015.

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

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

after June 15, 2016. Management has not yet determined the effect of GASB 76 on the District's financial statements.

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

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

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

In August 2016, the GASB Issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The provisions of this Statement are effective for periods beginning after June 15, 2018. Management has not yet determined the effect of GASB 82 on the District's financial statements.

NOTE 3 **CASH AND CASH EQUIVALENTS**

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

	<u>2016</u>	<u>2015</u>
Cash in Bank – Operating	\$ 2,330,870	\$ 2,356,332
Cash in Bank – Investment & Savings	35,876,117	31,221,188
Total Cash and Cash Equivalents	<u>\$ 38,206,987</u>	<u>\$ 33,577,520</u>

NOTE 4 **ACCOUNTS RECEIVABLE**

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

	<u>2016</u>	<u>2015</u>
Accounts Receivable	\$ 295,569	\$ 552,203
Allowance for Doubtful Accounts	(19,379)	(18,283)
Accounts Receivable - Net	<u>\$ 276,190</u>	<u>\$ 533,920</u>

NOTE 5 **PROPERTY AND EQUIPMENT**

Buildings and improvements and equipment at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Building & Improvements	\$ 87,751,295	\$ 84,730,084
Less: Accumulated Depreciation	(41,060,456)	(38,155,464)
Building & Improvements - Net	<u>\$ 46,690,839</u>	<u>\$ 46,574,620</u>
Equipment	\$ 7,256,555	\$ 6,842,700
Less: Accumulated Depreciation	(6,678,605)	(6,437,438)
Equipment - Net	<u>\$ 577,950</u>	<u>\$ 405,262</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, 2015, with the total pension liability used to calculate this liability determined by an actuarial valuation as of June 30, 2014. 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, 2015 measurement date and DAA's portion of covered wages projects the DAA's portion of net pension liability as \$14,175,597. The DAA's portion was 16.801% of the \$84,373,031 net pension liabilities associated with all DAA's.

The actuarial valuation used a 7.50% 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 member's 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. Under GASB 68, the DAA's share of retirement contributions made after the

measurement date of 6/30/15 is deferred under Deferred Outflows-Pension until Calendar Years 2017 and 2018.

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 rates at the end of December 31, 2016 were 26.728% and 26.984%, depending on the tier of the employee. The contribution rates at the end of December 31, 2015 were 25.068% and 24.389%, depending on the tier of the employee. For the years ended December 31, 2016 and 2015, the annual pension cost paid by the District was \$1,395,297, and \$1,273,293 respectively. Wages for eligible employees for the years ended December 31, 2016 and 2015 were \$5,472,387, and \$5,323,967, respectively.

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

Part-Time, Seasonal, Temporary Retirement Plan

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

NOTE 8

RECLASSIFICATION

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

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

REPORT DISTRIBUTION

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