

CALIFORNIA EXPOSITION AND STATE FAIR
(A Component Unit of the State of California)
Sacramento, California



Annual Financial Report

For the Years Ended December 31, 2019 and 2018



Certified
Public
Accountants

CALIFORNIA EXPOSITION AND STATE FAIR
For the Years Ended December 31, 2019 and 2018

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Independent Auditor's Report

To the Board of Directors
California Exposition and State Fair
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the California Exposition and State Fair (Cal Expo), a component unit of the State of California, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Cal Expo'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.

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 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 entity'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 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 Cal Expo, as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Liquidity Risk

The accompanying financial statements have been prepared assuming that Cal Expo will continue as a going concern. As discussed in Note 1 to the basic financial statements, Cal Expo has experienced recurring losses from operations, has aging infrastructure that requires significant capital improvements, has lost a majority of its revenue stream since December 31, 2019 due to the ongoing pandemic, has significantly reduced its staffing, and has stated that substantial doubt exists about Cal Expo's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 1 to the basic financial statements, effective January 1, 2018, Cal Expo implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of GASB Statement No. 75, net position as of January 1, 2018, was restated and reduced by \$19,425,550. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of Cal Expo's proportionate share of the net pension liability, the schedule of Cal Expo's pension contributions, the schedule of Cal Expo's proportionate share of the net OPEB liability, and the schedule of Cal Expo's OPEB contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 22, 2021, on our consideration of Cal Expo'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 Cal Expo's 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 Cal Expo's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Sacramento, California

January 22, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This section of the California Exposition and State Fair (Cal Expo) annual financial report presents a discussion and analysis of Cal Expo's financial performance during the years ended December 31, 2019 and 2018. Please read it in conjunction with Cal Expo's financial statements and accompanying notes, which follow this section.

FINANCIAL HIGHLIGHTS

- Total assets at December 31, 2019, decreased by approximately \$377 thousand or 1.0% from December 31, 2018. Total assets at December 31, 2018, increased by approximately \$14.6 million or 62.3% from December 31, 2017.
- Total liabilities at December 31, 2019, decreased by approximately \$10.2 million or 15.5% from December 31, 2018. Total liabilities at December 31, 2018, increased by approximately \$37.5 million or 132.9% from December 31, 2017.
- Net position during the year ended December 31, 2019, decreased by approximately \$109 thousand or 0.5%. Net position during the year ended December 31, 2018, decreased by approximately \$22.0 million or 10959.2%.
- Total operating revenues during the year ended December 31, 2019, decreased by approximately \$650 thousand or 2.3% from the prior year. Total operating revenues during the year ended December 31, 2018, increased by approximately \$1.5 million or 5.5% from the prior year.
- Total operating expenses during the year ended December 31, 2019, decreased by approximately \$666 thousand or 2.1% from the prior year. Total operating expenses during the year ended December 31, 2018, increased by approximately \$1.0 million or 3.4% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (MD&A), the basic financial statements, including the notes to the financial statements, and required supplementary information schedules related to net pension liability, pension contributions, net other postemployment benefits (OPEB) liability, and OPEB contributions.

The financial statements provide both long-term and short-term information about Cal Expo's overall financial status. The financial statements also include notes that provide more detailed data about financial statement balances.

Cal Expo's basic financial statements are prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of capital assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Position. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of Cal Expo are included in the Statements of Net Position.

The Statements of Net Position present the financial position of Cal Expo on a full accrual historical cost basis, except for investments, which are stated at fair value, and provide information about the nature and amount of resources and obligations at year-end.

FINANCIAL ANALYSIS OF CAL EXPO

The following table summarizes financial position and changes in net position (in thousands):

	<u>2019</u>	<u>% Change</u>	<u>2018</u>	<u>% Change</u>	<u>2017</u>
Current assets	\$ 22,026	-8.9%	\$ 24,187	166.6%	\$ 9,071
Noncurrent assets	<u>15,719</u>	12.8%	<u>13,935</u>	-3.3%	<u>14,412</u>
Total assets	<u>37,745</u>	-1.0%	<u>38,122</u>	62.3%	<u>23,483</u>
Deferred outflows of resources	<u>6,524</u>	-26.2%	<u>8,843</u>	76.1%	<u>5,021</u>
Current liabilities	10,194	64.6%	6,192	83.2%	3,380
Noncurrent liabilities	<u>45,264</u>	-23.9%	<u>59,450</u>	139.7%	<u>24,801</u>
Total liabilities	<u>55,458</u>	-15.5%	<u>65,642</u>	132.9%	<u>28,181</u>
Deferred inflows of resources	<u>10,747</u>	241.2%	<u>3,150</u>	2482.0%	<u>122</u>
Net investment in capital assets	15,669	13.1%	13,849	-1.7%	14,090
Restricted	-	0.0%	-	-100.0%	19
Unrestricted	<u>(37,605)</u>	5.4%	<u>(35,676)</u>	156.5%	<u>(13,908)</u>
Total net position (deficit)	<u>\$ (21,936)</u>	0.5%	<u>\$ (21,827)</u>	-10959.2%	<u>\$ 201</u>

The decrease in current assets of approximately \$2.2 million at December 31, 2019 from 2018, is due to the spending of funds related to deferred maintenance projects pursuant to Senate Bill 840 (SB 840), Control Section 6.10 of the Budget Act of 2018. The changes in noncurrent assets are discussed in the Capital Assets section of the MD&A.

The increase in current assets of approximately \$15.1 million at December 31, 2018 from 2017, is due to a \$15 million allocation for deferred maintenance projects pursuant to Senate Bill 840 (SB 840), Control Section 6.10 of the Budget Act of 2018. The changes in noncurrent assets are discussed in the Capital Assets section of the MD&A.

The increase in current liabilities of approximately \$4.0 million at December 31, 2019 from 2018, is due to an estimate of deferred maintenance projects to be completed within a year utilizing Budget Act of 2018 Deferred Maintenance Funds. The decrease of noncurrent liabilities of \$14.2 million at December 31, 2019 from 2018, is due to a decrease of Cal Expo's proportionate share of net OPEB liability and a decrease to the remaining allocation of Budget Act of 2018 Deferred Maintenance Funds not classified as a current liability.

The increase in current liabilities of approximately \$2.8 million at December 31, 2018 from 2017, is due to an estimate of deferred maintenance projects to be completed within a year utilizing Budget Act of 2018 Deferred Maintenance Funds. The increase of noncurrent liabilities of \$34.6 million at December 31, 2018 from 2017, is due to the recognition of Cal Expo's proportionate share of net OPEB liability due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75; Cal Expo's loan payable due to the Surplus Money Investment Fund (SMIF) pursuant to Senate Bill 84; and the remaining allocation of Budget Act of 2018 Deferred Maintenance Funds not classified as a current liability.

Cal Expo's total net position includes its investment in capital assets (e.g., land, construction in progress, buildings, and equipment); less any related outstanding debt used to acquire those assets that are still outstanding. Cal Expo uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although Cal Expo's investment in capital assets is reported

net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The decrease in net position of approximately \$109 thousand or 0.5% at December 31, 2019 from 2018 is mainly due to experiencing an operating loss for the year. The decrease in net position of approximately \$22.0 million or 10959.2% at December 31, 2018 from 2017, is mainly due to the recognition of Cal Expo's proportionate share of net OPEB liability due to the implementation of GASB 75, determined by the State Controller.

Changes in Net Position

The following table summarizes revenues, expenses and changes in net position (in thousands):

	2019	% Change	2018	% Change	2017
Operating revenues	\$ 27,135	-2.3%	\$ 27,785	5.5%	\$ 26,331
Operating expenses:					
Personnel	15,018	-2.2%	15,362	10.2%	13,940
General and administrative	14,107	-2.5%	14,468	-3.0%	14,913
Depreciation	1,664	2.4%	1,625	3.5%	1,570
Total operating expenses	<u>30,789</u>	-2.1%	<u>31,455</u>	3.4%	<u>30,423</u>
Operating loss	(3,654)	0.4%	(3,670)	10.3%	(4,092)
Net nonoperating revenue	167	-29.5%	129	-98.5%	65
Capital contributions	3,378	2402.2%	135	-43.5%	239
Extraordinary item	<u>-</u>	-100.0%	<u>803</u>	-35.2%	<u>1,239</u>
Changes in net position	<u>(109)</u>	95.8%	<u>(2,603)</u>	-2.1%	<u>(2,549)</u>
Beginning net position (deficit)					
- as previously reported	(21,827)	-10959.2%	201	-92.7%	2,750
Cumulative effect of change in accounting principles	<u>-</u>	-100.0%	<u>(19,425)</u>	0.0%	<u>-</u>
Beginning net position (deficit)					
- as restated	<u>(21,827)</u>	13.5%	<u>(19,224)</u>	-799.1%	<u>2,750</u>
Ending net position (deficit)	<u>\$ (21,936)</u>	0.5%	<u>\$ (21,827)</u>	-10959.2%	<u>\$ 201</u>

Operating Revenues

Total operating revenues decreased by approximately \$650 thousand or 2.3% during the year ended December 31, 2019, from the prior year primarily due to the following:

- Decrease of \$204 thousand in charges for services due to certain promoters no longer holding their event at Cal Expo.
- Decrease of \$393 thousand in grants due to receiving one-time grant funding in 2018.

Total operating revenues increased by approximately \$1.5 million or 5.5% during the year ended December 31, 2018, from the prior year primarily due to the following:

- Increase of \$478 thousand in Exposition events and \$321 thousand in charges for services due to acquiring new events in 2018.
- Increase of \$635 thousand in grants due to the completion of radio communications grant funded by CalOES.

Operating Expenses

Total operating expenses decreased by approximately \$666 thousand or 2.1% during the year ended December 31, 2019, from the prior year primarily due to the following:

- Decrease of \$344 thousand in salaries and wages and benefits expense due to not filling employee vacancies.
- Increase of \$516 thousand in professional services due to relying on contractors' expertise to produce State Fair exhibits.
- Decrease of \$713 thousand in equipment due to receiving a one-time CalOES grant funding radio communications equipment in 2018.

Total operating expenses increased by approximately \$1.0 million or 3.4% during the year ended December 31, 2018, from the prior year primarily due to the following:

- Increase of \$994 thousand in benefits expense due to the recording of Cal Expo's proportionate share of net OPEB expense due to the implementation of GASB 75.

Extraordinary Item

During the year ended December 31, 2018, Cal Expo recognized an impairment gain net of insurance recoveries of \$803,359 due to storm damage.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2019 and 2018, Cal Expo's investment in capital assets totaled approximately \$15.7 million and \$13.9 million, respectively (net of accumulated depreciation). During the year ended December 31, 2019, net capital assets increased by approximately \$1.8 million or 12.8%. During the year ended December 31, 2018, net capital assets decreased by approximately \$477 thousand or 3.3%. The following table summarizes the changes in net capital assets (in thousands):

	<u>2019</u>	<u>% Change</u>	<u>2018</u>	<u>% Change</u>	<u>2017</u>
Land	\$ 1,644	0.0%	\$ 1,644	0.0%	\$ 1,644
Construction in progress	1,735	1121.8%	142	-89.5%	1,346
Buildings and improvements	79,174	2.3%	77,415	3.0%	75,165
Equipment	6,379	0.7%	6,334	-0.2%	6,344
Less accumulated depreciation	<u>(73,213)</u>	2.3%	<u>(71,600)</u>	2.2%	<u>(70,087)</u>
Net capital assets	<u>\$ 15,719</u>	12.8%	<u>\$ 13,935</u>	-3.3%	<u>\$ 14,412</u>

The overall increase in net capital assets in 2019 is primarily due to recording disposals offset by increases in construction in progress. Major additions to buildings for 2019 include the following projects:

- Automating the opening and closing of the doors in Expo Center
- Replacing asphalt throughout the grounds
- Enhancing the grounds-wide Emergency Announcement System

The overall decrease in net capital assets in 2018 is primarily due to the continued depreciation of buildings and equipment. Major additions to buildings for 2018 include the following projects:

- Completing the replacement of the Grandstand roof, AC units, and electrical
- Replacing the Administration Building AC unit

Additional information on Cal Expo's capital assets can be found in note 3 on page 20 of this report.

Debt Administration

During the year ended 2019, Cal Expo's notes payable decreased by approximately \$36 thousand or 42.1%, as a result of continued scheduled principal payments on existing loans. During the year ended 2018, Cal Expo's notes payable decreased by \$237 thousand or 73.5% as a result of continued scheduled principal payments on existing loans. Additional information on Cal Expo's long-term obligations can be found in note 5 on pages 22 through 23 of this report.

SYNOPSIS OF THE FUTURE

Based upon attendance, the Cal Expo remains ranked in the top 1% of the more than 3,000 fairs in North America. An economic impact study has identified Cal Expo as contributing more than \$300,000,000 annually into the regional economy, along with the equivalent of roughly 1,400 jobs. The Annual California State Fair continues to be rated by national news outlets as one of the "Top 10 state fairs in America." For decades, Cal Expo has maintained and operated more than 100 structures on the 768-acre facility, yet until recently received no financial support from the State of California (State), the County of Sacramento (County) or local government sources.

Some 60% of Cal Expo's revenues are derived each July during the 17 days of the Annual California State Fair. With July 2017 and 2018 being the hottest July's in the history of Sacramento, attendance rebounded in July 2019 with slightly cooler temperatures. Since hot weather significantly impacts State Fair attendance, Cal Expo continues its efforts to create new and expand existing non-fair time revenue.

As a non-funded State agency, Cal Expo is tasked with operating much like a private business, but within the confines of being a State entity. Faced with ever increasing mandated operational costs (i.e. insurances, State medical benefits, State pension costs, wages associated with State collective bargaining agreements, State retiree and retiree medical benefits and more), Cal Expo has continued its renewal efforts over the past few years.

The following are a few examples of expanded revenue opportunities in recent years. With the remodeling of the Sacramento Convention Center, Cal Expo has temporarily picked up the 20 largest events from the Convention Center. The first "fully licensed and permitted" Adult Recreation Cannabis Consumption event was held at Cal Expo, which provided more than \$200,000 in revenues to Cal Expo. It is anticipated that cannabis events may become a growing revenue stream for Cal Expo. Papa Murphy's Park was constructed at Cal Expo in 2014 and expanded in 2015 as the home field for the Sacramento Republic, USL Pro Soccer franchise. Cal Expo has also renegotiated revenue generating agreements with three major tenants: Raging Waters Water Park; Watch & Wager Harness Racing; and Rock & Brews, a themed family entertainment restaurant. Rock & Brews is planning on opening in spring 2021.

Even with growth in "non-state fair revenues" in recent years, Cal Expo cannot keep pace with ever-increasing operational expenses combined with the upkeep of aging infrastructure. The following are a sampling of increased operational expenses that are being passed along to Cal Expo by the State.

- a) Recent 1,490% increase in Annual Vehicle Assessment Fee.
- b) Recent 30% increase in Pro Rata Assessment.
- c) Recent notification that Cal Expo's contributions to the California Public Employees' Retirement System (CalPERS) will continue to increase over the next several years.
- d) Recent notification that Cal Expo must contribute \$1,919,000 in support of SB 84 loan funds between the State and PERS, which includes \$316,000 in estimated interest.
- e) Recent notification that "pre-funding" of OPEB is now a part of certain collective bargaining agreements, requiring Cal Expo to "pre-fund" a portion of its OPEB exposure.

Throughout 2019, Cal Expo continued to closely monitor and evaluate its financial position and cash flow, based upon key factors affecting revenues and expenses. Cash projections were updated regularly, and presented to the Board outlining significant and ever changing challenges. While attendance increased at the 2019 Annual State Fair, Cal Expo continued to implement measures to reduce expenses and preserve

cash. While such action allowed Cal Expo to preserve its cash position on a temporary basis, these cuts are not sustainable into the future and service levels will be impacted. A sampling of cuts includes:

- Continued internal hiring freeze.
- Reduction of all non-reimbursable temporary staff and contracted staffing.
- Reassignment of select full-time staff to perform tasks that were previously filled with part-time temporary staff.
- Reorganized and reevaluated operational staffing plans and minimized the cost of staffing for selected areas that are not reimbursed but need to be maintained to generate revenue.
- Stopped all non-essential spending, which included no new purchases and not repairing select equipment, vehicles, or minor maintenance items.
- As directed by the Board, respectfully continued deferred payment to the State on the following:
 - Pro Rata
 - Vehicle Assessment

In addition to operating expenses, Cal Expo is responsible for a great deal of infrastructure that is more than 50 years old. In an effort to protect its aging infrastructure, the State allocated \$15,000,000 in deferred maintenance funding for Cal Expo in the State's 2018/19 Budget.

Cal Expo acknowledges that prudently strategizing to address growing operational expenses and infrastructure challenges will impact the legacy of Cal Expo and the State Fair for future generations. Cal Expo continues to make other State entities aware that Cal Expo cannot operate into the future if it continues to absorb costs from the State, as well as address the costs of aging infrastructure. Of particular note is that Cal Expo receives no revenues back from the millions in tax revenues that it generates annually to the State, the County of Sacramento, and the City of Sacramento.

At the end of December 2019, a global outbreak of a highly infectious respiratory illness known as the Coronavirus (COVID-19) began widely spreading throughout the world. Due to the highly contagious nature of COVID-19, California Governor, Gavin Newsom, issued a State of Emergency, limiting mass gatherings, therefore forcing Cal Expo to cancel the annual 2020 State Fair in order to help prevent the spread. For the majority of 2020, due to COVID -19, Cal Expo was unable to host any public events, which has unfortunately, accelerated Cal Expo's already uncertain financial future.

Cal Expo's Board of Directors and executive team remain focused on identifying possible revenue opportunities as well as continued cost-cutting opportunities. Although it is a valuable asset of the people of California, Cal Expo will not be able to operate as a business into the future if it is required to solely withstand the costs passed along by the State, along with the upkeep of the State's aging infrastructure.

CONTACTING CAL EXPO'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of Cal Expo's finances. For questions concerning any information in this report or for additional financial information contact Cal Expo, 1600 Exposition Boulevard, Sacramento, California 95815 or call (916) 263-3000.

CALIFORNIA EXPOSITION AND STATE FAIR
STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,890,724	\$ 7,039,606
Restricted cash	10,229,210	200,000
Accounts receivable, net	1,533,975	16,650,839
Prepaid expenses	485,382	194,561
Capital projects deposits	1,886,671	101,661
Total current assets	<u>22,025,962</u>	<u>24,186,667</u>
Noncurrent assets:		
Capital assets:		
Land	1,643,577	1,643,577
Construction in progress	1,734,505	141,530
Buildings and improvements	79,173,998	77,415,369
Equipment and machinery	6,379,341	6,334,256
Less accumulated depreciation	<u>(73,212,767)</u>	<u>(71,599,893)</u>
Net capital assets	<u>15,718,654</u>	<u>13,934,839</u>
Total assets	<u>37,744,616</u>	<u>38,121,506</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions	5,609,409	8,027,099
Related to OPEB	914,589	816,345
Total deferred outflows of resources	<u>6,523,998</u>	<u>8,843,444</u>
LIABILITIES		
Current liabilities:		
Accounts payable	2,305,019	1,299,266
Accrued wages and benefits	692,885	541,562
Deposits	616,742	802,541
Unearned revenue	132,655	205,795
Unearned revenue - Deferred Maintenance Funds	5,801,774	2,785,000
Notes payable	25,618	36,027
Compensated absences	575,078	503,196
Self-insurance	44,399	18,051
Total current liabilities	<u>10,194,170</u>	<u>6,191,438</u>
Noncurrent liabilities:		
Notes payable	23,834	49,452
Self-insurance	214,769	383,675
Net OPEB liability	20,034,247	27,767,000
Net pension liability	16,325,436	16,405,684
Compensated absences	905,093	1,026,198
Loan payable - SMIF (SB 84)	1,603,000	1,603,000
Unearned revenue - Deferred Maintenance Funds	6,157,464	12,215,000
Total noncurrent liabilities	<u>45,263,843</u>	<u>59,450,009</u>
Total liabilities	<u>55,458,013</u>	<u>65,641,447</u>
DEFERRED INFLOWS OF RESOURCES		
Related to pensions	828,331	229,017
Related to OPEB	9,918,011	2,921,000
Total deferred inflows of resources	<u>10,746,342</u>	<u>3,150,017</u>
NET POSITION		
Net investment in capital assets	15,669,202	13,849,360
Unrestricted deficit	<u>(37,604,943)</u>	<u>(35,675,874)</u>
Total net position (deficit)	<u>\$ (21,935,741)</u>	<u>\$ (21,826,514)</u>

The accompanying notes to the financial statements are an integral part of these statements.

CALIFORNIA EXPOSITION AND STATE FAIR
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
State Fair	\$ 16,574,300	\$ 16,535,523
Exposition events	6,117,284	5,929,621
Harness / Watch & Wager	98,969	96,329
Charges for services	2,455,486	2,659,385
Simulcast	882,590	941,913
Grants	642,819	1,036,240
Raging Waters	333,152	390,395
Miscellaneous	30,241	195,718
Total operating revenues	<u>27,134,841</u>	<u>27,785,124</u>
Operating expenses:		
Personnel:		
Salaries and wages	8,940,614	9,143,227
Benefits	6,077,426	6,218,818
Total personnel expenses	<u>15,018,040</u>	<u>15,362,045</u>
General and administrative:		
General	2,045,757	1,946,278
Professional services	5,065,317	4,549,038
Advertising	1,066,333	1,115,515
Utilities	1,578,646	1,574,642
Entertainment	785,640	947,980
Facilities operation	744,420	831,201
Awards	223,587	368,709
Insurance	976,941	845,523
Printing	123,545	123,217
Telecommunications	147,888	183,198
Equipment	271,278	984,273
State administrative costs	748,940	667,232
Data processing	99,521	137,753
Travel and training	30,235	37,181
Postage	32,611	17,212
Judges	69,829	67,731
Other	96,152	71,112
Total general and administrative expenses	<u>14,106,640</u>	<u>14,467,795</u>
Depreciation	<u>1,664,366</u>	<u>1,624,850</u>
Total operating expenses	<u>30,789,046</u>	<u>31,454,690</u>
Operating loss	<u>(3,654,205)</u>	<u>(3,669,566)</u>
Nonoperating revenues (expenses):		
Interest and dividends income	174,935	130,867
Loss on disposal of capital assets	(7,724)	-
Interest expense	(564)	(1,882)
Net nonoperating revenue (expenses)	<u>166,647</u>	<u>128,985</u>
Loss before contributions	<u>(3,487,558)</u>	<u>(3,540,581)</u>
Capital contributions		
Deferred Maintenance Funds	3,178,331	-
Other	200,000	135,119
Total capital contributions	<u>3,378,331</u>	<u>135,119</u>
Extraordinary Item		
Impairment gain on fire and storm damage, net of insurance recovery	-	803,359
Changes in net position	<u>(109,227)</u>	<u>(2,602,103)</u>
Net position (deficit), beginning of year, as previously reported	(21,826,514)	201,139
Cumulative effect of change in accounting principles	-	(19,425,550)
Net position (deficit), beginning of the year, as restated	<u>(21,826,514)</u>	<u>(19,224,411)</u>
Net position (deficit), end of year	<u>\$ (21,935,741)</u>	<u>\$ (21,826,514)</u>

The accompanying notes to the financial statements are an integral part of these statements.

**CALIFORNIA EXPOSITION AND STATE FAIR
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers and users	\$ 26,992,766	\$ 30,488,410
Cash payment to employees	(12,955,728)	(16,341,348)
Cash payment to suppliers	(13,391,708)	(14,099,100)
Net cash provided by operating activities	<u>645,330</u>	<u>47,962</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash receipts of restricted cash for capital activities	15,000,000	-
Interest earned on restricted cash	137,569	-
Purchases of capital assets	(3,407,430)	(591,937)
Capital projects deposits received	101,661	532,356
Capital projects deposits paid	(1,886,671)	(101,661)
Insurance recoveries	-	383,174
Proceeds from disposition of capital assets	-	25
Principal paid on notes and capital leases	(36,027)	(236,975)
Capital contributions	151,525	-
Interest paid on notes and capital leases	(564)	(1,882)
Net cash provided by (used in) capital and related financing activities	<u>10,060,063</u>	<u>(16,900)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	174,935	130,867
Net increase in cash and cash equivalents	10,880,328	161,929
Cash and cash equivalents, beginning of year	<u>7,239,606</u>	<u>7,077,677</u>
Cash and cash equivalents, end of year	<u>\$ 18,119,934</u>	<u>\$ 7,239,606</u>
Cash and cash equivalents	\$ 7,890,724	\$ 7,039,606
Restricted cash	<u>10,229,210</u>	<u>200,000</u>
Total cash and cash equivalents, end of year	<u>\$ 18,119,934</u>	<u>\$ 7,239,606</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (3,654,205)	\$ (3,669,566)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,664,366	1,624,850
Decrease (increase) in operating assets:		
Accounts receivable	116,864	(405,221)
Prepaid expenses	(290,821)	21,232
Increase (decrease) in operating liabilities:		
Accounts payable	1,005,753	347,463
Accrued wages and benefits	151,323	(197,385)
Deposits	(185,799)	42,251
Unearned revenue	(73,140)	38,371
Net OPEB liability and related deferred outflows & inflows	(833,986)	994,105
Net pension liability and related deferred outflows & inflows	2,936,756	(329,533)
Compensated absences	(49,223)	7,840
Self-insurance	(142,558)	(29,445)
Loan payable - SMIF (SB 84)	-	1,603,000
Net cash provided by operating activities	<u>\$ 645,330</u>	<u>\$ 47,962</u>
Schedule of non-cash capital and related financing activities:		
Insurance proceeds applied to capital asset additions	\$ -	\$ 420,185
Contributed assets	48,475	135,119
Loss on disposal of capital assets	7,724	-

The accompanying notes to the financial statements are an integral part of these statements.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2019 and 2018

NOTE 1 – ORGANIZATION, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, AND LIQUIDITY RISK

Organization and Reporting Entity – In 1980, state law established the California Exposition and State Fair (Cal Expo) as a component unit of the State of California. On February 25, 1986, the enactment of Chapter 8, Statutes of 1986, created the California Exposition and State Fair Enterprise Fund. Cal Expo is responsible for managing the annual California State Fair (State Fair) and providing a site for events held during the remainder of the year (interim events). These events include satellite wagering for horse racing, live harness racing, interim show and trade exhibitions, an aquatic park, Papa Murphy’s Park home of the Sacramento Republic professional soccer team, and a themed family entertainment restaurant Rock & Brews.

Basis of Accounting – Cal Expo’s activities are accounted for as an enterprise fund and the accounting records are maintained on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

Cal Expo distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with Cal Expo’s principal ongoing fair and interim operations. The principal operating revenues of Cal Expo are charges to customers during the annual State Fair and interim events. Operating expenses for Cal Expo include personnel expenses, general and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted net position is available for use, it is Cal Expo’s policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents – For purposes of the statement of cash flows, Cal Expo considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. As of December 31, 2019 and 2018, cash and cash equivalents consist of cash, demand deposits, and amounts on deposit in the State Local Agency Investment Fund (LAIF).

Investments – Cal Expo applies the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which require governmental entities to report certain investments at fair value in the statement of net position and recognize the corresponding change in fair value of investments in the year in which the change occurred. Investments in LAIF are governed by State statutes and overseen by a five member Local Investment Advisory Board. The fair value of Cal Expo’s position in LAIF may be greater or less than the value of the shares. Investments in LAIF are valued in these financial statements using a fair value factor provided by LAIF applied to the value of Cal Expo’s shares in the investment pool. Cal Expo is authorized by statute to invest in the same types of investment vehicles permitted by the State’s Centralized Treasury System.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 1 – ORGANIZATION, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, AND LIQUIDITY RISK (Continued)

Restricted Cash – Certain resources of Cal Expo are classified as restricted cash on the statements of net position because they are maintained in a separate bank account and their use is limited per contractual agreement. Restricted cash at December 31, 2019 and 2018, represent deposits from users of Cal Expo’s property and Deferred Maintenance Funds subject to Senate Bill 840, Control Section 6.10 of the Budget Act of 2018.

Accounts Receivable – At December 31, 2019 and 2018, Cal Expo’s accounts receivable consists of amounts due from State Fair activities and Cal Expo event promoters. Additionally, at December 31, 2018, Cal Expo’s accounts receivable includes a \$15 million allocation to be spent on approved deferred maintenance projects pursuant to Senate Bill 840, Control Section 6.10 of the Budget Act of 2018. Cal Expo analyzes all accounts receivables greater than 120 days and records an allowance for uncollectible accounts for those receivables that are determined unlikely to be received. At December 31, 2019 and 2018, the allowance for uncollectible accounts totaled \$5,494 and \$2,708 respectively.

Prepaid Expenses – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Capital Projects Deposits – Cal Expo works directly with the California Construction Authority (CCA), a construction management agency for California fairs, to provide project management for capital projects. CCA requires a deposit to be made in the amount of the estimated cost of the capital project plus a nominal project management fee. CCA pays the contractors on behalf of Cal Expo as well as ensures all code compliance, architectural and engineering requirements, and State rules and regulations are met. Prior year amounts have been reclassified as current assets for consistency with the current year presentation.

Capital Assets – Cal Expo’s capital assets are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, or in the case of assets under capital leases over the lease term as follows:

Buildings and improvements	5-40 years
Equipment and machinery	3-10 years

Cal Expo adheres to the State of California’s State Administrative Manual (SAM) policy to capitalize all property and equipment with a cost greater than \$5,000 and a useful life of more than 1 year.

Deposits – Cal Expo’s deposits (current liabilities) represent cash received in advance as security deposits from organizations scheduled to utilize Cal Expo facilities at a future date. Deposits are settled at the end of each event and may be refunded to the organization.

Unearned Revenue – Cal Expo’s unearned revenue represents interim events revenue received in advance and will be recognized as revenue in future periods.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 1 – ORGANIZATION, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, AND LIQUIDITY RISK (Continued)

Unearned Revenue – Deferred Maintenance Funds – Pursuant to Senate Bill 840, Control Section 6.10 of the Budget Act of 2018, the State Legislature allocated Cal Expo \$15 million to be spent on approved deferred maintenance projects. The intent of the funding is to keep state infrastructure in acceptable condition, to preserve the condition, or extend the useful life of the infrastructure. The amount allocated is available for encumbrance or expenditure until June 30, 2021. At December 31, 2019, Cal Expo classified \$5,801,774 of this amount as current liability and \$6,157,464 as a noncurrent liability. At December 31, 2018, Cal Expo classified \$2,785,000 of this amount as a current liability and \$12,215,000 as a noncurrent liability.

Self-Insurance – Cal Expo is self-insured for workers' compensation claims for injuries occurring prior to July 1, 1994. As the statute of limitations has expired, no new claims have been accrued. However, previously accrued claims are periodically adjusted based on actuarial estimates of ultimate claim cost and related administrative charges; claim liabilities have not been discounted to their present values.

Effective July 1, 1994, Cal Expo became a member of California Fair Services Authority (CFSA), a joint powers insurance pool serving various fairs throughout California. CFSA bears the risk for workers' compensation for all claims incurred on or after July 1, 1994, up to \$500,000. Cal Expo, through CFSA, purchases additional insurance to cover claims exceeding \$500,000 up to \$5,000,000 per occurrence.

Cal Expo also purchases additional general liability insurance to cover claims exceeding \$1,000,000 up to \$10,000,000 per occurrence.

Cal Expo pays an annual workers' compensation premium to the CFSA insurance pool based on various factors, including the experience of the pool members on a prospective basis. Cal Expo has no deductible for workers' compensation and nominal amounts of deductibles on certain types of general liability insurance.

There has been no significant reduction in self-insurance coverage and no claims have exceeded self-insurance coverage during the past three years.

Compensated Absences – The bargaining agreements with the State of California allow for all employees to accrue up to 640 of vacation/annual leave hours. Unused accrued vacation is paid to the employee upon termination from employment. At December 31, 2019 and 2018, accrued compensated absences for all Cal Expo employees amounted to \$1,480,171 and \$1,529,394 respectively, of which \$575,078 and \$503,196 are classified as a current liability, respectively.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 1 – ORGANIZATION, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, AND LIQUIDITY RISK (Continued)

Nonmonetary Transactions – Cal Expo engages in nonmonetary transactions for some of its sponsorships for marketing and advertising in exchange of goods and services to support its State Fair. All nonmonetary transactions are approved and evaluated for fairness by Cal Expo’s Marketing Manager and recorded at their fair value. At December 31, 2019 and 2018, total State Fair nonmonetary sponsorships were \$557,795 and \$332,094, respectively. No gains or losses were recognized for these transactions.

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 certain reported amounts and disclosures at the date of the financial statements. Actual results could differ from those estimates.

Implementation of New Governmental Accounting Standard – During the year ended December 31, 2018, Cal Expo implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of GASB 75 is to improve accounting and financial reporting by state and local governments for other postemployment benefits (OPEB) by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. It requires employers to recognize a net OPEB liability for the difference between the present value of projected OPEB benefits for past service and restricted resources held in trust for the payment of benefits. GASB 75 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Since GASB 75 requires retroactive application, the net OPEB liability offset by the related deferred outflow of resources and prior recognized OPEB liabilities as of December 31, 2017, reduced the beginning net position as of January 1, 2018. As a result, effective January 1, 2018, beginning net position has been restated by \$19,425,550 and reported as the cumulative effect of a change in accounting principle.

Liquidity Risk – Liquidity risk is the risk of not having sufficient financial resources to meet current and future financial obligations as they become due. Cal Expo’s traditional business model relies heavily on the success of the annual State Fair and the revenue generated over the course of 17 days.

Cal Expo has experienced operating losses of \$3.7 million in 2019 and \$3.7 million in 2018, which resulted in a negative change in net position of \$109 thousand and \$2.6 million, respectively. Cal Expo, a component unit of the State of California, received no financial support from the State for operating expenses as of December 31, 2019, but is responsible for funding State mandated operational costs, like property insurance, employee raises associated with collective bargaining agreements, and State pension and medical costs.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 1 – ORGANIZATION, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, AND LIQUIDITY RISK (Continued)

In addition, Cal Expo is responsible for maintaining the 768 acre facility that includes more than 100 building structures. Starting in 2017, Cal Expo contracted with Sierra West Group, a construction cost estimating firm, to analyze and assess the current conditions of its facilities. The study noted that the facility would require more than \$138 million of infrastructure work in order to continue operations for an additional 50 years. Approximately 50% of the quoted costs are due to new regulations and changes in building standards related to energy conservation, water, and Americans with Disabilities Act (ADA) requirements. On an annual basis, Cal Expo allocates approximately \$2 million in the budget for capital improvements; however, most of these funds are spent on items that have completely failed and require immediate attention to not significantly impact operations. In 2018, pursuant to Senate Bill 840, Control Section 6.10 of the Budget Act of 2018, Cal Expo was allocated \$15 million from the State's General Fund to be spent on approved deferred maintenance projects. The intent of the funding is to keep State infrastructure in acceptable condition, to preserve the condition, or extend the useful life of the infrastructure. Cal Expo has prioritized the projects identified in the Sierra West study and is on track to utilize all allocated funds by the June 30, 2021 encumbrance deadline. With many structures reaching their serviceable life span, Cal Expo acknowledges additional funds in excess of the already allocated \$15 million will need to be invested into the aging infrastructure in order to remain a top fair in North America.

Most recently, in December 2019, a global outbreak of a highly infectious respiratory illness known as the Coronavirus (COVID-19) began widely spreading throughout the world. Due to the highly contagious nature of COVID-19 and to help protect public health and slow the spread, emergency measures were taken by the State of California and California Department of Public Health. California's Governor, Gavin Newsom, issued a State of Emergency and Executive Order N-33-20 declaring a shelter-in-place order and later limiting mass gatherings.

Beginning March 2020, Cal Expo experienced a significant decline in revenue due to having to postpone or cancel events due to uncertainty of the COVID-19 pandemic. As a self-supporting State agency, who is highly dependent on revenues generated from large events, the pandemic has been devastating to all of Cal Expo's revenue streams. In April 2020, losses were further compounded when the directives issued by Governor Gavin Newsom and the California Department of Public Health canceled all major gatherings for the summer, resulting in the cancellation of the annual California State Fair, which accounts for 60% of Cal Expo's operating revenue budget.

On June 29, 2020, Governor Gavin Newsom approved a budget augmentation under Assembly Bill (AB) 75. AB 75 provided \$40.3 million in General Fund support for District Agricultural Associations (DAAs) and Cal Expo in order to assist Fairs, that are projected to have insufficient reserves, to pay legally mandated costs that may be incurred during a state civil service layoff process. Use of these funds is limited to state civil service employee salaries, benefits, retirement payments, unemployment insurance costs, and payouts of leave balances. Appropriated funds are available for state-affiliated fairs, including Cal Expo, and available for encumbrance or expenditure until June 30, 2021. On July 15, 2020, Cal Expo management regrettably notified staff of the start of an approved state civil service staff reduction plan. Cal Expo received its first allocation of AB 75 funds in early August 2020.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 1 – ORGANIZATION, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, AND LIQUIDITY RISK (Continued)

With limited revenue coming in and with no indication of when large events would be permitted in California again, Cal Expo continued to reduce expenses as much as operationally feasible. Even with these efforts, Cal Expo continued to experience severe strains to their cash reserves. On September 9, 2020, the Governor amended the Budget Act of 2020 through Senate Bill 115 (SB 115), appropriating an initial \$3 million to Cal Expo to support its payroll and operational costs. An additional \$3 million could be authorized by the Director of the Department of Finance (Finance) if deemed necessary to sustain Cal Expo's operations. Through SB 115 and pursuant to subdivision (f) of Section 19622.1 of the Business and Professions Code, the Director of Finance could also authorize a short-term cash loan of up to \$3 million from the General Fund to support the payment of payroll and operational costs of Cal Expo until reimbursement for emergency operations support and other activities is received. Repayment of the cash flow loan would be subject to the terms and conditions for repayment as prescribed by Finance. Interest charges could be waived pursuant to subdivision (e) of Section 16314 of the Government Code. As of December 2020, Cal Expo has not received any cash flow loans from the General Fund.

Due to the current layoff as well as an uncertain financial future, Cal Expo continues to experience key operational and financial staff electing to retire or seek other employment. This has and will continue to cause huge strains on the day-to-day business operations as remaining staff are tasked with covering duties outside of their expertise and in a very unique industry, years of valuable, historical knowledge is lost.

Liquidity improvement is dependent upon establishing new ways to increase operating revenues. Cal Expo continues to implement new revenue-generating efforts with current partners, Sacramento Republic soccer at Papa Murphy's Park, Raging Waters Aquatic Park, Watch & Wager Harness Racing, and a themed family entertainment restaurant, Rock & Brews. In addition, Cal Expo continues to work diligently in fostering further relationships with promoters for year-round facility rentals as well as strengthening community outreach programs, but this has become increasingly difficult with the current COVID-19 pandemic. Furthermore, Cal Expo may not be able to operate as a business into the future (more than 12 months subsequent to the financial statement date) without financial support for operational expenses, due to increasing costs as a State agency. Cal Expo's Board of Directors and Executive Team's current plans include identifying possible revenue and cost cutting opportunities as well as potential legislative and State support in order to preserve the valuable State asset. Cal Expo has prudently made other State agencies aware of this liquidity risk. If, however, Cal Expo is unable to carry through on its efforts, its financial status could deteriorate further and its options to improve its fiscal health may be limited.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2019 and 2018

NOTE 2 – CASH AND CASH EQUIVALENTS

The fair value of Cal Expo’s cash and cash equivalents is as follows at December 31, 2019 and 2018:

	2019	2018
Deposits	\$ 3,623,432	\$ 2,899,142
Local Agency Investment Fund (LAIF)	4,028,946	3,930,303
Cash in vault	70,000	130,000
Cash on hand	168,346	80,161
	<hr/>	<hr/>
Total unrestricted cash and cash equivalents	7,890,724	7,039,606
	<hr/>	<hr/>
Total restricted cash - deposits	10,229,210	200,000
	<hr/>	<hr/>
Total cash and cash equivalents	<u>\$ 18,119,934</u>	<u>\$ 7,239,606</u>

At December 31, 2019, Cal Expo’s restricted cash includes \$10,029,210 in Deferred Maintenance Funds pursuant to Senate Bill 840, Control Section 6.10 of the Budget Act of 2018.

Fair Value Measurement - GASB Statement No. 72, *Fair Value Measurement and Valuation*, requires Cal Expo to use valuation techniques, which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels.

LAIF, being an external investment pool, is subject to the fair value measurement; however, it is not subject to the fair value hierarchy.

Cal Expo believes it is not at measurable risk as to the four risk areas as follows:

Interest Rate Risk - This is the risk of loss due to the fair value of an investment falling due to interest rates rising. Refer to the tables on the following page for interest rate risk disclosure at December 31, 2019 and 2018. Cal Expo does not have a policy relating to interest rate risk.

Credit Risk - This is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally recognized statistical rating organizations. Cal Expo’s investments are held in Local Agency Investment Fund, which is not rated. Cal Expo does not have a policy relating to credit risk.

The following schedules summarize the carrying value of amounts on deposit in the Local Agency Investment Fund (LAIF) at December 31, 2019 and 2018. LAIF had a total balance of \$88.9 billion and \$83.3 billion at December 31, 2019 and 2018, respectively. Of those amounts 2.09% and 1.84% were invested in structured notes and asset-backed securities. N/R represents securities that are not rated.

CALIFORNIA EXPOSITION AND STATE FAIR
Notes to the Basic Financial Statements
For the Years Ended December 31, 2019 and 2018

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

	<u>December 31, 2019</u> Carrying Value	<u>Credit</u> <u>Rating</u>	<u>Weighted</u> <u>Average</u> <u>Maturity</u>
Unrestricted:			
Local Agency Investment Fund	\$ 4,028,946	N/R	226 days
	<u>December 31, 2018</u> Carrying Value	<u>Credit</u> <u>Rating</u>	<u>Weighted</u> <u>Average</u> <u>Maturity</u>
Unrestricted:			
Local Agency Investment Fund	\$ 3,930,303	N/R	192 days

Custodial Credit Risk - This is the risk that in the event a financial institution or counterparty fails, Cal Expo would not be able to recover the value of its deposits and investments. As of December 31, 2019 and 2018, one hundred percent of Cal Expo's cash equivalents are invested in LAIF, which is not subject to custodial credit risk. At December 31, 2019, the bank balance of Cal Expo's cash deposits for its deposit accounts totaled \$14,142,327. Of the bank balance, \$250,000 was covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and \$13,892,327 was collateralized by pledging financial institutions. At December 31, 2018, the bank balance of Cal Expo's cash deposits for its deposit accounts totaled \$3,103,362. Of the bank balance, \$250,000 was covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and \$2,853,362 was collateralized by pledging financial institutions. At December 31, 2019 and 2018, the collaterals are in the name of Cal Expo. Cal Expo does not have a policy relating to custodial credit risk.

Concentration of Credit Risk - This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At December 31, 2019 and 2018, one hundred percent of Cal Expo's investments are held by Local Agency Investment Fund. There is no limitation on amounts invested in this type of investment.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated				
Land	\$ 1,643,577	\$ -	\$ -	\$ 1,643,577
Construction in progress	141,530	1,645,154	(52,179)	1,734,505
	<u>1,785,107</u>	<u>1,645,154</u>	<u>(52,179)</u>	<u>3,378,082</u>
Capital assets being depreciated				
Buildings and improvements	77,415,369	1,809,445	(50,816)	79,173,998
Equipment and machinery	6,334,256	53,485	(8,400)	6,379,341
	<u>83,749,625</u>	<u>1,862,930</u>	<u>(59,216)</u>	<u>85,553,339</u>
Less accumulated depreciation for:				
Buildings and improvements	(66,284,520)	(1,420,532)	43,092	(67,661,960)
Equipment and machinery	(5,315,373)	(243,834)	8,400	(5,550,807)
	<u>(71,599,893)</u>	<u>(1,664,366)</u>	<u>51,492</u>	<u>(73,212,767)</u>
Net capital assets being depreciated	<u>12,149,732</u>	<u>198,564</u>	<u>(7,724)</u>	<u>12,340,572</u>
Net capital assets	<u>\$ 13,934,839</u>	<u>\$ 1,843,718</u>	<u>\$ (59,903)</u>	<u>\$ 15,718,654</u>

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated				
Land	\$ 1,643,577	\$ -	\$ -	\$ 1,643,577
Construction in progress	1,345,883	50,298	(1,254,651)	141,530
	<u>2,989,460</u>	<u>50,298</u>	<u>(1,254,651)</u>	<u>1,785,107</u>
Capital assets being depreciated				
Buildings and improvements	75,165,613	2,284,485	(34,729)	77,415,369
Equipment and machinery	6,344,082	67,109	(76,935)	6,334,256
	<u>81,509,695</u>	<u>2,351,594</u>	<u>(111,664)</u>	<u>83,749,625</u>
Less accumulated depreciation for:				
Buildings and improvements	(64,944,787)	(1,374,462)	34,729	(66,284,520)
Equipment and machinery	(5,141,920)	(250,388)	76,935	(5,315,373)
	<u>(70,086,707)</u>	<u>(1,624,850)</u>	<u>111,664</u>	<u>(71,599,893)</u>
Net capital assets being depreciated	<u>11,422,988</u>	<u>726,744</u>	<u>-</u>	<u>12,149,732</u>
Net capital assets	<u>\$ 14,412,448</u>	<u>\$ 777,042</u>	<u>\$ (1,254,651)</u>	<u>\$ 13,934,839</u>

Buildings and improvements includes insurance proceeds of \$420,185 due to storm damage, which was paid for directly by the insurance provider.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2019 and 2018

NOTE 4 – OPERATING LEASES

Cal Expo has various lease agreements with concessionaires and promoters for State Fair and non-State Fair events. The leases cover rental of Cal Expo property and equipment and are based on either fixed payments for the facility, on attendance, or as a percentage of revenue earned by the promoter. The terms of the leases are generally cancelable with terms ranging from one event to twenty years. Rental income earned on cancelable and noncancelable leases is included in operating revenue.

In April 2011, Cal Expo entered into a lease agreement as lessor with Outfront Media, LLC (formerly known as CBS Outdoor, Inc.) where Cal Expo granted Outdoor Media a license to use Cal Expo's premises for the purposes of installing, operating and maintaining two new and updated electronic digital billboards to replace existing and outdated billboards at the same locations on the premises. The original term of the agreement is for twenty years commencing April 26, 2011. The agreement has an option to extend the term for two additional five year periods, which can be exercised independently or concurrently. Outfront Media pays rent to Cal Expo for the term of the agreement the minimum guarantee amount of \$18,750 per month for the first five years, increasing by ten percent every five years, or thirty percent of annual adjusted gross revenue share based on gross receipts of advertising sales, whichever is greater.

The minimum future rentals on noncancelable operating leases as of December 31, 2019, are as follows:

<u>Years Ending December 31,</u>	
2020	\$ 247,500
2021	251,634
2022	272,304
2023	272,304
2024	272,304
Later years	2,021,662
Total minimum future rentals (a)	<u>\$ 3,337,708</u>

(a) This amount does not include contingent rental income based on a percentage of gross revenue from advertising sales. Contingent rental income amounted to \$47,962 in 2019 and \$0 in 2018.

In August 2015, Cal Expo entered into a lease agreement as lessor with Outfront Media, LLC (formerly known as CBS Outdoor, Inc.) where Cal Expo granted Outfront Media a license to use Cal Expo's premises for the purposes of maintaining four two-sided static billboards, including above-ground supporting structures, devices, illumination facilities and connections, service ladders, and appurtenances. The original term of the agreement is for fifteen years and nine months commencing August 1, 2015. Outfront Media pays rent to Cal Expo for the term of the agreement the minimum guarantee amount of \$6,000 per month for the first year and three months, increasing to \$78,000 a year for the next five years, \$86,000 a year for the following five years, and then \$96,000 a year for the remainder of the agreement, or thirty percent of annual adjusted gross revenue share based on gross receipts of advertising sales, whichever is greater.

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Notes to the Basic Financial Statements
For the Years Ended December 31, 2019 and 2018

NOTE 4 – OPERATING LEASES (Continued)

The minimum future rentals on noncancelable operating leases as of December 31, 2019, are as follows:

<u>Years Ending December 31,</u>		
2020	\$	78,000
2021		79,334
2022		86,004
2023		86,004
2024		86,004
Later years		589,674
Total minimum future rentals (a)	\$	<u><u>1,005,020</u></u>

(a) This amount does not include contingent rental income based on a percentage of gross revenue from advertising sales. Contingent rental income amounted to \$0 in 2019 and \$0 in 2018.

NOTE 5 – LONG-TERM OBLIGATIONS

Notes Payable

During the year ended 2011, the California Department of Agriculture, Division of Fairs & Expositions loaned \$220,000 to Cal Expo for redevelopment. The loan's interest is 0%, and payable in monthly installments aggregating \$22,000 per year, maturing January 2022. The balance at December 31, 2019 and 2018, was \$45,834 and \$67,834 respectively.

During the year ended 2011, the California Department of Agriculture, Division of Fairs & Expositions loaned \$96,045 to Cal Expo for the rehabilitation of the electric vault. The loan's interest rate is 5%, and payable in monthly installments aggregating \$14,591 per year including interest, maturing March 2020. The balance at December 31, 2019 and 2018, was \$3,618 and \$17,645 respectively.

Annual debt service requirements to maturity for notes payable at December 31, 2019, are as follows:

<u>Years Ending December 31:</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 25,618	\$ 30
2021	22,000	-
2022	1,834	-
Total notes payable	<u><u>\$ 49,452</u></u>	<u><u>\$ 30</u></u>

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 5 – LONG-TERM OBLIGATIONS (Continued)

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended December 31, 2019, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable	\$ 85,479	\$ -	\$ (36,027)	\$ 49,452	\$ 25,618
Compensated absences	1,529,394	675,412	(724,635)	1,480,171	575,078
Loan payable - SMIF (SB 84)	1,603,000	-	-	1,603,000	-
Total	<u>\$ 3,217,873</u>	<u>\$ 675,412</u>	<u>\$ (760,662)</u>	<u>\$ 3,132,623</u>	<u>\$ 600,696</u>

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 \$5.9 billion. SB 84 requires all Funds to fully repay their principal and interest allocation by June 30, 2030. During the year ended 2018, Cal Expo established a loan payable to the SMIF for the principal of \$1,603,000, with an estimated interest amount of \$267,000 for the life of the loan. Due to the financial hardships noted in the “Liquidity Risk” section of this report, Cal Expo requested a deferment of the 2019-2020 and 2020-2021 installments, which was approved by the Department of Finance (DOF). Under the new repayment plan, the revised estimated interest amount increased to \$316,000 in which Cal Expo’s first installment of \$450,000 is due during the 2021-2022 fiscal year.

Changes in long-term obligations for the year ended December 31, 2018, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable	\$ 322,454	\$ -	\$ (236,975)	\$ 85,479	\$ 36,027
Compensated absences	1,521,554	569,174	(561,334)	1,529,394	503,196
Loan payable - SMIF (SB 84)	-	1,603,000	-	1,603,000	-
Total	<u>\$ 1,844,008</u>	<u>\$ 2,172,174</u>	<u>\$ (798,309)</u>	<u>\$ 3,217,873</u>	<u>\$ 539,223</u>

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2019 and 2018

NOTE 6 – ACCRUED LIABILITY FOR WORKERS’ COMPENSATION SELF-INSURANCE

Changes in the balance of claims liability for workers’ compensation self-insurance is summarized as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Unpaid claims, beginning of fiscal year	\$ 401,726	\$ 431,171
Changes in estimates	(72,176)	35,000
Claim payments	(70,382)	(64,445)
Unpaid claims, end of fiscal year	<u>\$ 259,168</u>	<u>\$ 401,726</u>

NOTE 7 – DEFINED BENEFIT PENSION PLANS

Plan description – All eligible employees of Cal Expo participate in the California Public Employees’ Retirement System (CalPERS), which is included in the State of California’s (State) Comprehensive Annual Financial Report as a fiduciary component unit. CalPERS administers the Public Employees’ Retirement Fund (PERF). PERF is an agent multiple-employer defined benefit pension plan. Cal Expo participates in the State Miscellaneous Plan, State Safety Plan, and State Peace Officers and Firefighters (SPOFF) Plan (the Plans) in cost-sharing arrangements in which all risks and costs are shared proportionately by participating State agencies.

CalPERS issues a publicly available comprehensive annual financial report that may be obtained by writing to the California Public Employees’ Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229 or by visiting the CalPERS website at www.CalPERS.ca.gov under Forms and Publications.

Benefits Provided – The PERF provides service retirement and disability benefits, survivor benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Vesting occurs after five years, or after ten years for second-tier employees (miscellaneous and industrial). The benefit provisions are established by the Public Employees’ Retirement Law (PERL) and the Public Employees’ Pension Reform Act of 2013 (PEPRA). Benefits are based on a formula using a member’s years of service credit, age at retirement, and final compensation (average salary for a defined period of employment). Retirement formulas vary based on:

- Classification (e.g. miscellaneous, industrial, or peace officers and firefighters);
- Membership category (pre-PEPRA and post-PEPRA); and
- Specific provisions in employees’ contracts.

CALIFORNIA EXPOSITION AND STATE FAIR
Notes to the Basic Financial Statements
For the Years Ended December 31, 2019 and 2018

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

The Plans' provisions and benefits in effect at December 31, 2019 and 2018, are summarized as follows:

	State Miscellaneous Plan				
	First Tier			Second Tier	
	Prior to January 15, 2011	January 15, 2011 to December 31, 2012	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date					
Benefit formula	2% @ 55	2% @ 60	2% @ 62	1.25% @ 65	1.25% @ 67
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	10 years of service	10 years of service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50-67	50-67	52-67	50-67	52-67
Monthly benefits, as a % of eligible compensation	1.1%-2.5%	1.092%-2.418%	1%-2.5%	0.5%-1.25%	0.65%-1.25%
	State Safety Plan				
	Prior to January 15, 2011	January 15, 2011 to December 31, 2012	January 15, 2011 to December 31, 2012	On or after January 1, 2013	
Hire date					
Benefit formula	2.5% @ 55	2% @ 55	2.5% @ 60	2% @ 57	
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service	
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life	
Retirement age	50-60	50-60	50-60	50-60	
Monthly benefits, as a % of eligible compensation	1.7%-2.5%	1.426%-2.000%	1.426%-2.500%	1.426%-2.000%	
	State Peace Officers and Firefighters Plan				
	Prior to January 15, 2011	Prior to January 15, 2011	January 15, 2011 to December 31, 2012	On or after January 1, 2013	On or after January 1, 2013
Hire date					
Benefit formula	3% @ 55	3% @ 50	2.5% @ 55	2.5% @ 57	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50-57	50-57	50-57	50-57	50-57
Monthly benefits, as a % of eligible compensation	2.4%-3%	3%	2%-2.5%	2%-2.5%	2%-2.7%

Contributions – Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that employer contribution rates for all public employers to 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. The total plan contributions are determined through CalPERS' annual actuarial valuation process. 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution requirements may change if plan contracts are amended. Payment made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal years ended December 31, 2019 and 2018, the actuarially required contributions, additional contributions that the State is to make to offset the savings due to the increased member contributions, and reduced contributions in accordance with Government Code section 20825.1 due to an advance payment of the unfunded liability by the State under SB 90 for each plan were:

	Fiscal Year Ended December 31, 2019			Fiscal Year Ended December 31, 2018	
	Actuarially Required Employer Contribution Rate	Additional Statutory Contribution to Offset Increased Member Contributions	Reduction Due to an Advance Payment of the Unfunded Liability	Actuarially Required Employer Contribution Rate	Additional Statutory Contribution to Offset Increased Member Contributions
State Miscellaneous Plan	30.138%	0.098%	(0.129%)	28.812%	0.098%
State Safety Plan	20.939%	1.182%	(0.148%)	19.877%	1.182%
State Peace Officers and Firefighters Plan	45.461%	1.647%	(0.732%)	43.161%	1.647%

For the fiscal years ended December 31, 2019 and 2018, contributions were \$1,763,510 and \$3,293,061, respectively. Included in Cal Expo’s contributions for the fiscal year ended December 31, 2018, is the State Surplus Money Investment Fund (SMIF) \$1,603,000 contribution made on behalf of Cal Expo, as required by Senate Bill 84 (SB 84) to fund future net pension liabilities. This \$1,603,000 loan payable is required to be repaid by Cal Expo by June 30, 2030.

Net Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions – Cal Expo reported net pension liabilities for its proportionate share of the Plans’ net pension liabilities as of December 31, 2019 and 2018, in the amount of \$16,325,436 and \$16,405,684, respectively.

Cal Expo’s net pension liability is measured as the proportionate share of the net pension liability of the Plans. The net pension liabilities of the Plans as of December 31, 2019, are measured as of June 30, 2018, and the total pension liabilities for the Plans used to calculate the net pension liabilities were determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018, using standard update procedures. Cal Expo’s proportionate share of the net pension liability of the Plans was based on the State Controller’s Office (SCO) projection for Cal Expo based on its pensionable compensation (covered payroll). The SCO calculated and provided Cal Expo with their allocated pensionable compensation percentages by Plan. Cal Expo’s proportionate share of the net pension liabilities for the Plans as of June 30, 2018, was 0.047500% (State Miscellaneous), 0.006058% (State Safety), and 0.008967% (State Peace Officers and Firefighters). Cal Expo’s proportionate share of the net pension liabilities for the Plans as of June 30, 2017 was 0.040431% (State Miscellaneous), 0.008471% (State Safety), and 0.009023% (State Peace Officers and Firefighters).

CALIFORNIA EXPOSITION AND STATE FAIR
Notes to the Basic Financial Statements
For the Years Ended December 31, 2019 and 2018

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

For the year ended December 31, 2019, Cal Expo recognized pension expense of \$1,333,756. At December 31, 2019, Cal Expo reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	State Miscellaneous		State Safety		State Peace Officers and Firefighters	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Cal Expo's contributions subsequent to the measurement date	\$ 2,472,646	\$ -	\$ 37,342	\$ -	\$ 107,421	\$ -
Change in proportion	830,541	-	33,116	(59,547)	259,224	(145,947)
Changes in assumptions	1,346,040	(494,743)	21,813	(1,903)	143,957	(1,801)
Differences between expected and actual experience	160,086	(103,960)	-	(4,620)	31,676	(15,810)
Net difference between projected and actual earnings on pension plan investments	154,156	-	1,719	-	9,672	-
	<u>\$ 4,963,469</u>	<u>\$ (598,703)</u>	<u>\$ 93,990</u>	<u>\$ (66,070)</u>	<u>\$ 551,950</u>	<u>\$ (163,558)</u>

The amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability as follows:

Years Ending December 31,	State Miscellaneous	State Safety	State Peace Officers and Firefighters
2020	\$ 1,611,860	\$ 20,232	\$ 75,705
2021	860,786	17,110	31,716
Total	<u>\$ 2,472,646</u>	<u>\$ 37,342</u>	<u>\$ 107,421</u>

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

Years Ending December 31,	State Miscellaneous	State Safety	State Peace Officers and Firefighters
2020	\$ 1,438,465	\$ 12,875	\$ 129,413
2021	893,961	1,989	126,398
2022	(352,025)	(18,979)	39,471
2023	(88,281)	(5,307)	(14,311)
Total	<u>\$ 1,892,120</u>	<u>\$ (9,422)</u>	<u>\$ 280,971</u>

CALIFORNIA EXPOSITION AND STATE FAIR
Notes to the Basic Financial Statements
For the Years Ended December 31, 2019 and 2018

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

For the year ended December 31, 2018, Cal Expo recognized pension expense of \$1,273,467. At December 31, 2018, Cal Expo reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	State Miscellaneous		State Safety		State Peace Officers and Firefighters	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Cal Expo's contributions subsequent to the measurement date	\$ 3,747,375	\$ -	\$ 63,831	\$ -	\$ 320,902	\$ -
Change in proportion	978,644	-	59,213	-	361,799	(62,921)
Changes in assumptions	1,718,570	-	43,761	-	190,127	-
Differences between expected and actual experience	64,717	(137,857)	-	(7,357)	11,737	(20,882)
Net difference between projected and actual earnings on pension plan investments	419,010	-	10,672	-	36,741	-
	<u>\$ 6,928,316</u>	<u>\$ (137,857)</u>	<u>\$ 177,477</u>	<u>\$ (7,357)</u>	<u>\$ 921,306</u>	<u>\$ (83,803)</u>

The amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability as follows:

Years Ending December 31,	State Miscellaneous	State Safety	State Peace Officers and Firefighters
2019	\$ 2,951,442	\$ 53,528	\$ 276,124
2020	795,933	10,303	44,778
Total	<u>\$ 3,747,375</u>	<u>\$ 63,831</u>	<u>\$ 320,902</u>

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

Years Ending December 31,	State Miscellaneous	State Safety	State Peace Officers and Firefighters
2019	\$ 1,018,874	\$ 37,481	\$ 118,432
2020	1,366,330	40,218	158,983
2021	871,458	27,291	155,781
2022	(213,578)	1,299	68,634
2023	-	-	14,771
Total	<u>\$ 3,043,084</u>	<u>\$ 106,289</u>	<u>\$ 516,601</u>

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions – For the measurement period ended June 30, 2018 (measurement date), the total pension liability was determined by rolling forward the June 30, 2017, total pension liability using standard update procedures. For the measurement period ended June 30, 2017 (measurement date), the total pension liability was determined by rolling forward the June 30, 2016, total pension liability using standard update procedures.

The June 30, 2018 total pension liabilities of all Plans were based on the following actuarial method and assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Inflation	Varies ⁽¹⁾
Investment Rate of Return	7.15% ⁽²⁾
Mortality ⁽³⁾	CalPERS' Membership Data
Post Retirement Benefit Increase	Up to 2.00% ⁽⁴⁾

The June 30, 2017 total pension liabilities of all Plans were based on the following actuarial method and assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Inflation	Varies ⁽¹⁾
Investment Rate of Return	7.15% ⁽²⁾
Mortality ⁽⁵⁾	CalPERS' Membership Data
Post Retirement Benefit Increase	Up to 2.75% ⁽⁶⁾

⁽¹⁾ By entry age and service.

⁽²⁾ Net of pension plan investment expenses, but without reduction for administrative expenses, including inflation.

⁽³⁾ 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. For more details on this table, please refer to the 2017 CalPERS Experience Study.

⁽⁴⁾ Contract COLA up to 2.00% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter.

⁽⁵⁾ The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study.

⁽⁶⁾ Contract COLA up to 2.75% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.75% thereafter.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

All other actuarial assumptions used in the June 30, 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. All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

Change of Assumptions – In 2017, the accounting discounts rate reduced from 7.65% to 7.15%.

Discount Rate – The discount rate used to measure the total pension liability as of the measurement date of June 30, 2018 and June 30, 2017 for all Plans 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 Plans' 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.

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 the fund's 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.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

For the measurement period ended June 30, 2018 (measurement date), the expected real rates of return by asset class are as follows:

Asset Class (a)	Current Target Allocation	Real Return Years 1-10 (b)	Real Return Years 11+ (c)
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

(a) 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.

(b) An expected inflation of 2.00% used for this period.

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

For the measurement period ended June 30, 2017 (measurement date), the table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	Current Target Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100.0%		

(a) An expected inflation of 2.50% used for this period.

(b) An expected inflation of 3.00% used for this period.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate –*

The following presents Cal Expo's proportionate share of the net pension liabilities of the Plans as of June 30, 2018 (measurement date), calculated using the discount rate of 7.15%, as well as what Cal Expo's proportionate share of the net pension liabilities would be if it were calculated using a discount rate 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current discount rate:

	State Miscellaneous		
	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Cal Expo's proportionate share of plan's net pension liability	\$ 21,392,362	\$ 14,921,909	\$ 9,499,551
	State Safety		
	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Cal Expo's proportionate share of plan's net pension liability	\$ 261,384	\$ 156,072	\$ 68,886
	State Peace Officers and Firefighters		
	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Cal Expo's proportionate share of plan's net pension liability	\$ 1,841,286	\$ 1,247,455	\$ 760,999

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

The following presents Cal Expo’s proportionate share of the net pension liabilities of the Plans as of June 30, 2017 (measurement date), calculated using the discount rate of 7.15%, as well as what Cal Expo’s proportionate share of the net pension liabilities would be if it were calculated using a discount rate 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current discount rate:

	State Miscellaneous		
	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Cal Expo's proportionate share of plan's net pension liability	\$ 20,208,967	\$ 14,771,520	\$ 10,220,868
	State Safety		
	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Cal Expo's proportionate share of plan's net pension liability	\$ 397,704	\$ 256,843	\$ 140,449
	State Peace Officers and Firefighters		
	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Cal Expo's proportionate share of plan's net pension liability	\$ 1,952,714	\$ 1,377,321	\$ 906,765

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports that can be obtained by visiting the CalPERS website at www.CalPERS.ca.gov.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS

For the year ended December 31, 2018, Cal Expo implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Below are the details of the plan.

Plan Description - The State provides postemployment medical and prescription drug benefits to employees and dependents through CalPERS under the Public Employees' Medical and Hospital Care Act, and dental benefits under the State Employees' Dental Care Act. The State, and certain bargaining units and judicial employees (valuation groups), have agreed to prefund retiree healthcare benefits. Assets are held in separate accounts by valuation group within the California Employers' Retiree Benefit Trust (CERBT) administered by CalPERS, an agent multiple-employer defined benefit other postemployment benefits plan (State's Substantive Plan). Assets within each valuation group benefit retirees and dependents associated with that valuation group. CalPERS reports on the CERBT as part of its separately issued annual financial statements, which can be obtained from CalPERS on its website, at www.calpers.ca.gov.

The State has identified 25 separate valuation groups within the State Substantive Plan. For each agency and/or fund, the State Controller's Office (SCO) determined the proportion of pensionable compensation attributable to employees within these valuation groups. The SCO then used these proportions to allocate the OPEB accounting elements from the State of California Retiree Health Benefits Program GASB Nos. 74 and 75 Actuarial Valuation Report to State agencies and their funds.

Benefits Provided - In accordance with the California Government Code, the State generally pays 100% of the health insurance premium cost for annuitants, plus 90% of the additional premium required for the enrollment of family members of annuitants. The State generally pays all or a portion of the dental insurance premium cost for annuitants, depending upon the completed years of credited state service at retirement and the dental coverage selected. The maximum 2017 monthly State contribution was \$707 for one-party, \$1,349 for two-party coverage, and \$1,727 for family coverage. To be eligible for these benefits, first-tier plan annuitants must retire on or after age 50 with at least five years of service, and second tier plan annuitants must retire on or after age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits.

Contributions - The design of the postemployment health and dental benefit programs can be amended by the CalPERS Board of Administration and the California Department of Human Resources, respectively. Employer and retiree contributions are governed by the State and may be amended by the Legislature. Cal Expo participates in the State's Substantive Plan on a cost-sharing basis. The State funds the cost of providing health and dental insurance to annuitants primarily on a pay-as-you-go basis. The State obtains an annual actuarial valuation of the State's Substantive Plan which can be found on the SCO's website, at www.sco.ca.gov. Contributions to the State's Substantive Plan from Cal Expo were \$612,780 and \$561,895 for the year ended December 31, 2019 and December 31, 2018, respectively.

CALIFORNIA EXPOSITION AND STATE FAIR
Notes to the Basic Financial Statements
For the Years Ended December 31, 2019 and 2018

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Net OPEB Liability, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB - At December 31, 2019, Cal Expo reported a liability of \$20,034,247 for its proportionate share of the State's Substantive Plan net OPEB liability. At December 31, 2018, Cal Expo reported a liability of \$27,767,000 for its proportionate share of the State's Substantive Plan net OPEB liability. The net OPEB liability and total OPEB liability used to calculate the net OPEB liability was measured as of June 30, 2018 and June 30, 2017, respectively, by an actuarial valuation. Cal Expo's proportion of the net OPEB liability was based on the SCO's projection for Cal Expo. Cal Expo's combined proportionate share, based on its attributable employee valuation groups' pensionable compensation, as of June 20, 2018 was 0.023406% and as of June 30, 2017 was 0.030511%.

For the year ended December 31, 2019, Cal Expo recognized OPEB expense of a negative \$833,986. At December 31, 2019, Cal Expo reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Cal Expo's contributions subsequent to the measurement date	\$ 896,280	\$ -
Change in proportion	-	(5,929,841)
Differences between contributions and proportionate share of contributions	-	(324,783)
Difference in Pay Go contributions	17,953	(15,023)
Differences between expected and actual experience	-	(1,493,356)
Changes in assumptions	-	(2,154,732)
Net differences between projected and actual earnings on OPEB plan investments	356	(276)
	<u>\$ 914,589</u>	<u>\$ (9,918,011)</u>

The \$896,280 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability as follows:

Years Ending December 31,	
2020	\$ 567,000
2021	329,280
Total	<u>\$ 896,280</u>

Other amounts reported as deferred inflows of resources related to OPEB will be recognized in Cal Expo's OPEB expense as follows:

Years Ending December 31,	
2020	\$ (1,796,555)
2021	(1,750,795)
2022	(1,660,095)
2023	(1,644,010)
2024	(1,521,785)
2025-2026	(1,526,462)
Total	<u>\$ (9,899,702)</u>

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

For the year ended December 31, 2018, Cal Expo recognized OPEB expense of \$994,105. At December 31, 2018, Cal Expo reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Cal Expo's contributions subsequent to the measurement date	\$ 816,345	\$ -
Changes in assumptions	-	(2,590,000)
Differences between contributions and proportionate share of contributions	-	(331,000)
	\$ 816,345	\$ (2,921,000)

The \$816,345 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability as follows:

Year Ending December 31,	
2019	\$ 508,693
2020	307,652
Total	\$ 816,345

Other amounts reported as deferred inflows of resources related to OPEB will be recognized in Cal Expo's OPEB expense as follows:

Year Ending December 31,	
2019	\$ (548,000)
2020	(548,000)
2021	(548,000)
2022	(548,000)
2023	(548,000)
2024	(181,000)
Total	\$ (2,921,000)

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions - For the measurement period ended June 30, 2018 (the measurement date), the total OPEB liability was determined using a June 30, 2018 valuation date. For the measurement period ended June 30, 2017 (the measurement date), the total OPEB liability was determined using a June 30, 2017 valuation date. The total OPEB liability was based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2018	June 30, 2017
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	Blended rate ranges from 3.620% to 4.066%, depending on the valuation group	Blended rate ranges from 3.560% to 3.974%, depending on the valuation group
Inflation	2.50%	2.75%
Salary Inflation	Varies ⁽¹⁾	Varies ⁽¹⁾
Investment Rate of Return	7.00% ⁽²⁾	7.28% ⁽²⁾
Mortality ⁽³⁾	CalPERS' Membership Data	CalPERS' Membership Data
Health care cost trend rates	<i>Pre-Medicare coverage:</i> Actual rates for 2019, increasing to 7.50% in 2020, decreasing 0.50% per year to an ultimate rate of 4.50% for 2026 and later years. <i>Post-Medicare coverage:</i> Actual rates for 2019, increasing to 8.00% in 2020, decreasing 0.50% per year to an ultimate rate of 4.50% for 2027 and later years. <i>Dental coverage:</i> 0.26% in 2019 and 4.50% thereafter.	<i>Pre-Medicare coverage:</i> Actual rates for 2018, increasing to 8.00% in 2019, decreasing 0.50% per year to an ultimate rate of 4.50% for 2026 and later years. <i>Post-Medicare coverage:</i> Actual rates for 2018, increasing to 8.50% in 2019, decreasing 0.50% per year to an ultimate rate of 4.50% for 2027 and later years. <i>Dental coverage:</i> 0.00% in 2018 and 4.50% thereafter.

⁽¹⁾ Depending on entry age and service.

⁽²⁾ Net of OPEB plan investment expenses but without reduction for OPEB plan administrative expenses.

⁽³⁾ The mortality table used was developed based on CalPERS specific data. For the June 30, 2018 valuation, the table includes 15 years of mortality improvements using the Society of Actuaries 90% Scale MP 2016. For more details on this table, refer to the 2017 CalPERS Experience Study. For the June 30, 2017 valuation, the table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, refer to the 2014 Experience Study.

Healthcare related assumptions such as plan participation, aging factors, adjustments for disabled members, and adjustments for children of current retirees and survivors are based on the 2015 experience study performed by Gabriel, Roeder, Smith and Company (GRS) for the period from 2007 to 2014. Other healthcare assumptions such as member healthcare plan selection, coverage and continuance, select and ultimate healthcare cost trend rates, and per capita claim costs and expenses, are based on the most current information available. To obtain a copy of the GRS experience study please email the State Controller's Office, State Accounting and Reporting Division, at StateGovReports@sco.ca.gov.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Changes in Assumptions – For the actuarial valuation as of June 30, 2018, healthcare related assumptions, including per capita healthcare cost and healthcare trend rates, were updated based on experience through June 30, 2018.

Discount Rate – The discount rate used to measure the total OPEB liability was based on a blended rate for each valuation group. The blended rate used to measure the June 30, 2018 total OPEB liability (for Cal Expo's OPEB liability reported as of December 31, 2019) ranges from 3.620% to 4.066% and the June 30, 2017 total OPEB liability (for Cal Expo's OPEB liability reported as of December 31, 2018) ranges from 3.560% to 3.974%.

The blended rate used to measure the June 30, 2018 total OPEB liability consists of the 20-year Municipal G.O. Bond AA Index rate of 3.62% as of June 30, 2018, as reported by Fidelity Index, when prefunding assets are not available to pay benefits, and 7.00% when prefunding assets are available to pay benefits. The blended rate used to measure the June 30, 2017 total OPEB liability consists of the 20-year Municipal G.O. Bond AA Index rate of 3.56% as of June 30, 2017, as reported by Fidelity Index, when prefunding assets are not available to pay benefits, and 7.28% when prefunding assets are available to pay benefits. The cash flow projections used to calculate the blended discount rate were developed assuming that prefunding agreements in which actuarially determined normal costs are shared between employees and the State will continue and that the required contributions will be made on time and as scheduled in future years. The prefunding agreements are subject to collective bargaining and legislative approval. Detailed information on the blended discount rates by valuation group is available in the State of California Retiree Health Benefits Program GASB Nos. 74 and 75 Actuarial Valuation Report as of June 30, 2018, on the State Controller's Office website, at www.sco.ca.gov.

The long-term expected rate of return on OPEB plan investments was determined by CalPERS using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense, and inflation) are developed for each major asset class. Expected compound (geometric) returns were calculated over a closed period. Based on separate expected nominal returns for the short-term (first 10 years) and the long-term (11-60 years), a single expected return rate of 7.28% was calculated for years 1-60. If applied to expected cash flows during that period, the resulting present value of benefits is expected to be consistent with the present value of benefits that would be determined by applying the short and long-term expected rates to the same cash flows.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

The following table reflects the long-term expected real rate of return by asset class for the measurement period ended June 30, 2018 (measurement date):

Asset Class	Current Target Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	59.0%	4.80%	5.98%
Fixed Income	25.0%	1.10%	2.62%
Treasury Inflation-Protected Securities	5.0%	0.25%	1.46%
Real Estate Investment Trusts	8.0%	3.50%	5.00%
Commodities	3.0%	1.50%	2.87%
Total	100.0%		

(a) An expected inflation of 2.00% used for this period.

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

The following table reflects the long-term expected real rate of return by asset class for the measurement period ended June 30, 2017 (measurement date):

Asset Class	Current Target Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	57.0%	5.25%	5.71%
Global Fixed Income	27.0%	1.79%	2.40%
Inflation Sensitive	5.0%	1.00%	2.25%
Real Estate	8.0%	3.25%	7.88%
Commodities	3.0%	0.34%	4.95%
Total	100.0%		

(a) An expected inflation of 2.50% used for this period.

(b) An expected inflation of 3.00% used for this period.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sensitivity of Cal Expo’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

- The following presents Cal Expo’s proportionate share of the net OPEB liability, as well as what Cal Expo’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current discount rate:

	<u>Measurement Date</u>	<u>Blended Discount Rate - 1%</u>	<u>Blended Discount Rate</u>	<u>Blended Discount Rate + 1%</u>
Cal Expo's proportionate share of plan's OPEB liability	June 30, 2018	\$ 23,543,969	\$ 20,034,247	\$ 17,231,289
	June 30, 2017	\$ 32,736,000	\$ 27,767,000	\$ 23,813,000

Sensitivity of Cal Expo’s Proportionate Share of the Net OPEB Liability to Changes in Healthcare Costs Trend Rates

- The following presents Cal Expo’s proportionate share of the net OPEB liability, as well as what Cal Expo’s proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rate:

	<u>Measurement Date</u>	<u>Healthcare Cost Trend Rate - 1%</u>	<u>Blended Discount Rate</u>	<u>Healthcare Cost Trend Rate + 1%</u>
Cal Expo's proportionate share of plan's OPEB liability	June 30, 2018	\$ 17,548,707	\$ 20,034,247	\$ 23,206,208
	June 30, 2017	\$ 23,566,000	\$ 27,767,000	\$ 33,142,000

OPEB Plan Fiduciary Net Position – Detailed information about the State’s Substantive Plan fiduciary net position is available on CalPERS website in an annual report titled “California Employers’ Retiree Benefit Trust, Agent Multiple-Employer Other Postemployment Benefits Plan, Schedule of Changes in Fiduciary Net Position by Employer”. Additionally, CalPERS annually issues a Comprehensive Annual Financial Report which includes the CERBT fund’s financial statements.

The actuarial valuation report for OPEB as of June 30, 2018 may be obtained by writing to the Office of State Controller, P.O. Box 942850, Sacramento, CA 94250 or by visiting the State Controller’s web site at www.sco.ca.gov.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Cal Expo is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, management believes that the resolution of these matters will not have a material adverse effect on the financial position, changes in financial position or cash flows of Cal Expo.

REQUIRED SUPPLEMENTARY INFORMATION

CALIFORNIA EXPOSITION AND STATE FAIR
 Required Supplementary Information
 Schedule of Cal Expo's Proportionate Share of the Net Pension Liability
 For the Fiscal Year Ended December 31, 2019
 10 Years*

	2019	2018	2017	2016	2015
STATE MISCELLENEOUS PLAN					
Cal Expo's proportion of the net pension liability	0.047500%	0.040431%	0.038143%	0.035149%	0.034160%
Cal Expo's proportionate share of the net pension liability	\$ 14,921,909	\$ 14,771,520	\$ 12,630,548	\$ 9,926,847	\$ 8,132,903
Cal Expo's covered-employee payroll	\$ 5,820,873	\$ 4,686,540	\$ 4,268,154	\$ 3,740,197	\$ 3,422,649
Cal Expo's proportionate share of the net pension liability as a percentage of their covered-employee payroll	256.35%	315.19%	295.93%	265.41%	237.62%
Plan fiduciary net position as a percentage of the total pension liability	71.83%	66.42%	66.81%	70.68%	74.17%
STATE SAFETY PLAN					
Cal Expo's proportion of the net pension liability	0.006058%	0.008471%	0.006186%	0.005984%	0.002877%
Cal Expo's proportionate share of the net pension liability	\$ 156,072	\$ 256,843	\$ 168,438	\$ 129,357	\$ 42,526
Cal Expo's covered-employee payroll	\$ 141,731	\$ 183,594	\$ 129,915	\$ 119,910	\$ 54,701
Cal Expo's proportionate share of the net pension liability as a percentage of their covered-employee payroll	110.12%	139.90%	129.65%	107.88%	77.74%
Plan fiduciary net position as a percentage of the total pension liability	80.36%	75.51%	75.31%	79.03%	81.46%
STATE POFF PLAN					
Cal Expo's proportion of the net pension liability	0.008967%	0.009023%	0.007575%	0.004490%	0.005769%
Cal Expo's proportionate share of the net pension liability	\$ 1,247,455	\$ 1,377,321	\$ 1,036,786	\$ 524,032	\$ 586,018
Cal Expo's covered-employee payroll	\$ 318,961	\$ 308,293	\$ 245,585	\$ 139,872	\$ 174,827
Cal Expo's proportionate share of the net pension liability as a percentage of their covered-employee payroll	391.10%	446.76%	422.17%	374.65%	335.20%
Plan fiduciary net position as a percentage of the total pension liability	70.53%	65.89%	66.10%	69.61%	72.80%
Measurement Date:	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014

Notes to Schedule:

Changes of benefit terms. For the measurement dates ended June 30, 2018, 2017, 2016, 2015, and 2014 there were no changes to the benefit terms.

Changes in assumptions. For the measurement date ended June 30, 2015, the discount rate changed from 7.50% (net of administrative expenses in 2014) to 7.65% to correct an adjustment which previously reduced the discount rate for administrative expenses. For the measurement dates ended June 30, 2016 and 2014, there were no changes in assumptions. For the measurement date ended June 30, 2017, the discount rate was reduced from 7.65% to 7.15%. For the measurement date ended June 20, 2018, the discount rate remained at 7.15%.

* - Fiscal year 2015 was the first year of implementation of GASB 68, therefore only five years are presented.

CALIFORNIA EXPOSITION AND STATE FAIR
Required Supplementary Information
Schedule of Cal Expo's Pension Contributions
For the Fiscal Year Ended December 31, 2019
10 Years*

	2019	2018	2017	2016	2015
STATE MISCELLENEOUS PLAN					
Contractually required contribution	\$ 1,666,716	\$ 1,550,154	\$ 1,378,640	\$ 1,161,636	\$ 985,083
Contributions in relation to the contractually required contribution	1,666,716	2,993,154	1,378,640	1,161,636	985,083
Contribution deficiency (excess)	\$ -	\$ 1,443,000	\$ -	\$ -	\$ -
Cal Expo's covered-employee payroll	\$ 5,569,321	\$ 5,794,408	\$ 5,027,424	\$ 4,524,978	\$ 4,080,467
Contributions as a percentage of covered-employee payroll	29.93%	51.66%	27.42%	25.67%	24.14%
STATE SAFETY PLAN					
Contractually required contribution	\$ 27,226	\$ 24,567	\$ 34,362	\$ 30,305	\$ 19,489
Contributions in relation to the contractually required contribution	27,226	49,567	34,362	30,305	19,489
Contribution deficiency (excess)	\$ -	\$ 25,000	\$ -	\$ -	\$ -
Cal Expo's covered-employee payroll	\$ 122,343	\$ 108,815	\$ 158,755	\$ 166,788	\$ 103,098
Contributions as a percentage of covered-employee payroll	22.25%	45.55%	21.64%	18.17%	18.90%
STATE POFF PLAN					
Contractually required contribution	\$ 69,568	\$ 115,340	\$ 136,035	\$ 120,855	\$ 60,295
Contributions in relation to the contractually required contribution	69,568	250,340	136,035	120,855	60,295
Contribution deficiency (excess)	\$ -	\$ 135,000	\$ -	\$ -	\$ -
Cal Expo's covered-employee payroll	\$ 133,872	\$ 256,091	\$ 317,050	\$ 298,808	\$ 159,038
Contributions as a percentage of covered-employee payroll	51.97%	97.75%	42.91%	40.45%	37.91%
Valuation Date:	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013

Notes to Schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	30-year fixed period
Asset Valuation Method**	Market Value of Assets
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return**	7.375%, net of pension plan investment and administrative expenses, includes inflation.
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

* - Fiscal year 2015 was the first year of implementation of GASB 68, therefore only five years are presented.

** - Actuarial methods and assumptions used in June 30, 2013 and June 30, 2014 are the same, with the exception of the Asset Valuation Method. Asset Valuation Method used in the June 30, 2014, June 30, 2015, June 30, 2016, and June 30, 2017 actuarial valuations is Market Value of Assets. Investment rate of return are the same, with the exception of June 30, 2014. The investment rate of return used in the June 20, 2013, 2015, and 2016 actuarial valuation is 7.50% and in the June 30, 2014 actuarial valuation is 7.65%.

CALIFORNIA EXPOSITION AND STATE FAIR
 Required Supplementary Information
 Schedule of Cal Expo's Proportionate Share of the Net OPEB Liability
 For the Fiscal Year Ended December 31, 2019
 10 Years*

	<u>2019</u>	<u>2018</u>
Cal Expo's proportion of the net OPEB liability	0.023406%	0.030511%
Cal Expo's proportionate share of the net OPEB liability	\$ 20,034,247	\$ 27,767,000
Cal Expo's covered-employee payroll	\$ 6,281,565	\$ 5,178,427
Cal Expo's proportionate share of the net OPEB liability as a percentage of their covered-employee payroll	318.94%	536.21%
Plan fiduciary net position as a percentage of the total OPEB liability	1.01%	0.55%
Measurement Date:	6/30/2018	6/30/2017

Notes to Schedule:

Changes of benefit terms. There were no changes to the benefit terms.

Changes in assumptions. Healthcare related assumptions were updated based on experience through the Measurement Date.

* - Fiscal year 2018 was the first year of implementation of GASB 75, therefore only two years are presented.

CALIFORNIA EXPOSITION AND STATE FAIR
 Required Supplementary Information
 Schedule of Cal Expo's OPEB Contributions
 For the Fiscal Year Ended December 31, 2019
 10 Years*

	2019	2018
Contractually required contribution	\$ 612,780	\$ 561,895
Contributions in relation to the contractually required contribution	612,780	561,895
Contribution deficiency (excess)	\$ -	\$ -
Cal Expo's covered-employee payroll	\$ 5,825,536	\$ 6,159,314
Contributions as a percentage of covered-employee payroll	10.52%	9.12%
Valuation Date:	6/30/2018	6/30/2017

Notes to Schedule:

* - Fiscal year 2018 was the first year of implementation of GASB 75, therefore only two year are presented.

OTHER REPORT



Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors
California Exposition and State Fair
Sacramento, California

We have audited, in accordance with the 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, the financial statements of the California Exposition and State Fair (Cal Expo) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Cal Expo’s basic financial statements, and have issued our report thereon dated January 22, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cal Expo's internal control over financial reporting (internal control) as a basis for designing 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 Cal Expo’s internal control. Accordingly, we do not express an opinion on the effectiveness of Cal Expo’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cal Expo's financial statements are free of 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 financial statements. 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Cal Expo's Responses to Findings

Cal Expo's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Cal Expo's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Sacramento, California
January 22, 2021

CALIFORNIA EXPOSITION AND STATE FAIR

Schedule of Findings and Responses
For the Year Ended December 31, 2019

Material Weaknesses

Item 2019-001 – Pension

Criteria:

Per Governmental Accounting Standard Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statements No. 27*, employer pension contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

Condition:

In the prior year, under the State of California (State) Senate Bill No. 84 (SB 84), the State’s Surplus Money Investment Fund (SMIF) made a pension contribution of \$1,603,000 on Cal Expo’s behalf, which Cal Expo correctly deferred as the contribution was made after the June 30, 2017 measurement date for the December 31, 2018 net pension liability. However, Cal Expo did not reverse that deferral in this year’s financial statements even though the contribution was made prior to the June 30, 2018 measurement date for the December 31, 2019 net pension liability.

Cause:

As the contribution was paid by the State SMIF, the State SMIF is requiring Cal Expo pay it back via a loan payable. And since Cal Expo has not made any payments on that liability yet, staff did not believe any adjustment to the deferral was necessary.

Effect:

As a result, deferred outflows of resources related to pensions was overstated and benefits expense was understated, therefore requiring an audit adjustment of \$1,603,000 to correct in this year’s financial statements.

Recommendation:

In addition to posting this adjustment to its official book of records, Cal Expo should understand that although the initial recording of the deferral and loan payable were related, the treatment of the subsequent payments on the loan payable will not have any impact on future pension transactions, and should be treated as any other loan payable (i.e., credit cash and debt loan payable).

Management Response:

Management agrees with the recommendation. Due to being granted a deferment on this loan by the Department of Finance, Cal Expo assumed the adjustment to deferred outflows of resources related to pensions and benefit expense would be accounted for in the period when the actual payment took place. The adjustment has been made.

Item 2019-002 – Other Postemployment Benefits (OPEB)

Criteria:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is the current authoritative OPEB guidance.

CALIFORNIA EXPOSITION AND STATE FAIR

Schedule of Findings and Responses
For the Year Ended December 31, 2019

Condition:

In its calculation of the deferred inflows of resources OPEB adjustment, Cal Expo started with a beginning balance that was net of the deferred outflows of resources beginning balance of \$816,345, even though it had already started with that beginning balance in its calculation of the deferred outflows of resources OPEB adjustment.

In its calculation of the deferred inflows of resources OPEB adjustment, Cal Expo included the unamortized balance of \$2,100,000 of last year's changes in assumptions balance, even though the State had already factored it into the calculations that Cal Expo had already included in its adjustment.

In its calculation of the deferred outflows and inflows of resources OPEB adjustment, Cal Expo reported the deferrals of this year's calculations for each bargaining unit for the change in proportion at gross of \$3,840,737 and \$9,770,578, respectively, when GASB Statement No. 75 states that each year's calculation to be reported net (\$5,929,841).

Cause:

This was the second year having to account for OPEB under GASB Statement No. 75, the first year in which there were prior year balances to take into consideration when calculating the adjustment.

Effect:

As a result, deferred outflows of resources related to OPEB was overstated \$3,840,737, deferred inflows of resources related to OPEB was overstated \$6,757,082 (\$816,345; \$2,100,000; and \$3,840,737), and benefits expense was overstated \$2,916,345 (\$816,345 and \$2,100,000), therefore requiring an audit adjustment to correct in this year's financial statements.

Recommendation:

In addition to posting this adjustment to its official book of records, Cal Expo should understand that the State has provided the information for the OPEB adjustment except for each year's proportionate share change adjustment as it's the State's policy to fully expense this amount each year. Therefore, the only amounts Cal Expo should add to the State's provided information is its calculations for the change in proportion and differences between contributions and proportionate share of contributions. In addition, each year's change in proportion and differences between contributions and proportionate share of contributions should be reported net. Also, Cal Expo should make sure to start with the correct beginning balances when it's calculating its adjustment.

Management Response:

Management agrees with the recommendation. Two main factors that contributed to the misstatement were: (1) Cal Expo operates on a calendar year versus a fiscal year like the rest of the State; therefore, Cal Expo can not take the figures directly from the State Controller's Office and must complete additional calculations to account for the difference in reporting periods and (2) Cal Expo is undergoing a massive layoff which requires the remaining staff to cover the duties of those staff who have left. Due to significant time constraints, Cal Expo Accounting staff currently does not have the appropriate amount of time to be experts in GASB implementations. Cal Expo will try to keep up to date with GASB pronouncements as best as possible with its current staffing limitations and consult with experts for implementations, if necessary.

CALIFORNIA EXPOSITION AND STATE FAIR
Schedule of Findings and Responses
For the Year Ended December 31, 2019

Significant Deficiency

Item 2019-003 – Segregation of Duties

Criteria:

Management is responsible for 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.

Condition:

Cal Expo's internal controls are not properly segregated due to insufficient number of employees involved in the financial reporting process. There are instances where an employee will need to record and approve financial information prior to being entered into the accounting system, and also review and approve the reconciliations thereafter. These employees are also individuals with access to blank checks and super-user access to the accounting system and can make changes to the accounting system as needed.

Cause:

Due to the continued impacts of the COVID-19 pandemic, Cal Expo has implemented a civil service staff reduction plan. As a result, several employees involved in the financial reporting process are no longer employed, whether they were terminated as a direct result of the staff reduction plan or left voluntarily due to the uncertainty of their employment. Therefore, very few individuals are still employed that are involved in the financial reporting process.

Effect:

Improper segregation of duties results an increased risk of material misstatements due to fraud and/or error. Employees who have physical custody of the checks that can also initiate, review, and reconcile financial information can create fictitious financial information and make unapproved payments. These employees who also have super-user access can manipulate information in the accounting system to try and hide the history of these fictitious financial information and unapproved payments. Lack of an independent reviews of transactions and payments prior to being posted also increases the risk of errors occurring.

Recommendation:

Due to circumstances surrounding Cal Expo's ability to continue as a going concern and its inability to hire employees, Cal Expo will need to cross-train employees to help assist in the financial reporting process so that custody of assets and the initiation, review, and reconciliation of financial information is properly segregated. Increased oversight by the Board of Directors would help the process. For example, Board members could review and approve disbursements, bank reconciliations, and other functions performed by management as management takes on functions previously performed by departed employees.

Management Response:

Management acknowledges and agrees with the deficiency. Cal Expo has discussed this issue internally and has been in the process of cross-training as well as implementing internal controls for duties that put the Department most at risk. Unfortunately, with the effects of the current layoff, this will continue to be an issue for Cal Expo.