

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



Annual Financial Report

For the Years Ended December 31, 2018 and 2017



Certified
Public
Accountants

CALIFORNIA EXPOSITION AND STATE FAIR
For the Years Ended December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Liquidity Risk

As discussed in Note 1 to the financial statements, Cal Expo has suffered recurring losses from operations, has aging infrastructure which requires significant capital improvements, and has stated that doubt exists about Cal Expo's ability to continue operations into the future. 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 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 Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of Cal Expo's proportionate share of the net pension liability, schedule of Cal Expo's pension contributions, 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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2019, 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.



Sacramento, California
May 20, 2019

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, 2018 and 2017. 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, 2018, increased by approximately \$14.6 million or 62.3% from December 31, 2017. Total assets at December 31, 2017, decreased by approximately \$1.5 million or 6.2% from December 31, 2016.
- Total liabilities at December 31, 2018, increased by approximately \$37.5 million or 132.9% from December 31, 2017. Total liabilities at December 31, 2017, increased by approximately \$3.9 million or 16.2% from December 31, 2016.
- Net position during the year ended December 31, 2018, decreased by approximately \$22.0 million or 10959.2%. Net position during the year ended December 31, 2017, decreased by approximately \$2.5 million or 92.7%.
- 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 revenues during the year ended December 31, 2017, decreased by approximately \$164 thousand or 0.6% 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. Total operating expenses during the year ended December 31, 2017, increased by approximately \$1.9 million or 6.8% 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>2018</u>	<u>% Change</u>	<u>2017</u>	<u>% Change</u>	<u>2016</u>
Current assets	\$ 24,187	166.6%	\$ 9,071	-18.1%	\$ 11,081
Noncurrent assets	13,935	-3.3%	14,412	3.3%	13,948
Total assets	<u>38,122</u>	<u>62.3%</u>	<u>23,483</u>	<u>-6.2%</u>	<u>25,029</u>
Deferred Outflows of Resources	<u>8,843</u>	<u>76.1%</u>	<u>5,021</u>	<u>116.1%</u>	<u>2,323</u>
Current liabilities	6,191	83.2%	3,380	-14.2%	3,939
Noncurrent liabilities	59,450	139.7%	24,801	22.1%	20,311
Total liabilities	<u>65,641</u>	<u>132.9%</u>	<u>28,181</u>	<u>16.2%</u>	<u>24,250</u>
Deferred Inflows of Resources	<u>3,150</u>	<u>2482.0%</u>	<u>122</u>	<u>-65.4%</u>	<u>353</u>
Net investment in capital assets	13,849	-1.7%	14,090	2.6%	13,733
Restricted	-	-100.0%	19	-26.9%	26
Unrestricted	<u>(35,676)</u>	<u>156.5%</u>	<u>(13,908)</u>	<u>26.3%</u>	<u>(11,009)</u>
Total net position (deficit)	<u>\$ (21,827)</u>	<u>-10959.2%</u>	<u>\$ 201</u>	<u>-92.7%</u>	<u>\$ 2,750</u>

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 decrease in current assets of approximately \$2.0 million at December 31, 2017 from 2016, is due to a decrease in cash, primarily the result of greater expenses than revenues. The changes in noncurrent assets are discussed in the Capital Assets section of the MD&A.

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.

The decrease in current liabilities of approximately \$559 thousand at December 31, 2017 from 2016, is due to a decrease in accounts payable at year end. The increase of noncurrent liabilities of \$4.5 million at December 31, 2017 from 2016, is primarily due to an increase of the net OPEB liability, as well as recording Cal Expo's proportionate share of net pension liability due to the implementation of GASB Statement No. 68, both determined by the State Controller.

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 \$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. The decrease in net position of approximately \$2.5 million or 92.7% at December 31, 2017 from 2016 is mainly due to an increase in operating expenses related to personnel and benefits.

Changes in Net Position

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

	2018	% Change	2017	% Change	2016
Operating revenues	\$ 27,785	5.5%	\$ 26,331	-0.6%	\$ 26,495
Operating expenses:					
Personnel	15,362	10.2%	13,940	13.6%	12,275
General and administrative	14,468	-3.0%	14,913	2.7%	14,528
Depreciation	1,625	3.5%	1,570	-6.8%	1,685
Total operating expenses	31,455	3.4%	30,423	6.8%	28,488
Operating loss	(3,670)	10.3%	(4,092)	-105.3%	(1,993)
Net nonoperating revenue	129	-98.5%	65	-71.1%	38
Capital contributions	135	-43.5%	239	39.0%	172
Extraordinary item	803	-35.2%	1,239	100.0%	-
Change in net position	(2,603)	-2.1%	(2,549)	-43.0%	(1,783)
Beginning net position - as previously reported	201	-92.7%	2,750	-39.3%	4,533
Cumulative effect of change in accounting principles	(19,425)	100.0%	-	0.0%	-
Beginning net position (deficit) - as restated	(19,224)	-799.1%	2,750	-39.3%	4,533
Ending net position (deficit)	\$ (21,827)	-10959.2%	\$ 201	-92.7%	\$ 2,750

Operating Revenues

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.

Total operating revenues decreased by approximately \$164 thousand or 0.6% during the year ended December 31, 2017, from the prior year primarily due to the following:

- Decrease of \$127 thousand in State Fair revenue due to decreased attendance.
- Decrease of \$113 thousand in Grants due to two (2) sizable grants being completed in 2016.

Operating Expenses

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 liability due to the implementation of GASB 75.

Total operating expenses increased by approximately \$1.9 million or 6.8% during the year ended December 31, 2017, from the prior year primarily due to the following:

- Increase of \$717 thousand in Salaries and wages expense due to an increase in minimum wage and implementation of State negotiated pay raises for certain classifications.
- Increase of \$948 thousand in Benefits expense due to recording \$328 thousand in pension expense related to GASB 68.

Extraordinary Item

During the year ended December 31, 2018, Cal Expo incurred an impairment gain net of insurance recoveries of \$803,359 due to storm damage. During the year ended December 31, 2017, Cal Expo incurred an impairment gain net of insurance recoveries of \$283,140 due to fire and \$955,948 due to storm damage.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2018 and 2017, Cal Expo's investment in capital assets totaled approximately \$13.9 million and \$14.4 million, respectively (net of accumulated depreciation). During the year ended December 31, 2018, net capital assets decreased by approximately \$477 thousand or 3.3%. During the year ended December 31, 2017, net capital assets increased by approximately \$464 thousand or 3.3%. The following table summarizes the changes in net capital assets (in thousands):

	<u>2018</u>	<u>% Change</u>	<u>2017</u>	<u>% Change</u>	<u>2016</u>
Land	\$ 1,644	0.0%	\$ 1,644	0.0%	\$ 1,644
Construction in progress	142	-89.5%	1,346	134.9%	573
Buildings and improvements	77,415	3.0%	75,165	-0.1%	75,224
Equipment	6,334	-0.2%	6,344	10.4%	5,747
Less accumulated depreciation	<u>(71,600)</u>	<u>2.2%</u>	<u>(70,087)</u>	<u>1.2%</u>	<u>(69,240)</u>
Net capital assets	<u>\$ 13,935</u>	<u>-3.3%</u>	<u>\$ 14,412</u>	<u>3.3%</u>	<u>\$ 13,948</u>

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

The overall increase in net capital assets in 2017 is primarily due to recording disposals offset by increases in construction in progress. Major additions to buildings for 2017 include the following projects:

- Installing water well flow meters

- Replacing (2) electrical vault switchgears
- Updating the monorail communication system
- Replacing the Grandstand roof due to storm damage

Additional information on Cal Expo’s capital assets can be found in note 3 on page 19 through 20 of this report.

Debt Administration

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. During the year ended 2017, Cal Expo’s notes payable increased by approximately \$107 thousand or 49.9%, as a result of Cal Expo being notified of an amount due for unfunded vested benefits for harness racing employees. Additional information on Cal Expo’s long-term debt can be found in note 5 on pages 22 through 24 of this report.

SYNOPSIS OF THE FUTURE

The California Exposition and State Fair continues to be rated by national news outlets as one of the “Top 10 Fairs in America.” Based upon attendance, the California State Fair 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. For decades, Cal Expo has maintained and operated more than 100 structures on the 768 acre facility, yet until recently received no tax revenues or financial support from State, County or local government sources.

As a self-funded State Agency, Cal Expo is tasked with operating much like a private business, but within the confines of being a State entity. Some 60% of Cal Expo’s revenues are derived each July during the 17 days of the Annual California State Fair. Due to two of the hottest July’s in the history of Sacramento, attendance declined at the 2017 and 2018 Annual State Fair. Declines in attendance significantly impact revenues. Consequently, efforts to create new and expand existing non-Fair time revenue are ongoing.

Faced with an aging infrastructure and increased 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 strategically embarked on a wide variety of “renewal efforts” over the past few years. Cal Expo has achieved a great deal of success in creative solutions to improve the physical site and the experience for the people of California.

The following are a few examples of expanded revenue opportunities in recent years. With the legalization of Cannabis in California the first “fully Licensed and Permitted” Adult Recreation Cannabis Consumption event was held at Cal Expo in May of 2018. This new event provided more than \$200,000 in revenues to Cal Expo. As Cannabis events expand in California, this 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. Global Winter Wonderland (aka Chinese Lantern Festival) conducted its fifth season at Cal Expo. Cal Expo has also renegotiated Revenue Generating Agreements with three major tenants: Raging Waters Aquatic Park; Watch & Wager Harness Racing; and Rock & Brews, a themed family entertainment restaurant. Cal Expo is in the midst of negotiations for a possible Revenue Generating Agreement with Drive Shack. Drive Shack would be a 12 acre golf and entertainment facility attracting some 450,000 customers to Cal Expo annually, while creating up to 400 new jobs.

Even with growth in “Non-State Fair Revenues” in recent years, Cal Expo will not be able to keep pace with ever-increasing Operational Expenses combined with the upkeep of aging infrastructure. The following are a sampling of increased expenses that are being passed along to Cal Expo by the State of California.

- 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 seven years.
- d) Recent notification that Cal Expo must repay \$1,870,000 of SB 84 loan funds between the State and CalPERS, which includes \$267,000 in estimated interest.
- e) Recent notification that "pre-funding" of OPEB is now a part of Collective Bargaining Agreements, requiring Cal Expo to "pre-fund" a portion of its OPEB exposure.

Throughout 2018, Cal Expo closely monitored and evaluated 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. Following a second summer of "record setting heat" during the Annual State Fair, Cal Expo implemented immediate and significant measures to dramatically reduce expenses and preserve cash. While such action allowed Cal Expo to preserve its cash position on a temporary basis, these drastic cuts are not sustainable into the future and service levels will be heavily impacted. Significant cash has been freed up since August of 2018 via cuts and operational changes including, but are not limited to:

- Internal hiring freeze – currently 7 full time positions are vacant and have not been refilled.
- Reduction of all non-reimbursable temporary staff and contracted labor.
- 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 (such as simulcast wagering) 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 deferred payment to the State on the following:
 - 2018/2019 Pro Rata Assessment
 - 2018/2019 Vehicle Assessment

In addition to Operating Expenses, Cal Expo is responsible for a great deal of infrastructure that is in excess of 50 years old. As prudent stewards of such assets, Cal Expo contracted with Sierra West to analyze and assess the condition of its facilities. Completed in 2018, the study complimented Cal Expo for the work it has done to maintain and improve the facilities and it identified some \$138 million in facility needs aimed at positioning its infrastructure for the next 50 years of operations. Sierra West also noted that roughly 50% of the identified infrastructure needs were due to new regulations and changes in building standards related to energy conservation, water conservation, and Americans with Disabilities Act (ADA) requirements. In recognition of the needs identified by Sierra West, \$15,000,000 in Deferred Maintenance Funding for Cal Expo was approved by the Administration and Legislature 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 be required to address its aging infrastructure. Of particular note is that Cal Expo currently receives no revenues back from the millions of sales tax dollars that it generates annually to the State, the County, and the City.

Cal Expo's Board of Directors and Executive Team remain focused on identifying possible revenue opportunities, cost cutting opportunities, potential legislative support, as well as potential support from the Administration. 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 50 year old 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, Samantha Brown, Deputy General Manager (Administration), 1600 Exposition Boulevard, Sacramento, California 95815 or call (916) 263-3280.

**CALIFORNIA EXPOSITION AND STATE FAIR
STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,039,606	\$ 6,858,093
Restricted cash	200,000	219,584
Accounts receivable, net	16,650,839	1,245,643
Prepaid expenses	194,561	215,793
Capital projects deposits	101,661	532,356
Total current assets	<u>24,186,667</u>	<u>9,071,469</u>
Noncurrent assets:		
Capital assets:		
Land	1,643,577	1,643,577
Construction in progress	141,530	1,345,883
Buildings and improvements	77,415,369	75,165,613
Equipment and machinery	6,334,256	6,344,082
Less accumulated depreciation	<u>(71,599,893)</u>	<u>(70,086,707)</u>
Net capital assets	<u>13,934,839</u>	<u>14,412,448</u>
Total assets	<u>38,121,506</u>	<u>23,483,917</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions	8,027,099	5,020,769
Related to OPEB	816,345	-
Total deferred outflows of resources	<u>8,843,444</u>	<u>5,020,769</u>
LIABILITIES		
Current liabilities:		
Accounts payable	1,299,266	951,803
Accrued wages and benefits	541,562	738,947
Deposits	802,541	760,290
Unearned revenue	205,795	167,424
Unearned revenue - Deferred Maintenance Funds	2,785,000	-
Notes payable	36,027	236,975
Compensated absences	503,196	507,353
Self-insurance	18,051	17,275
Total current liabilities	<u>6,191,438</u>	<u>3,380,067</u>
Noncurrent liabilities:		
Notes payable	49,452	85,479
Self-insurance	383,675	413,896
Net OPEB liability	27,767,000	9,452,000
Net pension liability	16,405,684	13,835,772
Compensated absences	1,026,198	1,014,201
Loan payable - SMIF (SB 84)	1,603,000	-
Unearned revenue - Deferred Maintenance Funds	12,215,000	-
Total noncurrent liabilities	<u>59,450,009</u>	<u>24,801,348</u>
Total liabilities	<u>65,641,447</u>	<u>28,181,415</u>
DEFERRED INFLOWS OF RESOURCES		
Related to pensions	229,017	122,132
Related to OPEB	2,921,000	-
Total deferred inflows of resources	<u>3,150,017</u>	<u>122,132</u>
NET POSITION		
Net investment in capital assets	13,849,360	14,089,994
Restricted for:		
Grants	-	19,584
Unrestricted deficit	<u>(35,675,874)</u>	<u>(13,908,439)</u>
Total net position (deficit)	<u>\$ (21,826,514)</u>	<u>\$ 201,139</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
State Fair	\$ 16,535,523	\$ 16,658,261
Exposition events	5,929,621	5,451,871
Harness / Watch & Wager	96,329	106,887
Charges for services	2,659,385	2,338,741
Simulcast	941,913	929,962
Grants	1,036,240	401,388
Raging Waters	390,395	418,665
Miscellaneous	195,718	25,634
Total operating revenues	<u>27,785,124</u>	<u>26,331,409</u>
Operating expenses:		
Personnel:		
Salaries and wages	9,143,227	9,223,777
Benefits	6,218,818	4,715,996
Total personnel expenses	<u>15,362,045</u>	<u>13,939,773</u>
General and administrative:		
General	1,946,278	2,157,418
Professional services	4,549,038	4,966,290
Advertising	1,115,515	1,223,291
Utilities	1,574,642	1,568,013
Entertainment	947,980	978,966
Facilities operation	831,201	1,000,070
Awards	368,709	385,767
Insurance	845,523	858,509
Printing	123,217	142,123
Telecommunications	183,198	187,929
Equipment	984,273	642,511
State administrative costs	667,232	464,097
Data processing	137,753	132,862
Travel and training	37,181	50,232
Postage	17,212	38,781
Judges	67,731	75,565
Other	71,112	40,534
Total general and administrative expenses	<u>14,467,795</u>	<u>14,912,958</u>
Depreciation	1,624,850	1,570,777
Total operating expenses	<u>31,454,690</u>	<u>30,423,508</u>
Operating loss	<u>(3,669,566)</u>	<u>(4,092,099)</u>
Nonoperating revenues (expenses):		
Interest and dividends income	130,867	78,599
Loss on disposal of capital assets	-	(10,198)
Interest expense	(1,882)	(3,194)
Net nonoperating revenue (expenses)	<u>128,985</u>	<u>65,207</u>
Loss before contributions	(3,540,581)	(4,026,892)
Capital contributions	135,119	238,897
Extraordinary Item		
Impairment gain on fire and storm damage, net of insurance recovery	<u>803,359</u>	<u>1,239,088</u>
Change in net position	<u>(2,602,103)</u>	<u>(2,548,907)</u>
Net position, beginning of year, as previously reported	201,139	2,750,046
Cumulative effect of change in accounting principles	<u>(19,425,550)</u>	<u>-</u>
Net position (deficit), beginning of the year, as restated	<u>(19,224,411)</u>	<u>2,750,046</u>
Net position (deficit), end of year	<u>\$ (21,826,514)</u>	<u>\$ 201,139</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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers and users	\$ 30,488,410	\$ 26,006,328
Cash payment to employees	(16,341,348)	(13,083,925)
Cash payment to suppliers	(14,099,100)	(14,349,734)
Net cash provided by (used in) operating activities	<u>47,962</u>	<u>(1,427,331)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(591,937)	(649,242)
Capital projects deposits	430,695	(532,356)
Insurance recoveries	383,174	-
Proceeds from disposition of capital assets	25	-
Principal paid on notes and capital leases	(236,975)	(90,732)
Capital contributions	-	24,239
Interest paid on notes and capital leases	(1,882)	(3,194)
Net cash used in capital and related financing activities	<u>(16,900)</u>	<u>(1,251,285)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	<u>130,867</u>	<u>78,599</u>
Net increase (decrease) in cash and cash equivalents	161,929	(2,600,017)
Cash and cash equivalents, beginning of year	<u>7,077,677</u>	<u>9,677,694</u>
Cash and cash equivalents, end of year	<u>\$ 7,239,606</u>	<u>\$ 7,077,677</u>
Cash and cash equivalents	\$ 7,039,606	\$ 6,858,093
Restricted cash	<u>200,000</u>	<u>219,584</u>
Total cash and cash equivalents, end of year	<u>\$ 7,239,606</u>	<u>\$ 7,077,677</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (3,669,566)	\$ (4,092,099)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	1,624,850	1,570,777
Write off to CIP	-	58,004
Pension benefits assessment added to notes payable	-	198,112
Increase (decrease) in operating assets:		
Accounts receivable	(405,221)	30,481
Prepaid expenses	21,232	(88,826)
Increase (decrease) in operating liabilities:		
Accounts payable	347,463	(290,954)
Accrued wages and benefits	(197,385)	(216,906)
Deposits	42,251	(102,566)
Unearned revenue	38,371	(22,621)
Net OPEB liability and related deferred outflows & inflows	994,105	885,000
Net pension liability and related deferred outflows & inflows	(329,533)	327,539
Compensated absences	7,840	251,650
Self-insurance	(29,445)	65,078
Loan payable - SMIF (SB 84)	1,603,000	-
Net cash provided by (used in) operating activities	<u>\$ 47,962</u>	<u>\$ (1,427,331)</u>
Schedule of non-cash capital and related financing activities:		
Insurance proceeds applied to capital asset additions	\$ 420,185	\$ 1,239,088
Contributed assets	135,119	214,658
Loss on disposal of capital assets	-	10,198

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, 2018 and 2017

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 FC, 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, 2018 and 2017, 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 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.

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, 2018 and 2017, represent deposits from users of Cal Expo's property and grant funding received for a specific grant program/project.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2018 and 2017

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

Accounts Receivable - At December 31, 2018 and 2017, 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, 2018 and 2017, the allowance for uncollectible accounts totaled \$2,708 and \$3,248 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 Fairs Financing Authority (CFFA), a construction management agency for California fairs, to provide project management for capital projects. CFFA requires a deposit to be made in the amount of the estimated cost of the capital project plus a nominal project management fee. CFFA 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.

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, 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.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2018 and 2017

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

Cal Expo is also self-insured for general liability claims occurring prior to July 1, 1994. As the statute of limitations has expired, no new claims have been accrued. There were no amounts accrued for general liability claims at December 31, 2018 and 2017, as no losses are expected.

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, 2018 and 2017, accrued compensated absences for all Cal Expo employees amounted to \$1,529,394 and \$1,521,554 respectively, of which \$503,196 and \$507,353 are classified as a current liability, respectively.

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 Governmental Accounting Standards Board (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.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2018 and 2017

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

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 2018 and \$4.1 million in 2017, which resulted in a negative change in net position of \$2.6 million and \$2.5 million, respectively. Cal Expo, a component unit of the State of California, receives no financial support from the State for operating expenses, 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.

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 have plans to begin several deferred maintenance projects in early 2019 with these funds. 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.

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 most recently, 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 through farm tours. However, Cal Expo may not be able to operate as a business into the future (more than 15 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, 2018 and 2017

NOTE 2 – CASH AND CASH EQUIVALENTS

The fair value of Cal Expo's cash and cash equivalents is as follows at December 31, 2018 and 2017:

	2018	2017
Deposits	\$ 2,899,142	\$ 1,820,849
Local Agency Investment Fund (LAIF)	3,930,303	4,854,877
Cash in vault	130,000	130,000
Cash on hand	80,161	52,367
	<hr/>	<hr/>
Total unrestricted cash and cash equivalents	7,039,606	6,858,093
Total restricted cash - deposits	<hr/> 200,000	<hr/> 219,584
Total cash and cash equivalents	<hr/> <hr/> \$ 7,239,606	<hr/> <hr/> \$ 7,077,677

Fair Value Measurement - GASB Statement 72 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, 2018 and 2017. 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.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

The following schedules summarize the carrying value of amounts on deposit in the Local Agency Investment Fund (LAIF) at December 31, 2018 and 2017. LAIF had a total balance of \$83.3 billion and \$74.3 billion at December 31, 2018 and 2017, respectively. Of those amounts 1.84% and 2.32% were invested in structured notes and asset-backed securities. N/R represents securities that are not rated.

	<u>December 31, 2018</u> <u>Carrying Value</u>	<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
	<u>December 31, 2017</u> <u>Carrying Value</u>	<u>Credit</u> <u>Rating</u>	<u>Weighted</u> <u>Average</u> <u>Maturity</u>
Unrestricted:			
Local Agency Investment Fund	\$ 4,854,877	N/R	186 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, 2018 and 2017, one hundred percent of Cal Expo's cash equivalents are invested in LAIF, which is not subject to custodial credit risk. 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, 2017, the bank balance of Cal Expo's cash deposits for its deposit accounts totaled \$2,136,258. Of the bank balance, \$250,000 was covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and \$1,886,258 was collateralized by pledging financial institutions. At December 31, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017

NOTE 3 – CAPITAL ASSETS

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 include 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, 2018 and 2017

NOTE 3 – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated				
Land	\$ 1,643,577	\$ -	\$ -	\$ 1,643,577
Construction in progress	573,257	1,257,985	(485,359)	1,345,883
	<u>2,216,834</u>	<u>1,257,985</u>	<u>(485,359)</u>	<u>2,989,460</u>
Capital assets being depreciated				
Buildings and improvements	75,223,864	617,787	(676,038)	75,165,613
Equipment and machinery	5,747,276	654,571	(57,765)	6,344,082
	<u>80,971,140</u>	<u>1,272,358</u>	<u>(733,803)</u>	<u>81,509,695</u>
Less accumulated depreciation for:				
Buildings and improvements	(64,189,852)	(1,420,775)	665,840	(64,944,787)
Equipment and machinery	(5,049,683)	(150,002)	57,765	(5,141,920)
	<u>(69,239,535)</u>	<u>(1,570,777)</u>	<u>723,605</u>	<u>(70,086,707)</u>
Net capital assets being depreciated	<u>11,731,605</u>	<u>(298,419)</u>	<u>(10,198)</u>	<u>11,422,988</u>
Net capital assets	<u>\$ 13,948,439</u>	<u>\$ 959,566</u>	<u>\$ (495,557)</u>	<u>\$ 14,412,448</u>

Construction in progress includes insurance proceeds for repairs of \$283,140 due to fire and \$955,948 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, 2018 and 2017

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, 2018, are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 247,500
2020	247,500
2021	251,634
2022	272,304
2023	272,304
Later years	2,293,966
Total minimum future rentals (a)	<u>\$ 3,585,208</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 2018 and \$681 in 2017.

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.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 4 – OPERATING LEASES (Continued)

The minimum future rentals on noncancelable operating leases as of December 31, 2018, are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 78,000
2020	78,000
2021	79,334
2022	86,004
2023	86,004
Later years	675,678
Total minimum future rentals (a)	<u>\$ 1,083,020</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 2018 and \$0 in 2017.

NOTE 5 – LONG-TERM OBLIGATIONS

Notes Payable

During the year ended 2010, the California Fairs Services Authority loaned \$250,000 to Cal Expo for improvements to the Monorail. The loan is collateralized by the Monorail, interest rate at 5%, payable in monthly installments aggregating \$42,402 per year including interest, maturing January 2018. The balance at December 31, 2018 and 2017, was \$0 and \$3,518 respectively.

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, 2018 and 2017, was \$67,834 and \$89,834 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, 2018 and 2017, was \$17,645 and \$30,990 respectively.

During the year ended 2017, the Western Conference of Teamsters Pension Trust (Trust) notified Cal Expo that \$198,112 was due to the Trust for unfunded vested benefits for harness racing employees. Cal Expo voluntarily withdrew from the Pension Plan in 2012 when Cal Expo discontinued operating harness racing independently. Cal Expo paid the balance in full in April 2018.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 5 – LONG-TERM OBLIGATIONS (Continued)

Annual debt service requirements to maturity for notes payable at December 31, 2018, are as follows:

<u>Year Ending December 31:</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 36,027	\$ 564
2020	25,618	30
2021	22,000	-
2022	1,834	-
Total notes payable	<u>\$ 85,479</u>	<u>\$ 594</u>

Changes in Long-Term Obligations

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>

Chapter 50, Statutes of 2017 (SB 84), authorized the State to make a one-time \$6 billion supplemental pension payment to CalPERS in 2017-2018, in addition to the annual State contribution. The additional pension payment is funded through a loan from the Surplus Money Investment Fund (SMIF). SB 84 requires the repayment of the loan principal and the payment of interest be made from the General Fund and other funds and accounts (Funds) that are required by law to fund the state's employer contribution to the Public Employees' Retirement Fund. Pursuant to the 2018 Budget Act, the \$6 billion supplemental pension payment funded by the loan from the SMIF is estimated to result in net savings of \$4.8 billion. SB 84 requires all Funds to fully repay their principal and interest allocation by June 30, 2030. During the year ended 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. Currently, the first installment of \$297,000 for the 2019-2020 fiscal year is due July 2020, of which \$55,000 is interest.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 5 – LONG-TERM OBLIGATIONS (Continued)

Changes in long-term obligations for the year ended December 31, 2017, 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	\$ 215,074	\$ 198,112	\$ (90,732)	\$ 322,454	\$ 236,975
Compensated absences	1,269,904	780,081	(528,431)	1,521,554	507,353
Total	<u>\$ 1,484,978</u>	<u>\$ 978,193</u>	<u>\$ (619,163)</u>	<u>\$ 1,844,008</u>	<u>\$ 744,328</u>

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Unpaid claims, beginning of fiscal year	\$ 431,171	\$ 366,093
Changes in estimates	35,000	78,357
Claim payments	<u>(64,445)</u>	<u>(13,279)</u>
Unpaid claims, end of fiscal year	<u>\$ 401,726</u>	<u>\$ 431,171</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.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

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.

The Plans’ provisions and benefits in effect at December 31, 2018 and 2017, are summarized as follows:

	State Miscellaneous Plan				
	Prior to January 15, 2011	On or after January 15, 2011	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	50-63	50-63	52-67	50-65	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	On or after January 15, 2011	On or after January 15, 2011	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	50-55	50-55	50-60	50-57
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	On or after January 15, 2011	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	50-55	50+	50-55	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(a) 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 1st 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. Cal Expo is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

For the measurement period ended June 30, 2017 (the measurement date), the average active employee contribution rate and the employer’s actuarially determined contribution rate, expressed as a percentage of pensionable compensation were:

	Average Active Employee Contribution Rate	Employer Contribution Rate
State Miscellaneous Plan	6.525%	26.371%
State Safety Plan	10.421%	18.753%
State Peace Officers and Firefighters Plan	11.252%	40.276%

For the fiscal year ended December 31, 2018, the contributions recognized as part of pension expense were \$1,406,452.

For the measurement period ended June 30, 2016 (the measurement date), the average active employee contribution rate and the employer’s actuarially determined contribution rate, expressed as a percentage of pensionable compensation were:

	Average Active Employee Contribution Rate	Employer Contribution Rate
State Miscellaneous Plan	6.525%	24.729%
State Safety Plan	10.421%	18.082%
State Peace Officers and Firefighters Plan	11.252%	37.338%

For the fiscal year ended December 31, 2017, the contributions recognized as part of pension expense were \$1,186,899.

Included in Cal Expo’s contributions to the Plan is the State Surplus Money Investment Fund (SMIF) \$1,603,000 contribution made on behalf of Cal Expo during the year ended December 31, 2018, 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, 2018 and 2017, in the amount of \$16,405,684 and \$13,835,772, 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, 2018, are measured as of June 30, 2017, 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, 2016, rolled forward to June 30, 2017, 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

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

(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, 2017 was 0.0404306% (State Miscellaneous), 0.0084706% (State Safety), and 0.0090233% (State Peace Officers and Firefighters). Cal Expo’s proportionate share of the net pension liabilities for the Plans as of June 30, 2016, was 0.0381428% (State Miscellaneous), 0.0061856% (State Safety), and 0.0075754% (State Peace Officers and Firefighters).

For the year ended December 31, 2018, Cal Expo recognized pension expense of \$1,273,468. At December 31, 2018, Cal Expo reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	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	\$ 2,304,375	\$ -	\$ 38,831	\$ -	\$ 185,902	\$ -
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	-
Supplemental contributions in accordance with SB84	1,443,000	-	25,000	-	135,000	-
	<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 in the fiscal year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year 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, 2018 and 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended December 31, 2017, Cal Expo recognized pension expense of \$327,539. At December 31, 2017, 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	\$ 1,999,394	\$ -	\$ 52,284	\$ -	\$ 200,585	\$ -
Change in proportion	766,150	-	34,372	-	289,865	(92,883)
Differences between expected and actual experience	128,895	(29,002)	-	(246)	14,406	-
Net difference between projected and actual earnings on pension plan investments	1,395,288	-	28,483	-	111,047	-
	<u>\$ 4,289,727</u>	<u>\$ (29,002)</u>	<u>\$ 115,139</u>	<u>\$ (246)</u>	<u>\$ 615,903</u>	<u>\$ (92,883)</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 in the fiscal year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending December 31,	State Miscellaneous	State Safety	State Peace Officers and Firefighters
2018	\$ 533,265	\$ 18,539	\$ 59,714
2019	519,474	18,539	59,714
2020	843,700	18,262	93,758
2021	364,892	7,269	95,396
2022	-	-	13,853
Total	<u>\$ 2,261,331</u>	<u>\$ 62,609</u>	<u>\$ 322,435</u>

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions – 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. For the measurement period ended June 30, 2016 (measurement date), the total pension liability was determined by rolling forward the June 30, 2015, total pension liability using standard update procedures.

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 ⁽³⁾	CalPERS' Membership Data
Post Retirement Benefit Increase	Up to 2.75% ⁽⁴⁾

The June 30, 2016, 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	7.65%
Inflation	2.75%
Salary Inflation	Varies ⁽¹⁾
Investment Rate of Return	7.65% ⁽²⁾
Mortality ⁽³⁾	CalPERS' Membership Data
Post Retirement Benefit Increase	Up to 2.75% ⁽⁴⁾

⁽¹⁾ Depending on age, service and type of employment

⁽²⁾ Net of pension plan investment and administrative expenses, including inflation.

⁽³⁾ 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 report

⁽⁴⁾ Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

All other actuarial assumptions used in the June 30, 2017 and 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.

Discount Rate – The discount rate used to measure the total pension liability as of the measurement date of June 30, 2017 and June 30, 2016 for all Plans was 7.15% and 7.65%, respectively. To determine

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

whether the municipal bond rate should be used in the calculation of a discount rate for each Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is deemed not necessary. The long-term expected discount rate of 7.15% is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both member and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS' website under the GASB 68 section.

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 (PERF) cash flows. Taking into account historical returns of all the fund's asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 PERF fund. The expected rate of return was set by calculating the 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>Current Target Allocation</u>	<u>Real Return Years 1-10 (a)</u>	<u>Real Return Years 11+ (b)</u>
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	<u>100.0%</u>		

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

For the measurement period ended June 30, 2016 (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. These rates of return are net of administrative expenses.

Asset Class	Current Target Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	100.0%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2018 and 2017

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, 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

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2018 and 2017

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, 2016 (measurement date), calculated using the discount rate of 7.65%, 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 (6.65%) or 1 percentage point higher (8.65%) than the current discount rate:

	State Miscellaneous		
	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Cal Expo's proportionate share of plan's net pension liability	\$ 17,195,046	\$ 12,630,548	\$ 8,798,570
	State Safety		
	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Cal Expo's proportionate share of plan's net pension liability	\$ 257,176	\$ 168,438	\$ 94,816
	State Peace Officers and Firefighters		
	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Cal Expo's proportionate share of plan's net pension liability	\$ 1,460,563	\$ 1,036,786	\$ 688,836

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

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

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 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 June 30, 2017 State of California Retiree Health Benefits Program 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 \$816,345 for the year ended December 31, 2018.

Net OPEB Liability, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB - 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, 2017, 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 30, 2017 was 0.030511%.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2018 and 2017

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)
	<u>\$ 816,345</u>	<u>\$ (2,921,000)</u>

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 during the fiscal year ending December 31, 2019. 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	<u>\$ (2,921,000)</u>

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions - 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 June 30, 2016 beginning total OPEB liability was determined by rolling back the June 30, 2017 total OPEB liability. The June 30, 2017 total OPEB liability was based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	Blended rate ranges from 3.560% to 4.219%, depending on the valuation group
Inflation	2.75%
Salary Inflation	Varies ⁽¹⁾
Investment Rate of Return	7.28% ⁽²⁾
Mortality ⁽³⁾	CalPERS' Membership Data
Health care cost trend rates	<p align="center"><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.</p> <p align="center"><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.</p> <p align="center"><i>Dental coverage:</i> 0.00% in 2018 and 4.50% thereafter</p>

⁽¹⁾ Depending on age, service and type of employment

⁽²⁾ Net of OPEB plan investment expenses.

⁽³⁾ 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 report

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.

Changes in Assumptions – For the actuarial valuation as of June 30, 2017, healthcare related assumptions, including per capita healthcare cost and healthcare trend rates, were updated based on experience through June 30, 2017.

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, 2017 total OPEB liability (for Cal Expo's OPEB liability reported as of December 31, 2018) ranges from 3.560% to 4.219%.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, 2017, 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.

<u>Asset Class</u>	<u>Current Target Allocation</u>	<u>Real Return Years 1-10 (a)</u>	<u>Real Return Years 11+ (b)</u>
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 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2018 and 2017

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 of June 30, 2017 (measurement date), 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:

	Blended Discount Rate - 1%	Blended Discount Rate	Blended Discount Rate + 1%
Cal Expo's proportionate share of plan's OPEB liability	\$ 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 of June 30, 2017 (measurement date), 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:

	Healthcare Cost Trend Rate - 1%	Blended Discount Rate	Healthcare Cost Trend Rate + 1%
Cal Expo's proportionate share of plan's OPEB liability	\$ 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.

For the year ended December 31, 2017, Cal Expo’s funding policy for the other postemployment benefits (OPEB) plan was based on a pay-as-you-go basis. Below are the details of the plan.

Cal Expo provides to retired employees’ certain health care and dental benefits under a cost-sharing multiple-employer plan provided to statewide employees through the programs sponsored by the State of California. The State does not issue a stand-alone report for the OPEB plan.

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 attaining 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. At December 31, 2017, the numbers of annuitants enrolled to receive these benefits could not be determined as retired annuitants might be employed in another State Agency. In accordance with the California Government Code, the State pays 100% of the health insurance cost for annuitants, plus 90% of the additional premium required for the enrollment of family members of annuitants. Cal Expo recognizes the cost of providing these benefits to annuitants on a pay-as-you-go basis during the year, and at year-end Cal Expo records its share of the net OPEB obligation as determined by the most recent State of California actuarial valuation report as of June 30, 2016, based on

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

the pay-as-you-go funding scenario. The cost of these benefits on a pay-as-you-go basis for the year ended December 31, 2017 totaled \$331,623.

Based on the actuarial valuation report as of June 30, 2017, the liabilities associated with the retiree healthcare benefits provided to statewide employees through the programs sponsored by the State of California as administered by CalPERS indicated the State's pay-as-you-go funding scenario produced an actuarial accrued liability of \$86.68 billion as of June 30, 2017, an annual required contribution of \$5.92 billion, estimated employer contributions of \$2.43 billion, and an expected Net OPEB Obligation of \$29.50 billion as of and for the fiscal year ended June 30, 2018. Cal Expo is an enterprise fund of the State of California (the State) and participates in the State's plan on a cost sharing basis. Cal Expo's share of the Net OPEB Obligation as of December 31, 2017 was \$9,452,000.

The actuarial valuation report for OPEB as of June 30, 2017 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, 2018
 4 Years*

	2018	2017	2016	2015
STATE MISCELLENEOUS PLAN				
Cal Expo's proportion of the net pension liability	0.0403060%	0.0381428%	0.0351493%	0.0341595%
Cal Expo's proportionate share of the net pension liability	\$14,771,520	\$12,630,548	\$ 9,926,847	\$ 8,132,903
Cal Expo's covered-employee payroll	\$ 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	315.19%	295.93%	265.41%	237.62%
Plan fiduciary net position as a percentage of the total pension liability	66.42%	66.81%	70.68%	74.17%
STATE SAFETY PLAN				
Cal Expo's proportion of the net pension liability	0.008471%	0.006186%	0.005984%	0.002877%
Cal Expo's proportionate share of the net pension liability	\$ 256,843	\$ 168,438	\$ 129,357	\$ 42,526
Cal Expo's covered-employee payroll	\$ 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	139.90%	129.65%	107.88%	77.74%
Plan fiduciary net position as a percentage of the total pension liability	75.51%	75.31%	79.03%	84.14%
STATE POFF PLAN				
Cal Expo's proportion of the net pension liability	0.009023%	0.007575%	0.004490%	0.005769%
Cal Expo's proportionate share of the net pension liability	\$ 1,377,321	\$ 1,036,786	\$ 524,032	\$ 586,018
Cal Expo's covered-employee payroll	\$ 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	446.76%	422.17%	374.65%	335.20%
Plan fiduciary net position as a percentage of the total pension liability	65.89%	66.10%	69.61%	72.19%
Measurement Date:	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, 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%.

* - Fiscal year 2015 was the first year of implementation of GASB 68, therefore only four 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, 2018
 4 Years*

	2018	2017	2016	2015
STATE MISCELLENEOUS PLAN				
Contractually required contribution	\$ 1,550,154	\$ 1,378,640	\$ 1,161,636	\$ 985,083
Contributions in relation to the contractually required contribution	1,550,154	1,378,640	1,161,636	985,083
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Cal Expo's covered-employee payroll	\$ 5,794,408	\$ 5,027,424	\$ 4,524,978	\$ 4,080,467
Contributions as a percentage of covered-employee payroll	26.75%	27.42%	25.67%	24.14%
STATE SAFETY PLAN				
Contractually required contribution	\$ 24,567	\$ 34,362	\$ 30,305	\$ 19,489
Contributions in relation to the contractually required contribution	24,567	34,362	30,305	19,489
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Cal Expo's covered-employee payroll	\$ 108,815	\$ 158,755	\$ 166,788	\$ 103,098
Contributions as a percentage of covered-employee payroll	22.58%	21.64%	18.17%	18.90%
STATE POFF PLAN				
Contractually required contribution	\$ 115,340	\$ 136,035	\$ 120,855	\$ 60,295
Contributions in relation to the contractually required contribution	115,340	136,035	120,855	60,295
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Cal Expo's covered-employee payroll	\$ 256,091	\$ 317,050	\$ 298,808	\$ 159,038
Contributions as a percentage of covered-employee payroll	45.04%	42.91%	40.45%	37.91%
Valuation Date:	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**	7.50%, 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 four 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 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, 2018*

	2018
Cal Expo's proportion of the net OPEB liability	0.0305106%
Cal Expo's proportionate share of the net OPEB liability	\$ 27,767,000
Cal Expo's covered-employee payroll	\$ 493,091
Cal Expo's proportionate share of the net OPEB liability as a percentage of their covered-employee payroll	5631.21%
Plan fiduciary net position as a percentage of the total OPEB liability	0.55%
Measurement Date:	6/30/2017

Notes to Schedule:

Changes of benefit terms. In 2018, there were no changes to the benefit terms.

Changes in assumptions. In 2018, healthcare related assumptions were updated based on experience through June 30, 2017.

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

CALIFORNIA EXPOSITION AND STATE FAIR
 Required Supplementary Information
 Schedule of Cal Expo's OPEB Contributions
 For the Fiscal Year Ended December 31, 2018*

	2018
Contractually required contribution	\$ 561,895
Contributions in relation to the contractually required contribution	285,947
Contribution deficiency (excess)	\$ 275,948
Cal Expo's covered-employee payroll	\$ 2,679,110
Contributions as a percentage of covered-employee payroll	10.67%
 Valuation Date:	 6/30/2017

Notes to Schedule:

* - Fiscal year 2018 was the first year of implementation of GASB 75, therefore only one year is 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, 2018, and the related notes to the financial statements, which collectively comprise Cal Expo's basic financial statements, and have issued our report thereon dated May 20, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cal Expo's internal control. Accordingly, we do not express an opinion on the effectiveness of Cal Expo's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 style with a large, stylized "L" at the end.

Sacramento, California
May 20, 2019