

CALIFORNIA EXPOSITION AND STATE FAIR

(A Component Unit of the State of California)

Sacramento, California



**CALIFORNIA
EXPOSITION
& STATE FAIR**

Independent Auditor's Reports,
Basic Financial Statements and Required Supplementary
Information

For the Years Ended December 31, 2016 and 2015



Certified
Public
Accountants

CALIFORNIA EXPOSITION AND STATE FAIR
For the Years Ended December 31, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of Cal Expo's proportionate share of the net pension liability and the schedules of Cal Expo's 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 1, 2017 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cal Expo's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Sacramento, California

May 1, 2017

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, 2016 and 2015. 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, 2016 decreased by approximately \$1.3 million or 4.9% from December 31, 2015. Total assets at December 31, 2015 increased by approximately \$400 thousand or 1.5% from December 31, 2014.
- Total liabilities at December 31, 2016 increased by approximately \$2.6 million or 12.3% from December 31, 2015. Total liabilities at December 31, 2015 increased by approximately \$9.2 million or 73.8% from December 31, 2012.
- Net position during the year ended December 31, 2016 decreased by approximately \$1.8 million or 39.3%. Net position during the year ended December 31, 2015 decreased by approximately \$8.9 million or 66.4%.
- Total operating revenues during the year ended December 31, 2016 decreased by approximately \$222 thousand or 0.8% from the prior year. Total operating revenues during the year ended December 31, 2015 increased by approximately \$2.5 million or 10.2% from the prior year.
- Total operating expenses during the year ended December 31, 2016 increased by approximately \$1.9 million or 7.0% from the prior year. Total operating expenses during the year ended December 31, 2015 increased by approximately \$1.6 million or 6.4% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (MD&A), the basic financial statements, including the notes to the financial statements, and required supplementary information schedules related to net pension liability and pension 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 in conformity with accounting principles generally accepted in the United States of America as applied to government units on an accrual basis. 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 and liabilities 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>2016</u>	<u>% Change</u>	<u>2015</u>	<u>% Change</u>	<u>2014</u>
Current assets	\$ 11,081	-4.9%	\$ 11,648	17.6%	\$ 9,907
Noncurrent assets	13,948	-4.9%	14,662	-8.4%	16,003
Total assets	<u>25,029</u>	<u>-4.9%</u>	<u>26,310</u>	<u>1.5%</u>	<u>25,910</u>
Deferred Outflows of Resources	<u>2,323</u>	<u>49.9%</u>	<u>1,550</u>	<u>100.0%</u>	<u>-</u>
Current liabilities	3,939	-1.9%	4,014	-4.3%	4,196
Noncurrent liabilities	20,311	15.5%	17,589	113.6%	8,235
Total liabilities	<u>24,250</u>	<u>12.3%</u>	<u>21,603</u>	<u>73.8%</u>	<u>12,431</u>
Deferred Inflows of Resources	<u>353</u>	<u>-79.5%</u>	<u>1,725</u>	<u>100.0%</u>	<u>-</u>
Net investment in capital assets	13,733	-4.3%	14,351	-7.9%	15,583
Restricted	26	136.4%	11	100.0%	-
Unrestricted	(11,009)	12.0%	(9,829)	367.2%	(2,104)
Total net position	<u>\$ 2,750</u>	<u>-39.3%</u>	<u>\$ 4,533</u>	<u>-66.4%</u>	<u>\$ 13,479</u>

The decrease in current assets of approximately \$567 thousand at December 31, 2016 from 2015 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 assets of approximately \$1.7 million at December 31, 2015 from 2014 is due to an increase in cash, primarily the result of greater revenues than expenses. The changes in noncurrent assets are discussed in the Capital Assets section of the MD&A.

The decrease in current liabilities of approximately \$75 thousand at December 31, 2016 from 2015 is due to a decrease in accounts payable and the current portion of self-insurance at year end. The increase of noncurrent liabilities of \$2.7 million at December 31, 2016 from 2015 is primarily due to an increase of Other Post Employment Benefits liability as well as recording Cal Expo's proportionate share of net pension liability pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, both determined by the State Controller.

The decrease in current liabilities of approximately \$169 thousand at December 31, 2015 from 2014 is due to a decrease in accounts payable at year end. The increase of noncurrent liabilities of \$9.3 million at December 31, 2015 from 2014 is primarily due to an increase of Other Post Employment Benefits liability as well as recording Cal Expo's proportionate share of net pension liability due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, both determined by the State Controller.

The majority of Cal Expo's net position reflects 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 \$1.8 million or 39.3% at December 31, 2016 from 2015 is mainly due to an increase in operating expenses related to personnel. The decrease in net

position of approximately \$8.9 million or 66.4% at December 31, 2015 from 2014 is due to recording Cal Expo's proportionate share of net pension liability due to the implementation of GASB Statement 68, determined by the State Controller.

Changes in Net Position

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

	<u>2016</u>	<u>% Change</u>	<u>2015</u>	<u>% Change</u>	<u>2014</u>
Operating revenues	\$ 26,495	-0.8%	\$ 26,717	10.2%	\$ 24,248
Operating expenses:					
Personnel	12,275	13.5%	10,814	5.6%	10,242
General and administrative	14,528	4.0%	13,972	10.0%	12,704
Depreciation	1,685	-8.1%	1,834	-11.2%	2,066
Total operating expenses	<u>28,488</u>	<u>7.0%</u>	<u>26,620</u>	<u>6.4%</u>	<u>25,012</u>
Operating income (loss)	(1,993)	2154.6%	97	112.7%	(765)
Net nonoperating revenue (expenses)	38	-171.4%	14	108.1%	(172)
Capital Contributions	172	-35.3%	266	48.6%	179
Change in net position	(1,783)	572.9%	377	149.7%	(758)
Beginning net position - as previously reported	<u>4,533</u>	<u>-66.4%</u>	<u>13,479</u>	<u>-5.3%</u>	<u>14,237</u>
Cumulative effect of change in accounting principles	-	0.0%	(9,323)	100.0%	-
Beginning net position - as restated	<u>4,533</u>	<u>9.1%</u>	<u>4,156</u>	<u>100.0%</u>	<u>-</u>
Ending net position	<u>\$ 2,750</u>	<u>-39.3%</u>	<u>\$ 4,533</u>	<u>-66.4%</u>	<u>\$ 13,479</u>

Operating Revenues

Total operating revenues decreased by approximately \$222 thousand or 0.8% during the year ended December 31, 2016 from the prior year primarily due to the following:

- Decrease of \$697 thousand in State Fair revenue due to decreased attendance.

Total operating revenues increased by approximately \$2.5 million or 10.2% during the year ended December 31, 2015 from the prior year primarily due to the following:

- Increase of \$1.7 million in State Fair revenue due to increased attendance.

Operating Expenses

Total operating expenses increased by approximately \$1.9 million or 7.0% during the year ended December 31, 2016 from the prior year primarily due to the following:

- Increase of \$1.5 million in Salaries and wages and Benefits expenses due to an increase in staffing levels to continue to fill vacant positions.
- Increase of \$160 thousand in Professional services partially due to a new internal requirement to have ambulatory services on stand-by during certain events in order to increase safety on grounds
- Increase of \$145 thousand in Facilities operations due to recurring maintenance of the facility.
- Increase of \$115 thousand in Entertainment expenses in order to enhance the customers' experience during the State Fair.

Total operating expenses increased by approximately \$1.6 million or 6.4% during the year ended December 31, 2015 from the prior year primarily due to the following:

- Increase of \$633 thousand in Salaries and wages expenses due to an increase in staffing levels to continue to fill vacant positions that have the potential to increase revenue or decrease expenses.
- Increase of \$543 thousand in Professional services primarily due to an increase in maintenance temporary staff to assist with new events and capital projects.
- Increase of \$385 thousand in General expenses due to expenses associated with new branding signage as well as purchasing items with grant funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2016 and 2015, Cal Expo's investment in capital assets totaled approximately \$13.9 million and \$14.7 million, respectively (net of accumulated depreciation). During the year ended December 31, 2016 net capital assets decreased by approximately \$714 thousand or 4.9%. During the year ended December 31, 2015 net capital assets decreased by approximately \$1.3 million or 8.4%. The following table summarizes the changes in net capital assets (in thousands):

	<u>2016</u>	<u>% Change</u>	<u>2015</u>	<u>% Change</u>	<u>2014</u>
Land	\$ 1,644	0.0%	\$ 1,644	0.0%	\$ 1,644
Construction in progress	573	151.3%	228	533.3%	36
Buildings and improvements	75,224	0.2%	75,062	0.0%	75,039
Equipment	5,747	5.6%	5,441	-0.2%	5,452
Less accumulated depreciation	<u>(69,240)</u>	<u>2.3%</u>	<u>(67,713)</u>	<u>2.3%</u>	<u>(66,168)</u>
Net capital assets	<u>\$ 13,948</u>	<u>-4.9%</u>	<u>\$ 14,662</u>	<u>-8.4%</u>	<u>\$ 16,003</u>

The overall decrease in buildings and improvements in 2016 is primarily due to recording disposals, demolitions, and impairments after evaluating the current capital assets listing, offset by increases due to remodeling and improvement of the followings projects:

- Replacing an A/C unit in the grandstands
- Improving electrical in the carnival area
- Replacing roofs on small structures

The overall decrease in buildings and improvements in 2015 is primarily due to recording disposals, demolitions, and impairments after evaluating the current capital assets listing, offset by increases due to remodeling and improvement of the followings projects:

- Replacing the inside rail track for thoroughbred horse racing
- Rehabilitating Well #4
- Improving electrical in the carnival area

Additional information on Cal Expo's capital assets can be found in note 3 on page 16 of this report.

Debt Administration

During the year ended 2016, Cal Expo's notes payable and capital leases payable decreased by approximately \$93 thousand or 30.2% and \$3 thousand or 100.0% respectively, as a result of continued scheduled principal payments on existing loans. During the year ended 2015, Cal Expo's notes payable and capital leases payable decreased by approximately \$104 thousand or 25.3% and \$5 thousand or 65.2% respectively, as a result of continued scheduled principal payments on existing loans. Additional information on Cal Expo's long-term debt can be found in note 5 on pages 19 through 21 of this report.

OVERVIEW OF THE FUTURE

The California Exposition and State Fair continues to be identified as one of the "Top 10 Fairs in America," by national news outlets. Based upon attendance at the 17 day Annual State Fair event, the California State Fair is ranked in the top 1% of the more than 3,000 Fairs in North America. An "Economic Impact Study" (first conducted by KPMG, and updated in 2010 by the California Department of Food and Agriculture) noted that Cal Expo generates a positive benefit to the Sacramento region in excess of \$200 Million annually. Although the KPMG study did not include Horse Racing activity or wagers, it should be noted that more than \$105 Million was wagered on horse racing at Cal Expo in 2016. This level of Horse Racing activity significantly increases Cal Expo's economic contributions to the region. The 2010 Study also noted that Cal Expo generates the equivalent of 1,381 jobs and more than \$3 Million each year in State and local taxes. It is particularly noteworthy that Cal Expo maintains and operates more than 80 structures on a 768 acre facility as a State Agency, yet receives no tax revenues or financial support from State, County or local government sources.

While the 17 day State Fair showed strong numbers in Food & Beverage sales and Carnival sales, attendance was down - following three years of growth. Key factors contributing to decreased attendance included: a) The lack of events in the Sports Stadium, as the Sacramento Republic professional soccer team held no games during the 2016 State Fair, yet they held 4 events during the 2015 State Fair; b) Many people chose to stay in the safety of their homes as the tragic shooting of Police Officers in Dallas, Texas occurred on Thursday evening and the State Fair's opening day was the following morning; and c) Civil unrest occurred in downtown Sacramento, at the Capital, and in surrounding areas, during the first week of the State Fair, causing people to stay home. A particular accomplishment was seen in increased sponsorship revenue at the 2016 State Fair, as sponsorship cash rose to \$2.4 Million, representing a 26% increase from 2015's level of \$1.9 Million.

Of note is that the 2016 State Fair's marketing and advertising program received the Sweepstakes Award from the International Association of Fairs & Expositions as the top promotional program of Fairs and Expositions around the world. This was an unprecedented second year in a row that the State Fair won the top marketing award from its international trade association.

Since Cal Expo's traditional business model is heavily dependent upon the revenue generated during the 17 days of the Annual State Fair, efforts to create new and expand existing non-Fair time revenue are ongoing. In 2014, Papa Murphy's Park (previously known as Bonney Field) was constructed at Cal Expo as the home field for the new Sacramento Republic, USL Pro Soccer franchise, and the seating capacity was expanded by an additional 4,000 seats in 2015. The 2016 season saw consistently sold out soccer games. Global Winter Wonderland (aka Chinese Lantern Festival) conducted its third season at Cal Expo, and the event drew some 200,000 patrons. Cal Expo also renewed its Revenue Generating Agreements

with two major tenants, Raging Waters Water Park, and Watch & Wager Harness Racing. Cal Expo has been negotiating with a 3rd party to create a Rock & Brews themed family entertainment restaurant at Cal Expo. The new facility hopes to open in the fall of 2017.

Additionally, Cal Expo continues to expand its Social media footprint, having reached more than 184,000 “likes” on Facebook. Cal Expo also bolstered its public outreach by expanding its “School Farm Tours” program. Almost 4,000 students participated in touring the State Fair Farm in the Fall and Spring.

Although Cal Expo has posted annual operating profits for each of the past four years, there is pronounced concern about the growing expenses that are being passed along to Cal Expo by the State. Cumulative expenses and liabilities associated with Other Post-Employment Benefits (OPEB) and PERS Retirement costs are projected to outpace the annual profitability of Cal Expo in less than five years. Additionally, Cal Expo’s profitability from the Annual State Fair remains vulnerable to potential decreases in attendance due to heat and national civil unrest.

While Cal Expo has been able to make repairs to its existing infrastructure, it will be difficult, if not impossible to fund major capital needs from operating profits. Additionally, Cal Expo experienced significant damage during the recent winter storms. It may take more than \$1 Million to repair storm damage that occurred at the Racetrack Grandstand.

In October of 2016, the Board of Directors invested in a two day strategic planning retreat with an outside facilitator. During 2017 the Board hopes to further refine, prioritize and build upon the vision, direction and projects that emerged from their strategic planning efforts.

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, 2016 AND 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,452,019	\$ 10,015,231
Restricted cash	225,675	210,586
Accounts receivable, net	1,276,124	1,279,178
Prepaid expenses	126,967	143,226
Total current assets	11,080,785	11,648,221
Noncurrent assets:		
Capital assets:		
Land	1,643,577	1,643,577
Construction in progress	573,257	228,438
Buildings and improvements	75,223,864	75,062,498
Equipment and machinery	5,747,276	5,441,104
Less accumulated depreciation	(69,239,535)	(67,713,454)
Net capital assets	13,948,439	14,662,163
Total assets	25,029,224	26,310,384
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions	2,323,148	1,550,437
LIABILITIES		
Current liabilities:		
Accounts payable	1,242,757	1,374,670
Accrued wages and benefits	955,853	1,232,388
Deposits	862,856	486,576
Unearned revenue	190,045	181,064
Notes payable	90,732	93,185
Compensated absences	596,609	597,662
Capital leases payable	-	2,587
Self-insurance	-	45,865
Total current liabilities	3,938,852	4,013,997
Noncurrent liabilities:		
Notes payable	124,342	215,073
Self-insurance	366,093	345,509
Other post-employment benefits	8,567,000	7,762,000
Net pension liability	10,580,237	8,761,449
Compensated absences	673,295	505,011
Total noncurrent liabilities	20,310,967	17,589,042
Total liabilities	24,249,819	21,603,039
DEFERRED INFLOWS OF RESOURCES		
Related to pensions	352,507	1,724,917
NET POSITION		
Net investment in capital assets	13,733,365	14,351,318
Restricted for:		
Grants	25,675	10,586
Unrestricted deficit	(11,008,994)	(9,829,039)
Total net position	\$ 2,750,046	\$ 4,532,865

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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
State Fair	\$ 16,785,753	\$ 17,482,935
Exposition events	5,166,753	5,077,540
Harness / Watch & Wager	104,525	109,169
Charges for services	2,477,989	2,461,364
Simulcast	933,896	950,303
Grants	513,973	232,698
Raging Waters	412,807	374,625
Miscellaneous	99,512	27,949
Total operating revenues	<u>26,495,208</u>	<u>26,716,583</u>
Operating expenses:		
Personnel:		
Salaries and wages	8,506,619	7,629,570
Benefits	3,768,476	3,184,805
Total personnel expenses	<u>12,275,095</u>	<u>10,814,375</u>
General and administrative:		
General	2,082,561	2,031,736
Professional services	5,419,311	5,259,069
Advertising	1,208,122	1,207,818
Utilities	1,444,620	1,428,693
Entertainment	1,023,221	908,430
Facilities operation	937,090	791,371
Awards	386,324	384,474
Insurance	733,153	727,465
Printing	150,903	144,832
Telecommunications	194,106	178,908
Equipment	254,536	172,014
State administrative costs	387,987	479,156
Data processing	111,939	75,290
Travel and training	53,055	49,829
Postage	36,735	41,285
Judges	63,386	72,435
Other	40,749	18,695
Total general and administrative expenses	<u>14,527,798</u>	<u>13,971,500</u>
Depreciation	<u>1,685,442</u>	<u>1,834,227</u>
Total operating expenses	<u>28,488,335</u>	<u>26,620,102</u>
Operating income (loss)	<u>(1,993,127)</u>	<u>96,481</u>
Nonoperating revenues (expenses):		
Interest and dividends income	43,955	22,898
Interest expense	(5,878)	(8,844)
Net nonoperating revenue (expenses)	<u>38,077</u>	<u>14,054</u>
Income (loss) before contributions	(1,955,050)	110,535
Capital contributions	<u>172,231</u>	<u>265,950</u>
Change in net position	(1,782,819)	376,485
Net position, beginning of year - as previously reported	<u>4,532,865</u>	<u>13,479,424</u>
Cumulative effect of change in accounting principles	-	(9,323,044)
Net position, beginning of year - as restated	<u>4,532,865</u>	<u>4,156,380</u>
Net position, end of year	<u>\$ 2,750,046</u>	<u>\$ 4,532,865</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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers and users	\$ 25,510,883	\$ 28,387,559
Cash payment to employees	(11,363,603)	(13,130,344)
Cash payment to suppliers	(13,838,452)	(13,534,933)
Net cash provided by operating activities	<u>308,828</u>	<u>1,722,282</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(832,706)	(271,130)
Proceeds from disposition of capital assets	230	-
Principal paid on notes and capital leases	(95,771)	(109,056)
Capital contributions	33,219	43,577
Interest paid on notes and capital leases	(5,878)	(8,844)
Net cash used in capital and related financing activities	<u>(900,906)</u>	<u>(345,453)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	<u>43,955</u>	<u>22,898</u>
Net increase (decrease) in cash and cash equivalents	(548,123)	1,399,727
Cash and cash equivalents, beginning of year	<u>10,225,817</u>	<u>8,826,090</u>
Cash and cash equivalents, end of year	<u>\$ 9,677,694</u>	<u>\$ 10,225,817</u>
Cash and cash equivalents	\$ 9,452,019	\$ 10,015,231
Restricted cash	<u>225,675</u>	<u>210,586</u>
Total cash and cash equivalents, end of year	<u>\$ 9,677,694</u>	<u>\$ 10,225,817</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (1,993,127)	\$ 96,481
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,685,442	1,834,227
Decrease in operating assets:		
Accounts receivable	2,824	(293,103)
Prepaid expenses	16,259	(48,304)
Increase (decrease) in operating liabilities:		
Accounts payable	(131,913)	(272,129)
Accrued wages and benefits	(276,535)	(152,021)
Deposits	376,280	252,881
Unearned revenue	8,981	(13,719)
Other post-employment benefits	805,000	757,000
Net pension liability and related deferred outflows & inflows	(326,333)	(387,115)
Compensated absences	168,284	(97,781)
Self-insurance	(26,334)	45,865
Net cash provided by operating activities	<u>\$ 308,828</u>	<u>\$ 1,722,282</u>
Schedule of non-cash capital and related financing activities:		
Contributed assets	\$ 139,012	\$ 222,373

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, 2016 and 2015

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 and Papa Murphy's Park, home of the Sac Republic FC.

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, 2016 and 2015, cash and cash equivalents consist of cash, demand deposits, and amounts on deposit in the State Local Agency Investment Fund.

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. In accordance with GASB Statement No. 31, Cal Expo reports its investments at fair value based on quoted market information obtained from fiscal agents or other sources. 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, 2016 and 2015 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, 2016 and 2015

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

Accounts Receivable - Cal Expo's accounts receivable consists of amounts due from State Fair concessionaires and Cal Expo event promoters. Cal Expo records an allowance for uncollectible accounts for all accounts receivable greater than 120 days old. At December 31, 2016 and 2015, the allowance for uncollectible accounts totaled \$3,620 and \$3,624 respectively.

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

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's policy is 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 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.

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.

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, 2016 and 2015 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 \$1,000,000. Cal Expo, through CFSA, purchases additional insurance to cover claims exceeding \$1,000,000 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.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

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

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 insurance coverage and no claims have exceeded 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, 2016 and 2015, accrued compensated absences for all Cal Expo employees amounted to \$1,269,904 and \$1,102,673 respectively, of which \$596,609 and \$597,662 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.\\

Reclassifications – Certain reclassification have been made to the comparative totals as of and for the year ended December 31, 2015, to conform to the presentation as of and for the year ended December 31, 2016.

Implementation of New Governmental Accounting Standard - During the year ended December 31, 2015, Cal Expo implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. The primary objectives of the Statements are to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. Statement 68, requires employers to report a net pension liability for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. Statement 68 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.

The net pension liability offset by the related deferred outflows of resources as of June 30, 2014, reduced Cal Expo's beginning net position by \$9,808,614; contributions made subsequent to the June 30, 2014 measurement date, for the period July 1, 2014 to December 31, 2014, increased Cal Expo's beginning net position by \$485,570.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 2 – CASH AND CASH EQUIVALENTS

The fair value of Cal Expo’s cash and cash equivalents is as follows at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Deposits	\$ 2,491,075	\$ 990,543
Local Agency Investment Fund (LAIF)	6,801,082	8,763,980
Cash in vault	100,000	110,000
Cash on hand	<u>59,862</u>	<u>150,708</u>
 Total unrestricted cash and cash equivalents	 9,452,019	 10,015,231
 Total restricted cash - deposits	 <u>225,675</u>	 <u>210,586</u>
 Total cash and cash equivalents	 <u>\$ 9,677,694</u>	 <u>\$ 10,225,817</u>

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 below for interest rate risk disclosure at December 31, 2016 and 2015. Cal Expo does not have a policy relating to interest rate risk.

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

The following schedules summarize the carrying value of amounts on deposit in the Local Agency Investment Fund (LAIF) at December 31, 2016 and 2015. LAIF had a total balance of \$73.7 billion and \$65.6 billion at December 31, 2016 and 2015, respectively. Of those amounts 1.62% were invested in structured notes and medium-term asset-backed securities and 1.40% in short-term asset-backed commercial paper at December 31, 2016, respectively. N/R represents securities that are not rated.

	<u>December 31, 2016</u>	<u>Credit</u>	<u>Weighted</u>
	<u>Carrying Value</u>	<u>Rating</u>	<u>Average</u>
			<u>Maturity</u>
Unrestricted:			
Local Agency Investment Fund	\$ 6,801,082	N/R	171 days
	<u>December 31, 2015</u>	<u>Credit</u>	<u>Weighted</u>
	<u>Carrying Value</u>	<u>Rating</u>	<u>Average</u>
			<u>Maturity</u>
Unrestricted:			
Local Agency Investment Fund	\$ 8,763,980	N/R	179 days

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

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, 2016 and 2015, one hundred percent of Cal Expo's cash equivalents are invested in LAIF, which is not subject to custodial credit risk. At December 31, 2016, the bank balance of Cal Expo's cash deposits for its deposit accounts totaled \$2,816,120. Of the bank balance, \$250,000 was covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and \$2,566,120 was collateralized by pledging financial institutions. At December 31, 2015, the bank balance of Cal Expo's cash deposits for its deposit accounts totaled \$1,525,164. Of the bank balance, \$250,000 was covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and \$1,275,164 was collateralized by pledging financial institutions. At December 31, 2016 and 2015, 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, 2016 and 2015, the majority of Cal Expo's investments are held by Local Agency Investment Fund. There is no limitation on amounts invested in this type of investment.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated				
Land	\$ 1,643,577	\$ -	\$ -	\$ 1,643,577
Construction in progress	228,438	344,819	-	573,257
	<u>1,872,015</u>	<u>344,819</u>	<u>-</u>	<u>2,216,834</u>
Capital assets being depreciated				
Buildings and improvements	75,062,498	247,164	(85,798)	75,223,864
Equipment and machinery	5,441,104	379,735	(73,563)	5,747,276
	<u>80,503,602</u>	<u>626,899</u>	<u>(159,361)</u>	<u>80,971,140</u>
Less accumulated depreciation for:				
Buildings and improvements	(62,704,991)	(1,570,659)	85,798	(64,189,852)
Equipment and machinery	(5,008,463)	(114,783)	73,563	(5,049,683)
	<u>(67,713,454)</u>	<u>(1,685,442)</u>	<u>159,361</u>	<u>(69,239,535)</u>
Net capital assets being depreciated	<u>12,790,148</u>	<u>(1,058,543)</u>	<u>-</u>	<u>11,731,605</u>
Net capital assets	<u>\$ 14,662,163</u>	<u>(713,724)</u>	<u>-</u>	<u>\$ 13,948,439</u>

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 3 – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated				
Land	\$ 1,643,577	\$ -	\$ -	\$ 1,643,577
Construction in progress	36,031	228,438	(36,031)	228,438
	<u>1,679,608</u>	<u>228,438</u>	<u>(36,031)</u>	<u>1,872,015</u>
Capital assets being depreciated				
Buildings and improvements	75,039,014	289,227	(265,743)	75,062,498
Equipment and machinery	5,451,954	11,869	(22,719)	5,441,104
	<u>80,490,968</u>	<u>301,096</u>	<u>(288,462)</u>	<u>80,503,602</u>
Less accumulated depreciation for:				
Buildings and improvements	(61,236,941)	(1,733,793)	265,743	(62,704,991)
Equipment and machinery	(4,930,748)	(100,434)	22,719	(5,008,463)
	<u>(66,167,689)</u>	<u>(1,834,227)</u>	<u>288,462</u>	<u>(67,713,454)</u>
Net capital assets being depreciated	<u>14,323,279</u>	<u>(1,533,131)</u>	<u>-</u>	<u>12,790,148</u>
Net capital assets	<u>\$ 16,002,887</u>	<u>(1,304,693)</u>	<u>(36,031)</u>	<u>\$ 14,662,163</u>

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 shall pay 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.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 4 – OPERATING LEASES (Continued)

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 shall pay 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.

The minimum future rentals on noncancelable operating leases as of December 31, 2016 are as follows:

<u>Year Ending December 31,</u>	
2017	\$ 325,500
2018	325,500
2019	325,500
2020	325,500
2021	330,968
Later years	<u>3,661,302</u>
Total minimum future rentals (a)	<u>\$ 5,294,270</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 \$15,288 in 2016 and \$6,356 in 2015.

NOTE 5 – LONG-TERM OBLIGATIONS

Notes Payable

During the year ended 2011, the California Department of Agriculture, Division of Fairs & Expositions loaned \$220,000 to Cal Expo for redevelopment. The loan's interest is 0%, and payable in monthly installments aggregating \$22,000 per year, due January 2022. The balance at December 31, 2016 and 2015 was \$111,833 and \$133,833 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, due March 2020. The balance at December 31, 2016 and 2015 was \$43,685 and \$55,762 respectively.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 5 – LONG-TERM OBLIGATIONS (Continued)

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%, and payable in monthly installments aggregating \$42,402 per year including interest, due January 2018. The balance at December 31, 2016 and 2015 was \$44,622 and \$83,726 respectively.

During the year ended 2002, the California Construction Authority loaned \$300,000 to Cal Expo to finance the horse barn photovoltaic project. The loan is collateralized by savings in electricity bills, interest at 0%, and payable in monthly installments of \$1,667, due September 2017. The balance at December 31, 2016 and 2015 was \$14,933 and \$34,937 respectively.

Annual debt service requirements to maturity for notes payable at December 31, 2016 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 90,732	\$ 3,194
2018	38,863	1,261
2019	36,027	564
2020	25,618	30
2021	22,000	-
2022	1,834	-
Total notes payable	<u>\$ 215,074</u>	<u>\$ 5,049</u>

Capital Leases

During the year ended 2012, Cal Expo entered into a lease agreement as lessee for a Hasler mailing machine. This lease agreement qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date and has an interest rate of 9%. The balance at December 31, 2016 and 2015 was \$0 and \$2,587 respectively.

The net book value of the assets acquired through capital leases at December 31, 2016 is as follows:

Equipment	\$ 117,200
Less: Accumulated depreciation	(83,055)
Total	<u>\$ 34,145</u>

As of December 31, 2016, there are no future minimum lease obligations.

The net book value of the assets acquired through capital leases at December 31, 2015 is as follows:

Equipment	\$ 138,656
Less: Accumulated depreciation	(92,414)
Total	<u>\$ 46,242</u>

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 5 – LONG-TERM OBLIGATIONS (Continued)

The future minimum lease obligations as of December 31, 2015 are as follows:

Year Ending December 31,

2016	2,653
Future minimum lease obligations, gross	2,653
Less interest portion	(66)
Future minimum lease obligations, net	<u>\$ 2,587</u>

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended December 31, 2016 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	\$ 308,258	\$ -	\$ (93,184)	\$ 215,074	\$ 90,732
Capital leases	2,587	-	(2,587)	-	-
Compensated absences	1,102,673	767,586	(600,355)	1,269,904	596,609
Total	<u>\$ 1,413,518</u>	<u>\$ 767,586</u>	<u>\$ (696,126)</u>	<u>\$ 1,484,978</u>	<u>\$ 687,341</u>

Changes in long-term obligations for the year ended December 31, 2015 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	\$ 412,465	\$ -	\$ (104,207)	\$ 308,258	\$ 93,185
Capital leases	7,436	-	(4,849)	2,587	2,587
Compensated absences	1,200,454	452,381	(550,162)	1,102,673	597,662
Total	<u>\$ 1,620,355</u>	<u>\$ 452,381</u>	<u>\$ (659,218)</u>	<u>\$ 1,413,518</u>	<u>\$ 693,434</u>

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unpaid claims, beginning of fiscal year	\$ 391,374	\$ 345,509
Changes in estimates	4,207	57,250
Claim payments	<u>(29,488)</u>	<u>(11,385)</u>
Unpaid claims, end of fiscal year	<u>\$ 366,093</u>	<u>\$ 391,374</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 Plan (the Plans) in cost-sharing arrangements in which all risks and costs are shared proportionately by participating State agencies.

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

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

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

CALIFORNIA EXPOSITION AND STATE FAIR
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

The Plans' provisions and benefits in effect at December 31, 2016 and 2015, are summarized as follows:

	State Miscellaneous Plan				
	Prior to <u>January 15, 2011</u>	On or after <u>January 15, 2011</u>	On or after <u>January 1, 2013</u>	Prior to <u>January 1, 2013</u>	On or after <u>January 1, 2013</u>
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 <u>January 15, 2011</u>	On or after <u>January 15, 2011</u>	On or after <u>January 15, 2011</u>	On or after <u>January 1, 2013</u>
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 <u>January 15, 2011</u>	Prior to <u>January 15, 2011</u>	On or after <u>January 15, 2011</u>	On or after <u>January 1, 2013</u>	On or after <u>January 1, 2013</u>
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, 2016 and 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

For the measurement period ended June 30, 2015 (the measurement date), the average active employee contribution rate and the employer’s actuarially determined contribution rate, expressed as a percentage of payroll were:

	<u>Average Active Employee Contribution Rate</u>	<u>Employer Contribution Rate</u>
State Miscellaneous Plan	6.525%	24.259%
State Safety Plan	10.421%	19.338%
State Peace Officers and Firefighters Plan	11.252%	36.827%

For the year ended December 31, 2016, the contributions recognized as part of pension expense were \$982,806.

For the measurement period ended June 30, 2014 (the measurement date), the average active employee contribution rate and the employer’s actuarially determined contribution rate, expressed as a percentage of payroll were:

	<u>Average Active Employee Contribution Rate</u>	<u>Employer Contribution Rate</u>
State Miscellaneous Plan	6.525%	21.137%
State Safety Plan	10.421%	17.905%
State Peace Officers and Firefighters Plan	11.252%	31.320%

For the year ended December 31, 2015, the contributions recognized as part of pension expense were \$801,712.

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, 2016 and 2015 in the amount of \$10,580,237 and \$8,761,449, respectively.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

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, 2016 are measured as of June 30, 2015, 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, 2014 rolled forward to June 30, 2015 using standard update procedures. The net pension liabilities of the Plans as of December 31, 2015 are measured as of June 30, 2014, 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, 2013 rolled forward to June 30, 2014 using standard update procedures. Cal Expo’s proportionate share of the net pension liability of the Plans was based on the State Controller’s Office (SCO) projection for Cal Expo based on its pensionable compensation (covered payroll). The SCO calculated and provided Cal Expo with their allocated pensionable compensation percentages by Plan. Cal Expo’s proportionate share of the net pension liabilities for the Plans as of June 30, 2015 was 0.0351493% (State Miscellaneous), 0.0059842% (State Safety), and 0.0044899% (State Peace Officers and Firefighters). Cal Expo’s proportionate share of the net pension liabilities for the Plans as of June 30, 2014 was 0.0341595% (State Miscellaneous), 0.002877% (State Safety), and 0.005769% (State Peace Officers and Firefighters).

For the year ended December 31, 2016, Cal Expo recognized pension expense of \$(326,333). At December 31, 2016, 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	\$ 1,679,474	\$ -	\$ 41,758	\$ -	\$ 159,195	\$ -
Change in proportion	203,203		47,809			122,845
Differences between expected and actual experience	181,294			192	10,415	
Net difference between projected and actual earnings on pension plan investments	-	216,698	-	3,139	-	9,633
	<u>\$ 2,063,971</u>	<u>\$ 216,698</u>	<u>\$ 89,567</u>	<u>\$ 3,331</u>	<u>\$ 169,610</u>	<u>\$ 132,478</u>

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

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 year ending December 31, 2017. Other amounts reported as 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
2017	\$ (24,879)	\$ 11,255	\$ (34,875)
2018	(24,879)	11,255	(34,875)
2019	(38,137)	16,880	(34,875)
2020	255,694	5,088	(17,693)
2021	-	-	255
Total	<u>\$ 167,799</u>	<u>\$ 44,478</u>	<u>\$ (122,063)</u>

For the year ended December 31, 2015, Cal Expo recognized pension expense of \$677,752. At December 31, 2015, 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	\$1,425,885	\$ -	\$ 34,642	\$ -	\$ 89,910	\$ -
Net difference between projected and actual earnings on pension plan investments	-	1,606,094	-	15,120	-	103,702
	<u>\$1,425,885</u>	<u>\$1,606,094</u>	<u>\$ 34,642</u>	<u>\$ 15,120</u>	<u>\$ 89,910</u>	<u>\$ 103,702</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 year ending December 31, 2016. Other amounts reported as 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
2016	\$ 401,524	\$ 3,780	\$ 25,926
2017	401,524	3,780	25,926
2018	401,523	3,780	25,925
2019	401,523	3,780	25,925
Total	<u>\$ 1,606,094</u>	<u>\$ 15,120</u>	<u>\$ 103,702</u>

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions – For the measurement period ended June 30, 2015 (measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability using standard update procedures. For the measurement period ended June 30, 2014 (measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability using standard update procedures. The June 30, 2014 and the June 30, 2015 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. For the measurement period ended June 30, 2014 (measurement date), the Investment Rate of Return was 7.50%.

⁽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, 2014 and June 30, 2013 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 2014 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 was 7.65% for all Plans. To determine 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 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. 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.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using 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 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, 2015 (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	New Strategic Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed income	19.0%	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	2.0%	-0.55%	-1.05%
Total	<u>100.0%</u>		

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

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

For the measurement period ended June 30, 2014 (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.

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

Asset Class	New Strategic Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-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.

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 June 30, 2015 (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	\$ 14,020,314	\$ 9,926,847	\$ 6,492,431
	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	\$ 210,988	\$ 129,357	\$ 63,114
	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	\$ 765,623	\$ 524,032	\$ 325,894

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

The following presents Cal Expo’s proportionate share of the net pension liabilities of the Plans as June 30, 2014 (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	\$ 11,964,290	\$ 8,132,905	\$ 4,845,281
	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	\$ 79,130	\$ 42,526	\$ 11,438
	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	\$ 882,892	\$ 586,018	\$ 336,643

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

CALIFORNIA EXPOSITION AND STATE FAIR

Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS

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. Cal Expo's funding policy is based on the amount determined by the State on a pay-as-you-go basis. The State does not issue a stand-alone report for the other postemployment benefits (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, 2016 and 2015, 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 the pay-as-you-go funding scenario. The cost of these benefits on a pay-as-you-go basis for the years ended December 31, 2016 and 2015 totaled \$300,952 and \$382,969, respectively.

Based on the actuarial valuation report as of June 30, 2016, 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 \$76.68 billion as of June 30, 2016, an annual required contribution of \$5.77 billion, estimated employer contributions of \$2.07 billion, and an expected Net OPEB Obligation of \$29.85 billion as of and for the fiscal year ended June 30, 2017. 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, 2016 and 2015 was \$8,567,000 and \$7,762,000, respectively.

The actuarial report for OPEB 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.

CALIFORNIA EXPOSITION AND STATE FAIR
 Required Supplementary Information
 Schedules of Cal Expo's Proportionate Share of the Net Pension Liability
 For the Years Ended December 31, 2016 and 2015
 Last 10 Years*

	2016	2015
STATE MISCELLENEOUS PLAN		
Cal Expo's proportion of the net pension liability	0.0351493%	0.0341595%
Cal Expo's proportionate share of the net pension liability	\$ 9,926,847	\$ 8,132,903
Cal Expo's covered-employee payroll	\$ 3,740,197	\$ 3,422,649
Cal Expo's proportionate share of the net pension liability as a percentage of their covered-employee payroll	265.41%	237.62%
Plan fiduciary net position as a percentage of the total pension liability	70.68%	74.17%
STATE SAFETY PLAN		
Cal Expo's proportion of the net pension liability	0.005984%	0.002877%
Cal Expo's proportionate share of the net pension liability	\$ 129,357	\$ 42,526
Cal Expo's covered-employee payroll	\$ 119,910	\$ 54,701
Cal Expo's proportionate share of the net pension liability as a percentage of their covered-employee payroll	107.88%	77.74%
Plan fiduciary net position as a percentage of the total pension liability	79.03%	84.14%
STATE POFF PLAN		
Cal Expo's proportion of the net pension liability	0.004490%	0.005769%
Cal Expo's proportionate share of the net pension liability	\$ 524,032	\$ 586,018
Cal Expo's covered-employee payroll	\$ 139,872	\$ 174,827
Cal Expo's proportionate share of the net pension liability as a percentage of their covered-employee payroll	374.65%	335.20%
Plan fiduciary net position as a percentage of the total pension liability	69.61%	72.19%

Notes to Schedule:

Changes of benefit terms: In 2016 and 2015, there were no changes to the benefit terms

Changes in assumptions: In 2016 and 2015, there were no changes in assumptions.

* - Fiscal year 2015 was the 1st year of implementation of GASB 68, therefore only two years are shown.

CALIFORNIA EXPOSITION AND STATE FAIR
Required Supplementary Information
Schedules of Cal Expo's Contributions
For the Years Ended December 31, 2016 and 2015
Last 10 Years*

	2016	2015
STATE MISCELLENEOUS PLAN		
Contractually required contribution	\$ 1,161,636	\$ 985,083
Contributions in relation to the contractually required contribution	1,161,636	985,083
Contribution deficiency (excess)	\$ -	\$ -
Cal Expo's covered-employee payroll	\$ 4,524,978	\$ 4,080,467
Contributions as a percentage of covered-employee payroll	25.67%	24.14%
STATE SAFETY PLAN		
Contractually required contribution	\$ 30,305	\$ 19,489
Contributions in relation to the contractually required contribution	30,305	19,489
Contribution deficiency (excess)	\$ -	\$ -
Cal Expo's covered-employee payroll	\$ 166,788	\$ 103,098
Contributions as a percentage of covered-employee payroll	18.17%	18.90%
STATE POFF PLAN		
Contractually required contribution	\$ 120,855	\$ 60,295
Contributions in relation to the contractually required contribution	120,855	60,295
Contribution deficiency (excess)	\$ -	\$ -
Cal Expo's covered-employee payroll	\$ 298,808	\$ 159,038
Contributions as a percentage of covered-employee payroll	40.45%	37.91%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016 were from the June 30, 2014 and June 30, 2015 State Actuarial Valuations. The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2015 were from the June 30, 2013 and June 30, 2014 State Actuarial Valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	30-year fixed period
Asset Valuation Method**	Actuarial Value of Assets
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.5%, net of pension plan investment and administrative expenses

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 1st year of implementation of GASB 68, therefore only two years are shown.

** - 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 and June 30, 2015 actuarial valuations is Market Value of Assets.

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, 2016, 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 1, 2017

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, professional style.

Sacramento, California
May 1, 2017