



Joint Legislative Audit Committee
Office of the Auditor General



**FINANCIAL AUDIT REPORT
FAIR AND EXPOSITION FUND
YEAR ENDED JUNE 30, 1978**

The regulations of the Federal Office of Revenue Sharing require governments receiving revenue sharing funds to have audits of their financial statements not less than once every three years. This audit assists in fulfilling the audit requirements necessary to continue California's eligibility for federal revenue sharing funds.

Our examination was made in accordance with generally accepted auditing standards and included studying and evaluating the system of internal control. This study and evaluation disclosed several conditions which we believe to be weaknesses and were considered in determining the nature, timing, and extent of our audit tests. Presentation of these conditions, however, does not modify our opinion on the financial statements.

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-100-191**

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

100-191

FINANCIAL AUDIT REPORT
FAIR AND EXPOSITION FUND
YEAR ENDED JUNE 30, 1978

SEPTEMBER 1979



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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RICHARD ROBINSON
CHAIRMAN

September 18, 1979

100-191

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the Fair and Exposition Fund, year ended June 30, 1978.

The auditors are Curt Davis, CPA; Michael C. Dendorfer, CPA; Jeffrey A. Winston; Gus M. Demas; and Thomas R. DeWitt.

Respectfully submitted,

RICHARD ROBINSON
Assemblyman, 72nd District
Chairman, Joint Legislative
Audit Committee

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Fair and Exposition Fund. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

The Fair and Exposition Fund is the depository for monies collected by the California Horse Racing Board from parimutuel wagering and individual licenses, and from the sale of some real property of agricultural associations and county fairs.

The Legislature appropriates monies to the California Horse Racing Board to license and regulate horse racing and wagering, and to the Department of Food and Agriculture to supervise the operations of the individual fairs. Also, appropriations are made for the support of state, county, and district fairs.

The Director of the Department of Food and Agriculture allocates money available for capital outlay purposes to the fairs.

Chapter 354, Statutes of 1976, added Section 19630.1 to the Business and Professions Code and appropriated \$3,000,000 each year for loans to fairs for the 1976-77, 1977-78, and 1978-79 fiscal years.

AUDITOR'S OPINION


To the Joint Legislative Audit Committee of the California Legislature:

We have examined the combined balance sheet of the Fair and Exposition Fund as of June 30, 1978 and the related statement of revenues, expenditures, and changes in fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Fair and Exposition Fund at June 30, 1978 and the results of operations and changes in fund balance for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying combined balance sheet captioned "Total - Memorandum Only" for June 30, 1978 are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying balance sheet and the statement of revenues, expenditures, and changes in fund balance for the year ended June 30, 1977, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them.



WESLEY E. VOSS
Assistant Auditor General

Date: March 14, 1979

Staff: Curt Davis, CPA
Michael C. Dendorfer, CPA
Jeffrey A. Winston
Gus M. Demas
Thomas R. DeWitt

STATE OF CALIFORNIA
 FAIR AND EXPOSITION FUND
 COMBINED BALANCE SHEET
 GOVERNMENTAL FUND TYPE AND ACCOUNT GROUP

JUNE 30, 1978
 (With Unaudited Amounts for 1977)

	<u>Governmental Fund Type</u>	<u>Account Group</u>	<u>Totals (Memorandum Only)</u>	
<u>ASSETS</u>	<u>Special Revenue</u>	<u>General Fixed Assets</u>	<u>June 30, 1978</u>	<u>June 30, 1977</u>
Cash	\$13,491,074	\$ --	\$13,491,074	\$6,522,398
Accounts receivable	81,756	--	81,756	37,534
Loans receivable (Note 3)	2,079,853	--	2,079,853	--
Allowance for deferred loans receivable	(1,975,364)	--	(1,975,364)	(866,069)
Prepayments to other funds	5,518	--	5,518	--
Expense advances to employees	13,615	--	13,615	11,522
Land	--	8,149	8,149	8,149
Equipment	--	30,521	30,521	25,305
Total Assets	<u>\$13,696,452</u>	<u>\$38,670</u>	<u>\$13,735,122</u>	<u>\$6,604,908</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Accounts payable	\$ 265,235	\$ --	\$ 265,235	\$ 120,919
Due to other funds	47,981	--	47,981	300
Reimbursements collected in advance	76,578	--	76,578	--
Total Liabilities	<u>389,794</u>	<u>--</u>	<u>389,794</u>	<u>121,219</u>
Encumbrances outstanding	<u>3,322</u>	<u>--</u>	<u>3,322</u>	<u>--</u>
Fund Equity:				
Investment in general fixed assets	--	38,670	38,670	33,454
Fund balances				
Designated for state operations	264,112	--	264,112	59,550
Designated for local assistance	13,039,224	--	13,039,224	6,390,685
Total Fund Equity	<u>13,303,336</u>	<u>38,670</u>	<u>13,342,006</u>	<u>6,483,689</u>
Total Liabilities, Encumbrances Outstanding, and Fund Equity	<u>\$13,696,452</u>	<u>\$38,670</u>	<u>\$13,735,122</u>	<u>\$6,604,908</u>

The notes to the financial statements are an integral part of this statement.

STATE OF CALIFORNIA
 FAIR AND EXPOSITION FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 GOVERNMENTAL FUND TYPE
 SPECIAL REVENUE FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1978
 (With Unaudited Amounts for 1977)

	1978		Variance- Favorable (Unfavorable)	1977
	Budget as Adjusted	Actual		Actual
Revenues: (Note 2)				
Horse racing revenue	\$20,000,000	\$20,000,000	\$ --	\$20,000,000
Sale of property	--	172,102	172,102	122,416
Interest on loans to district fairs	260,662	85,106	(175,556)	80,633
Miscellaneous	--	--	--	25
Total Revenues	20,260,662	20,257,208	(3,454)	20,203,074
Other Sources:				
Reimbursements	1,930,119	622,157	(1,307,962)	317,088
Repayment of loans to district fairs	--	153,775	153,775	--
Prior year adjustment	--	--	--	26,443
Transfer from General Fund	--	25,000	25,000	--
Total Sources	22,190,781	21,058,140	(1,132,641)	20,546,605
Expenditures: (Note 2)				
Current:				
State Operations:				
Department of Food and Agriculture	2,395,681	1,045,242	1,350,439	734,606
California Horse Racing Board	881,275	881,258	17	695,285
California Exposition and State Fair	265,000	265,000	--	265,000
Board of Control	--	2,000	(2,000)	--
Local Assistance:				
Financial assistance to local fairs	11,216,942	7,853,901	(3,363,041)	16,498,422
Prior Year:				
Prior year adjustment	--	1,432,365	(1,432,365)	63,308
Total Expenditures	14,758,898	11,479,766	3,279,132	18,256,621
Excess of Sources Over (Under) Expenditures	7,431,883	9,578,374	2,146,491	2,289,984
Other Uses:				
Transfers to General Fund (Note 4)	(4,223,602)	(2,725,273)	1,498,329	--
Excess of Sources Over (Under) Expenditures and Other Uses	\$ 3,208,281	6,853,101	\$(3,644,820)	2,289,984
Fund Balance - July 1		6,450,235		4,160,251
Fund Balance - June 30		\$13,303,336		\$ 6,450,235

The notes to the financial statements are an integral part of this statement.

FAIR AND EXPOSITION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and results of the operations of the Fair and Exposition Fund. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local government as prescribed by the American Institute of Certified Public Accountants and by the National Council of Governmental Accounting.

The accompanying financial statements are structured into a Special Revenue Fund and an Account Group. The California Horse Racing Board and the Department of Food and Agriculture account for their portions of the fund. The State Controller maintains the central accounts for the fund and publishes a consolidated fund statement.

SPECIAL REVENUE FUNDS

These funds are used to account for specific revenues and expenditures earmarked for particular activities. The special revenue fund used by the California Horse Racing Board and the Department of Food and Agriculture is the Fair and Exposition Fund.

Fair and Exposition Fund

This fund is used to account for the collection of horse racing license fees, sale of some real property of agricultural associations and county fairs, and interest on loans. Income not transferred to the State General Fund is used to finance the various activities related to horse racing and state, county, and district fairs.

The Fair and Exposition Fund is maintained on the modified accrual basis of accounting. These are some of its more significant elements:

Income

Throughout the fiscal year all income including revenues, transfers, and reimbursements is accounted for on the cash basis of accounting. At June 30, the accounts are adjusted to accrue all earned but uncollected income.

Expenditures

Expenditures are accounted for at the time claims for payment are filed with the State Controller. At June 30, all valid expenditure commitments are accrued as expenditures including encumbrances outstanding against budget appropriations for which no goods or services have been received.

Liabilities

Retirement Plan - Regular employees of the California Horse Racing Board and the Department of Food and Agriculture are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the agencies and employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. The board's share of retirement contributions for the year is \$64,643; the department's share is \$47,685.

Vacation and Sick Leave - Costs of vacation and sick leave are charged at the time the benefits are used rather than when earned.

ACCOUNT GROUP

The account group is used to account for General Fixed Assets. Assets purchased are recorded as expenditures in the appropriate fund in the year of acquisition or encumbrance.

2. BUDGETED REVENUES AND EXPENDITURES

Neither revenues nor the detail composition of expenditures are included in the legislative budget act. The dollars included in the first column are agency amounts as reflected in the Governor's Budget after allowing for any subsequent adjustments.

3. LOANS RECEIVABLE

This account represents the amount of loans for capital outlay purchases due from state-supported fairs as authorized by Section 19630.1 of the Business and Professions Code. The loans are repayable in equal annual installments over ten years unless the amount of loan or series of loans exceeds \$1 million. If the loan exceeds this amount, the Director of Finance may extend the repayment time up to 15 years. The amount of loan interest is specified by the Director of Finance.

4. TRANSFERS TO THE GENERAL FUND

Of the \$20 million horse racing revenue credited to the Fair and Exposition Fund, \$17,466,906 was appropriated to state-supported fairs, activities, and projects in accordance with Article 10, Chapter 4, of the Business and Professions Code. The remaining \$2,533,094, together with prior balances and loan payments of \$192,179, was transferred to the General Fund in accordance with Section 19630 of the Business and Professions Code.

OTHER INFORMATION

As an integral part of our examination, we reviewed the California Horse Racing Board and the Department of Food and Agriculture's accounting procedures and related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the financial statements present financial position and results of operations in accordance with generally accepted accounting principles consistently applied.

Our review enabled us to suggest improvements which would result in better operating procedures and better operating controls. A management letter describing the suggested operating improvements was issued to the board and to the department in conjunction with certain recommended adjusting entries necessary in order to achieve compliance with generally accepted accounting principles.

The board and department fully concur with the suggested operating improvements and adjusting entries.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps