

## OFFICE OF THE AUDITOR-CONTROLLER

**SIMONA PADILLA-SCHOLTENS, CPA**  
Auditor-Controller

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Assistant Auditor-Controller



# SOLANO COUNTY

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October 9, 2018

Board of Directors  
Solano County Fair Association  
900 Fairgrounds Drive  
Vallejo, CA 94589

### Members of the Board:

We were engaged to perform an audit of the financial statements of the Solano County Fair (Fair), a component unit of the County of Solano, as of and for the years ended December 31, 2017 and 2016, in accordance with auditing standards generally accepted in the United States of America.

In an effort to extend our services, we have identified matters for your information that we believe will serve to assist with and strengthen the Fair's governance activities.

We recommend the Board of Directors review the identified matters, described in the accompanying Attachment A, including the related recommendations. If you have any questions or need additional assistance, please contact me at 707-784-3057.

Respectfully yours,

A handwritten signature in blue ink that reads "Kirk Starkey".

Kirk Starkey  
Deputy Auditor-Controller

## Attachment A

### **Solano County Fair Reporting Structure**

The Solano County Fair Association (SCFA) conducts, under an agreement with Solano County (County), the annual County Fair and oversees the day-to-day operations of the County's fairgrounds property. The SCFA is a 510(c)(3) nonprofit organization with its own Articles of Incorporation and By-Laws whose Board Members are appointed by the County's Board of Supervisors.

However, the activities of the Fair are accounted for as an enterprise fund, and are presented in the County's Comprehensive Annual Financial Report (CAFR). In governmental accounting, an enterprise fund entity provides goods or services to the public for a fee that makes the entity self-supporting; similar to a commercial enterprise.

Additionally, staff conducting the Fair and overseeing the day-to-day operations of the fairgrounds property are SCFA employees but are also part of the County's pension (CalPERS) and medical plans.

Accounting for the SCFA's (a non-profit entity) activities in an enterprise fund while also including employees of the SCFA within the County's CalPERS plan creates an inconsistent reporting structure.

#### **Recommendation:**

The SCFA Board should work with the County Board of Supervisors to adopt an appropriate reporting structure reflecting Fair operation realities.

### **Solano County Fair Management Reports**

As part of the biennial financial statement audit, we routinely provide audit adjustments to present the Fair's operations consistent with generally accepted accounting principles. These adjustments include recognizing depreciation expense, the Fair's share of the County's pension and Other Post-Employment Benefits (OPEB) liabilities, and pension obligation bond debt. In operating an enterprise activity, management should make these types of entries to adequately measure the Fair's operations by including these costs when developing user fees. If these costs are not included in the user fees the Fair may not be recovering all costs of operations.

Additionally, the Fair presents operating statements to the Fair board on a monthly basis which shows the Fair's operations in total by expense category (e.g., salaries/benefits, services and supplies, utilities, etc.). However, the Fair Board has not routinely been provided expenses by functional cost center (e.g. facility rental) that includes overhead allocated to the cost centers<sup>1</sup>. Allocating overhead costs to all cost centers provides the true cost of departmental operations.

By presenting expenses by cost center, management and the Fair Board can better monitor the operations and profitability of the individual cost centers/departments and make strategic business decisions based on the information.

#### **Recommendation:**

Present the Fair Board with monthly operating reports, by cost center, that include overhead costs allocated to all cost centers/departments.

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<sup>1</sup> The Auditor-Controller has requested this information but Fair management is still in the process of compiling the information as of the date of this letter.

### **Solano County Fair Operations**

We have audited the financial statements of the Solano County Fair for the years ended December 31, 2017 and 2016 and we have observed the Fair continues to experience losses as a result of annual operating activities resulting in a decline in net position. As previously reported to the SCFA, the historical decline in cash and financial condition of the Fair since December 31, 2000 is presented below:

Year	Cash as of December 31	Revenues	Expenses	Change in Net Position
2017	\$190,671	\$3,296,306	\$3,518,456	(\$222,150)
2016	\$286,593	\$3,243,856	\$3,287,844	(\$43,987)
2015	\$241,290	\$3,026,853	\$3,097,196	(\$70,343)
2014	\$88,564	\$2,833,762	\$3,407,474	(\$573,712)
2013	\$693,568	\$2,967,269	\$3,374,264	(\$406,995)
2012	\$841,090	\$2,841,209	\$3,391,891	(\$550,682)
2011	\$1,135,685	\$3,522,315	\$3,507,490	\$14,825
2010	\$1,178,186	\$3,307,363	\$3,559,475	(\$252,112)
2009	\$939,286	\$3,716,343	\$4,307,505	(\$591,162)
2008	\$1,327,025	\$4,680,423	\$4,868,352	(\$187,929)
2007	\$1,343,783	\$5,154,299	\$5,296,075	(\$141,776)
2006	\$1,041,132	\$4,849,541	\$5,702,059	(\$852,518)
2005	\$1,147,200	\$4,597,682	\$4,707,722	(\$110,040)
2004	\$957,587	\$5,238,002	\$5,475,132	(\$237,130)
2003	\$1,122,886	\$5,102,944	\$5,640,583	(\$537,639)
2002	\$1,641,773	\$5,320,839	\$5,410,356	(\$89,517)
2001	\$1,971,113	\$5,298,283	\$5,182,459	\$115,824
2000	\$2,161,739	\$5,006,907	\$4,340,785	\$666,122

#### **Recommendation:**

Fair management, in conjunction with the Solano County Board of Supervisors, should pursue plans to address this ongoing structural deficit.

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### ADDENDUM TO MANAGEMENT MEMO

October 22, 2018

Board of Directors  
Solano County Fair Association  
900 Fairgrounds Drive  
Vallejo, CA 94589

Members of the Board:

Subsequent to the release of our audit report of the financial statements of the Solano County Fair (Fair), a component unit of the County of Solano, as of and for the years ended December 31, 2017 and 2016, Fair management brought to the Auditor-Controller's (ACO) attention a potential issue with the Fair's compliance with CalPERS enrollment requirements.

Based upon our initial review, this matter did not appear to have a material effect to the Fair's financial statements and thus does not require any adjustments to the financial statements.

However, because the Fair participates in the County's CalPERS plan, the ACO is working with the Fair's management to determine the Fair's compliance with the County's CalPERS contract agreement.

We recommend the Board of Directors review the matter with Fair management and continue to work with the ACO to correct any potential deficiencies. If you have any questions, please contact me at 707-784-3057.

Respectfully yours,

A handwritten signature in blue ink, appearing to read "Kirk Starkey".

Kirk Starkey  
Deputy Auditor-Controller