Consolidated Financial Statements
December 31, 2019 and 2018

Los Angeles County Fair Association

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Independent Auditor's Report

Board of Directors
Los Angeles County Fair Association
Pomona, California

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Los Angeles County Fair Association (the "Association") (a California nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statement of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements
The financial statements of the Association as of and for the year ended December 31, 2018 were audited by Vavrinek, Trine, Day & Co., LLP who joined Eide Bailly LLP on July 22, 2019, and whose report dated April 15, 2019 expressed an unmodified opinion on those statements.

Eide Bailly LLP

Rancho Cucamonga, California
November 5, 2020

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 8,587,135	$ 7,460,005
Investments	4,380,797	6,298,476
Accounts receivable, net	2,093,961	1,536,088
Other current assets	859,738	975,121
Total current assets	15,921,631	16,269,690
Noncurrent Assets		
Property and equipment, net	89,407,237	91,994,030
Other noncurrent assets	64,352	8,481
Total noncurrent assets	89,471,589	92,002,511
Total assets	$ 105,393,220	$ 108,272,201
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 9,511,404	$ 4,219,880
Accrued expenses and other liabilities	2,338,014	3,318,980
Line of credit	1,500,000	-
Current portion of bonds payable, net	40,985,624	1,005,000
Current portion of other long-term debt	302,749	-
Notes payable	1,165,000	1,525,000
Liability for interest rate swap	11,008,363	-
Deferred revenue	3,628,668	3,402,826
Total current liabilities	70,439,822	13,471,686
Noncurrent Liabilities		
Bonds payable, net, less current maturities	-	40,944,112
Other noncurrent liabilities	-	301,475
Employee benefit plans	949,254	958,273
Liability for interest rate swap	-	8,334,860
Total noncurrent liabilities	949,254	50,538,720
Total liabilities	71,389,076	64,010,406
Net assets without donor restrictions	34,004,144	44,261,795
Total liabilities and net assets	$ 105,393,220	$ 108,272,201

	2019	2018
Revenues		
Fair	$ 30,606,135	$ 32,189,626
Year-round events	11,746,357	12,739,865
Hotel	18,274,896	19,604,641
Barretts	55,843	1,758,457
Cornucopia	258,000	258,000
Related enterprises	3,243,776	3,217,988
Total revenues	64,185,007	69,768,577
Expenses		
Fair and other		
Salaries and employee benefits	13,509,639	13,364,848
General and administrative	9,270,299	11,088,896
Utilities	3,005,078	2,103,389
Operating	10,626,946	8,999,266
Professional services	6,172,968	4,451,113
Premiums, entertainment, and other related expenses	3,292,366	3,710,972
Total fair and other expenses	45,877,296	43,718,484
Hotel operating expenses	15,922,945	15,455,085
Barretts operating expenses	103,760	2,141,872
Cornucopia operating expenses	54,367	157,817
Related enterprises	357,470	194,809
Operating income before deprciation and interest	1,869,169	8,100,510
Interest expense	2,777,051	2,866,808
Depreciation	6,682,025	6,331,937
Net operating loss	(7,589,907)	(1,098,235)
Other Income (Expense)		
Investment income, net	194,639	59,373
Loss on disposal of assets	(188,880)	(320,157)
Net gain (loss) on bonds interest rate swap	(2,673,503)	1,970,703
Total other income (expense)	(2,667,744)	1,709,919
Increase (Decrease) in Net Assets	(10,257,651)	611,684
Net Assets, Beginning of Year	44,261,795	43,650,111
Net Assets, End of Year	$ 34,004,144	$ 44,261,795

Los Angeles County Fair Association
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Increase (decrease) in unrestricted net assets	$ (10,257,651)	$ 611,684
Adjustments to reconcile decrease in unrestricted net assets to net cash flows from operating activities:		
Net loss (gain) on interest rate swap	2,673,503	(1,970,703)
Amortization of bond issuance costs	41,512	41,512
Depreciation	6,682,025	6,331,937
Loss on disposal of assets	188,880	320,157
Change in operating assets and liabilities:		
Accounts receivable, net	(557,873)	757,759
Other current assets	115,383	506,768
Accounts payable	5,291,524	573,201
Accrued expenses and other liabilities	(980,966)	(199,177)
Deferred revenue	225,842	(382,166)
Other noncurrent liabilities	1,274	(298,490)
Employee benefit plans	(9,019)	(809,875)
Net Cash from Operating Activities	3,414,434	5,482,607
Investing Activities		
Purchase of investments	(14,028,324)	(21,046,359)
Proceeds from sale and maturity of investments	15,946,003	18,967,483
Purchase of property and equipment	(4,339,983)	(2,694,056)
Net Cash used for Investing Activities	(2,422,304)	(4,772,932)
Financing Activities		
Payment on bonds payable	(1,005,000)	(940,000)
Payment on notes payable	(360,000)	(340,000)
Proceeds from line of credit	1,500,000	-
Net Cash from (used for) Financing Activities	135,000	(1,280,000)
Net Increase (Decrease) in Cash and Cash Equivalents	1,127,130	(570,325)
Cash and Cash Equivalents at Beginning of Year	7,460,005	8,030,330
Cash and Cash Equivalents at End of Year	$ 8,587,135	$ 7,460,005
Supplemental Disclosure of Cash Flow Information		
Cash Paid for Interest	$ (2,818,563)	$ 2,825,296

Note 1 - Principal Activity and Significant Accounting Policies

Organization

The Los Angeles County Fair Association (the Association) is organized as a nonprofit organization and is tax exempt under the provisions of the Internal Revenue Code. The Association conducts the annual Los Angeles County Fair (the Fair) and numerous events during the year. Fairplex Racing, Inc. was organized in 1986 as a for-profit corporation for the purpose of conducting harness racing and is subject to income taxes under the Internal Revenue Code. During 1998, Fairplex Racing, Inc. was renamed Fairplex Enterprises, Inc (FEI).

The Sheraton Fairplex Hotel and Conference Center (the Hotel) is owned by the Association and provides lodging, food, and banquet facilities for guests at the property. The Hotel operates under a franchise license support, service, and management agreement with Sheraton, expiring in 2024, which can be extended upon mutual agreement for two additional five-year periods.

In July 2002, Fairplex Equine Sales, LLC (FES) was formed to purchase the general partner interest in Barretts Equine Limited (Barretts). FES is owned 99.99 percent by the Association and 0.01 percent by FEI. Barretts conducts equestrian auctions and other activities at facilities leased from the Association and others. Barretts held its last auction in October 2018.

In April 2004, Cornucopia Foods, LLC (Cornucopia) was formed as a for-profit corporation for the purpose of providing food and beverage as the master concessionaire for the Fair and other events during the year. In September 2016, the Association entered into a ten year Food Service Management Agreement with a third party to provide management of food and beverage sales and operations at the Fairplex. The Agreement includes both a percentage rent and a capital grant contribution to be paid by the new vendor for the rights to operate the food service business.

In February 2010, Event Production Solutions, LLC (EPS) was formed for the purpose of renting out event and party equipment. In February 2010, Fairplex RV and Boat Storage, LLC (RV and Boat Storage) was formed for the purpose of providing storage space for RVs and boats. The Association is the sole member of both EPS and RV and Boat Storage.

Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Association and its subsidiaries, the Hotel, FEI, FES, Barretts, Cornucopia, EPS, and RV and Boat Storage (collectively referred to herein as the Association). All significant intercompany balances and transactions have been eliminated.

The Association reports on a fiscal year reflecting 4-4-5 week calendar quarters with the period ending on the Sunday closest to December 31st. The Association's 2019 and 2018 fiscal years represented the 52 week period ended December 27, 2019 and a 53 week period ended December 30, 2018, respectively. For presentation purposes, the Association presents each fiscal year as the year ended December 31, 2019 and 2018.

Financial Statement Presentation

The Association prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts maintained by and directly under the control of the Association. The Association does not use fund accounting. Revenues and expenses are recorded when incurred in accordance with the accrual basis of accounting. In addition, the Association is required to present a statement of cash flows.

Cash and Cash Equivalents

The Association considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Investments

Investment purchases are recorded at cost. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the consolidated statements of activities and consists primarily of interest and dividend income, less external and direct internal investment expenses.

Accounts Receivable

Accounts receivable are stated at amounts due from customers and agencies net of an allowance for doubtful accounts. The Association determines its allowance by considering a number of factors, including the length of time receivables are past due, the Association's previous loss history, and the customer's current ability to pay their obligations. Receivables are written off when they become uncollectible. At December 31, 2019 and 2018, the allowance was $69,286 and $49,535, respectively.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets as follows:

	Estimated Useful Lives
Buildings and improvements	8-50 years
Equipment	3-20 years

Capital projects are capitalized at cost and will be depreciated over the estimated life upon completion of the project. The costs of repairs and maintenance are charged to expense.

Impairment of Long-Lived Assets

The Association regularly reviews long-lived assets and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected future cash flows is less than the carrying amount of the asset, the Association recognizes an impairment loss. For the years ended December 31, 2019 and 2018, no provision for impairment losses was recorded.

Bond Issuance Costs

Bond issuance costs are amortized using the straight-line method over the life of the Bonds. Bond issuance costs of $839,376 and $880,888 are presented net of accumulated amortization of $373,680 and $332,168 at December 31, 2019 and 2018, respectively. Bond issuance costs are presented as a reduction in the balance of the related long-term debt.

Concentration of Credit Risk

Financial instruments that subject the Association to credit risk consist primarily of accounts receivable and deposits held by financial institutions. Concentrations of credit risk with respect to accounts receivable are generally diversified due to the large number of entities composing the Association's customer base. The Association performs ongoing credit evaluations of its customers and maintains an allowance for potential credit losses. Additionally, the Association maintains cash and investment balances at banks in excess of Federal Deposit of Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SPIC) limits. Deposit concentration risk is managed by placing cash and investment balances with financial institutions believed by the Association to be creditworthy. Management believes credit risk is limited.

Accounts Payable and Deferred Revenue

Accounts payable represents current amounts due to the Association's vendors at December 31, 2019 and 2018. The deferred revenue balances primarily relate to prepayments and deposits at December 31, 2019 and 2018, by customers for rental of the Association's facilities.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Derivative Instruments

The Association uses derivative financial instruments to optimize borrowing costs under its financial strategy. The Association entered into derivative contracts, known as interest rate swaps, which change the interest rates of its bonds payable. Derivative instruments are recorded at fair value in the accompanying consolidated financial statements.

The derivative contracts hedge interest rate exposure for periods consistent with the underlying bonds payable, and do not constitute investments independent of the interest rate exposure. The interest rate swap contracts are intended to be an integral part of the borrowing transaction. In general, derivatives used as hedges must be effective at reducing risk associated with the exposure being hedged and must be designed as a hedge at the inception of the contract. Changes in fair values of derivative instruments must be highly correlated with changes in fair values of the underlying hedge items both at inception of the hedge and over the life of the hedge contract. Interest to be paid or received on these contracts currently adjusts interest expense. The change in fair value of the interest rate swaps that are considered effective is recorded as other income/(losses) in the consolidated statements of activities. Cash flows related to derivative financial instruments are classified in the consolidated statements of cash flows in a manner consistent with the underlying transaction.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The Association did not have any net assets with donor restrictions at December 31, 2019 and 2018.

Revenue Recognition

In May 2014, the FASB issued guidance (Accounting Standards Codification [ASC] 606, Revenue from Contracts with Customers) which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Association adopted ASC 606 with a date of the initial application of January 1, 2019, using the full-retrospective method.

As part of the adoption of ASC 606, the Association elected to use the following transition practical expedients: (1) revenue from contracts which begin and end in the same fiscal year has not been restated; (2) hindsight was used when determining the transaction price for contracts that include variable consideration, rather than estimating variable consideration amounts in the comparative reporting period; (3) the amount of transaction price allocated to unsatisfied performance obligations and when those amounts are expected to be recognized, for the reporting periods prior to the date of initial application of the guidance, have not been disclosed; and (4) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price have been reflected in the aggregate.

The Association’s events, facility rentals and sponsorship revenues are recognized at a point in time based on the transfer services provided, such as the events being held. The performance obligation of delivering such services is simultaneous with the date of the event. All amounts received prior to the event are deferred to the applicable period. In addition, the Association’s event contracts do not contain variable consideration and contract modifications are generally minimal.

The Association’s hotel room revenues are recognized at a point in time based on the transfer of services provided. The performance obligation of delivering such services is satisfied at the time of hotel occupancy and use. All amounts received prior to such dates are deferred to the applicable period. In addition, the Association’s hotel contracts do not contain variable consideration and contract modifications are generally minimal.

The adoption of ASC 606 did not have a significant impact on the Association's statement of financial position, results of its activities, or cash flows. The Association's revenue arrangements generally consist of a single performance obligation to transfer promised goods or services. Based on the Association's evaluation of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

Functional Allocation of Expenses

The costs of program and supporting services activities for Fairplex have been summarized on a functional basis in Note 8. Most expenses are generally directly attributable to a functional category with no significant allocations between program service activities and supporting service activities occurring. Depreciation expense has been allocated among the programs and supporting services benefited, which requires allocation on a reasonable basis that is consistently applied. Depreciation expense is allocated based on the directly attributable functional category of facilities-related costs, including utilities, repair and maintenance, and supply costs.

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2019 and 2018, there were approximately $1,970,000 and $2,310,000, respectively, in advertising costs.

Income Taxes

The Association is exempt from Federal income and California franchise taxes under Section 501(c)(5) of the Internal Revenue Code and corresponding California provisions. Accordingly, no provision for income taxes has been recorded in the financial statements. The Association annually files Forms 990, 199, and RRF-1 with the appropriate agencies, as well as Forms 990T and 199T when applicable. The Association has also been classified as an entity that is not a private foundation within the meaning of Section 509(a).

FEI is a for-profit entity that files Form 1120 for federal tax purposes. Income taxes are provided for under the liability method and, as such, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. A valuation allowance reduces deferred income tax assets when it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

The Association has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the financial statements.

Certain entities consolidated within the Association are subject to Federal income tax and franchise tax of the State of California. Federal tax returns for all entities for the years ended December 31, 2016, 2017, and 2018, are open to audit by the Federal authorities. California State returns for all entities for the years ended December 31, 2015, 2016, 2017, and 2018, are open to audit by State authorities.

Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs (other than Level 1 prices) such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the factors that market participants would use in pricing an asset or liability.

All of the Association's investments as disclosed in Note 2 are considered to be Level 1 and Level 2 investments, while the Association's interest rate swap agreement associated with its Bonds as disclosed in Note 5 is considered to be a Level 3 transaction. The interest rate swap agreement is valued using a third party’s valuation model, which considers past, present, and future assumptions regarding interest rates and market conditions to estimate the fair value of the agreement. The commercial paper is valued by the custodians of the debt instrument using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions. These investments are considered to be level 2 investments.

Recent Accounting Guidance

Accounting Pronouncements Adopted

The Association adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This Update requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. These changes did not have a material impact on the Association's financial statements and disclosures. The Association has implemented the provisions of this ASU because management believes it improves the Association's financial reporting.

The Association adopted ASU No. 2018-08 – *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* This Update applies to all entities that receive or make contributions, including business entities. This Update clarifies the definition of an exchange transaction. As a result, not-for-profit entities will account for most federal grants as donor-restricted conditional contributions rather than as exchange transactions. The criteria for evaluating whether contributions are unconditional (and thus recognized immediately in income) or conditional (for which income recognition is deferred) have been clarified. The Association has implemented the provisions of this ASU because management believes it improves the Association's financial reporting.

The Association adopted ASU No. 2016-01 – *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* This Update affect all entities that hold financial assets or owe financial liabilities. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. These changes did not have a material impact on the Association's financial statements and disclosures. The Association has implemented the provisions of this ASU because management believes it improves the Association's financial reporting.

New Accounting Pronouncements

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under current lease accounting guidance. The amendments in this update are effective for interim and annual periods beginning after December 15, 2020. The Association is currently evaluating the effects of ASU 2016-02 on its financial statements and disclosures.

Note 2 - Fair Value of Assets and Liabilities

Fair Value Measurements

The following table presents the balances of the assets measured at fair value on a recurring basis as of December 31, 2019.

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 2,381,706	$ -	$ -	$ 2,381,706
Commercial paper	-	1,999,091	-	1,999,091
	$ 2,381,706	$ 1,999,091	$ -	$ 4,380,797

The following table presents the balances of the assets measured at fair value on a recurring basis as of December 31, 2018.

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 993,999	$ -	$ -	$ 993,999
Commercial paper	-	5,304,477	-	5,304,477
	$ 993,999	$ 5,304,477	$ -	$ 6,298,476

Investments held by the Association for purposes of funding the 457(b) deferred compensation plan were $1,034,570 and $993,999 at December 31, 2019 and 2018, respectively. See further information about the 457(b) deferred compensation plan in Note 6.

The following table presents the balances of the liabilities measured at fair value on a recurring basis as of December 31, 2019.

	Level 1	Level 2	Level 3	Total
Liability for interest rate swap	$ -	$ -	$ 11,008,363	$ 11,008,363

The following table presents the balances of the liabilities measured at fair value on a recurring basis as of December 31, 2018.

	Level 1	Level 2	Level 3	Total
Liability for interest rate swap	$ -	$ -	$ 8,334,860	$ 8,334,860

The following is a reconciliation of the beginning and ending balance of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2019 and 2018:

	Total
Liability for interest rate swap	
Balance, December 31, 2017	$ (10,305,563)
Net gain (loss) on bonds interest rate swap	1,970,703
Balance, December 31, 2018	(8,334,860)
Net gain (loss) on bonds interest rate swap	(2,673,503)
Balance, December 31, 2019	$ (11,008,363)

Note 3 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position sheet date, comprise the following:

	2019	2018
Cash and cash equivalents	$ 8,587,135	$ 7,460,005
Investments	3,346,227	5,304,477
Accounts receivable, net	2,093,961	1,536,088
	$ 14,027,323	$ 14,300,570

The Association used these sources to meet its ongoing obligations with respect to general expenditures, liabilities and other obligations as they become due. Cash in excess of daily requirements is invested in various short-term investments with maturities designed to meet obligations as they come due.

Note 4 - Property and Equipment

Property and equipment consist of the following at December 31, 2019 and 2018:

	2019	2018
Non Depreciable Assets		
Land	$ 368,808	$ 368,808
Capital projects in process	2,754,469	1,944,638
Subtotal non depreciable assets	3,123,277	2,313,446
Depreciable Assets		
Buildings and improvements owned by the Association on County land	158,728,043	157,542,281
Equipment, tools, and implements	29,054,265	28,812,593
	187,782,308	186,354,874
Accumulated Depreciation	(101,498,348)	(96,984,001)
Subtotal depreciable assets	86,283,960	89,680,584
Property and Equipment, Net	$ 89,407,237	$ 91,994,030

Certain buildings have had a lien in the amount of $1.75 million placed on them for 15 years as a condition of receiving $1.75 million in EDA grant monies. Depreciation expense was $6,682,025 and $6,331,937 for the years ended December 31, 2019 and 2018, respectively.

Note 5 - Bonds Payable, Notes Payable, and Other Obligations

Long-term debt consists of the following at December 31, 2019 and 2018:

	2019	2018
Bonds payable, Taxable Variable Rate Demand Revenue Bonds Series 2009, due on June 30, 2020 at a fixed rate of 4.805 percent at December 31, 2019.	$ 17,570,000	$ 18,575,000
Bonds payable, Tax Exempt Series 2010 Recovery Zone Bonds, due on June 30, 2020, at a fixed rate of 3.430 percent at December 31, 2019.	24,255,000	24,255,000
Less: Bond issuance costs, net of accumulated amortization	(839,376)	(880,888)
Total bonds payable	40,985,624	41,949,112
Term note payable with financial institution due in June 30, 2020 at an interest rate of 2.650 percent above LIBOR, or 4.280 percent at December 31, 2019.	1,165,000	1,525,000
	42,150,624	43,474,112
Less: Current Portion	(42,150,624)	(2,530,000)
Long-Term Debt	$ -	$ 40,944,112

Description of Debt

During the year ended December 31, 2009, the Association issued $49,650,000 of Taxable Variable Rate Demand Revenue Bonds Series 2009 (the 2009 Bonds). Proceeds from the issuance of the 2009 Bonds were used to retire the Taxable Variable Rate Demand Revenue Bonds Series 2000 (the 2000 Bonds) and the non-revolving lines of credit in the amount of approximately $26,364,000 and $2,738,000, respectively. The Association's Board of Directors designated the remaining proceeds to be used for the construction of the new Conference center. The Bonds were secured by an irrevocable direct-pay letter of credit (the Letter of Credit) issued by banks, in favor of the trustee, in the amount of $50,482,488, $49,650,000 to be drawn upon to pay the unpaid principal amount of the Bonds outstanding, and up to $832,488 to be drawn upon to pay accrued and unpaid interest on the Bonds.

Concurrently with the issuance of the Letter of Credit, the Association executed a Reimbursement Agreement with the banks, which, among other things, set the terms and conditions whereby the Association is required to repay the banks any amounts drawn by the trustee under the Letter of Credit and grant the banks certain security interests in certain collateral of the Association. Under the Reimbursement Agreement, the Association agreed to comply with various covenants as defined in the Reimbursement Agreement. These Bonds were secured by the gross revenues of the Association.

During the year ended December 31, 2010, the Los Angeles County Regional Financing Authority (Authority) issued $24,255,000 of Tax Exempt Series 2010 Recovery Zone Bonds (the 2010 Bonds) on behalf of the Association. Proceeds from the issuance of the 2010 Bonds were used to retire $24,255,000 of the Taxable 2009 Bonds. Upon retirement of the portion of the 2009 Bonds retired, a portion of the swap agreement relating to the retired portion was terminated, as described below. In connection with the 2010 Bonds, the Association entered into a Loan Agreement with the Authority and a Continuing Covenant Agreement with the financial institution purchasing the 2010 Bonds. The Loan Agreement provides for the payment to the Authority of loan payments equal to debt service on the 2010 Bonds. The Continuing Covenant Agreement contains various covenants and agreements of the Association, and also provides for the amendment of certain covenants found in the 2009 Bonds such that the 2010 Bond covenants and 2009 Bond covenants are the same. The existing Letter of Credit related to the remaining 2009 Bonds was extended to December 31, 2020. All bonds are secured by the gross revenues of the Association.

In conjunction with the Association's 2010 and 2009 issuance of variable rate debt, the Association entered into interest rate swap agreements with a financial institution counter party. Pursuant to the swap agreement relating to the 2009 Bonds, the Association pays a fixed rate of 4.805 percent, and the counterparty pays a rate equal to the variable rate on the 2009 Bonds. Pursuant to the swap agreement relating to the 2010 Bonds, the Association pays a fixed rate of 3.43 percent, and the counterparty pays a rate equal to the variable rate on the 2010 Bonds. At December 31, 2019, the notional amount of the interest rate swap agreements was $42,830,000. The Association entered into these agreements to lock in a fixed interest rate on the variable rate debt and is not using this agreement for speculative purposes. The value of the swap instrument represents the estimated cost to the Association to cancel the agreement at the reporting date, which is based on pricing models that consider risks and market factors. The liability for the interest rate swap at December 31, 2019 and 2018, was $11,008,363 and $8,334,860, respectively.

The amount recorded in the consolidated statement of activities represent the effect on net assets for changes in the swap's fair value is a loss of $2,673,503 and gain of $1,970,703 for the years ended December 31, 2019 and 2018, respectively.

The effective interest rate, which includes the impact of bond issuance costs, is 4.918 percent for the 2009 Bonds and 3.516 percent for the 2010 Bonds.

During 2015, the Association entered into a note agreement with a financial institution in the amount of $2,500,000 for the remodel of the Finish Line Sports Grill. Terms of the note include annual installments due at an interest rate of 2.650 percent above LIBOR. The interest rate was 4.280 percent and 5.156 percent at December 31, 2019 and 2018, respectively.

The Association has $2,000,000 available under other lines of credit. There was $1,500,000 and $0 outstanding under these lines of credit at December 31, 2019 and 2018, respectively.

Debt Forbearance and Management's Plans

During 2019, the Association defaulted on the bonds payable, notes payable, and line of credit agreements by failing to meet certain loan covenants related to the agreements. Subsequent to December 31, 2019, the debtholder has issued a forbearance agreement to allow the Association time to refinance the obligations. The forbearance agreement includes several provisions which the Association must meet, including periodic financial reporting, monthly profitability covenants, prohibition on significant disposition of assets, and additional fees associated with the execution and maintenance of the agreement. The forbearance period runs through the earlier of December 31, 2020 or the date on which payment is made on defaulted obligations. In the event the Association is unable to obtain refinancing for these obligations, they are payable in full to the current debtholder on December 31, 2020. The balances included in current liabilities as of December 31, 2019 include $1,500,000 from the line of credit, $40,985,624 from the bonds payable, $1,165,000 from notes payables, and $11,008,363 swap agreement liability. Management believes they will be able to successfully alleviate any substantial doubt about the Association's ability to continue as a going concern by refinancing the bonds or restructuring the current debt by the December 31, 2020 deadline. The Association is currently in negotiations as of the date of this report with the financial institution holding the bonds to obtain a longer-term forbearance period if the December 31, 2020 deadline is not met. Additionally, the Association has implemented significant expense reductions and has identified new revenue streams that have been contracted throughout 2020 and 2021; as such, the financial statements do not include any adjustments that may be necessary should the Association be unable to continue as a going concern.

Note 6 - Revenue from Contracts with Customers

The beginning and ending balances for accounts receivable and deferred revenue were as follows for the year ended December 31, 2019:

	2019	2018
Accounts receivable, net	$ 2,093,961	$ 1,536,088
Deferred revenue	3,628,668	3,402,826

The beginning and ending balances for accounts receivable and deferred revenue were as follows for the year ended December 31, 2018:

	2018	2017
Accounts receivable, net	$ 1,536,088	$ 2,293,847
Deferred revenue	3,402,826	3,784,992

Note 7 - Employee Benefit Plans

The Association has a defined contribution savings plan in effect under Section 401(k) of the Internal Revenue Code (IRC), a Profit Sharing Plan and a deferred compensation plan under Section 457(b) of the IRC. Under the 401(k) plan, each participant is able to defer the maximum amount of compensation allowed by law. The Association contributed three percent to each eligible employee's account in 2019 and 2018. Each employee is eligible after 1,000 hours of employment.

Under the Profit Sharing Plan, each participant is granted a percentage of compensation before deduction. Each employee who has completed 1,000 hours of service each year, and is employed at year end, is eligible to participate. For the years ending December 31, 2019 and 2018, the Association did not make any discretionary contribution to the plan, as determined by the Board of Directors of the Association.

Under the 457(b) plan, eligible executives are able to participate in the plan up to the maximum amount allowed by law. Each executive who has completed 1,000 hours of service is eligible to participate. The Association will contribute 50 percent of the amount contributed by the executive up to the amount allowed by law. In December 2019 and 2018, the Association contributed $24,262 and $22,890, respectively.

The Association contributed to various pension plans under union and industry-wide agreements. Contributions are based on the hours worked by or gross wages paid to covered employees. The Association similarly makes payments to various union and industry-wide health and welfare plans.

The Association's total expense for the aforementioned plans was $756,895 and $713,037 for the years ended December 31, 2019 and 2018, respectively.

Note 8 - Lease Agreement

The Association leases the majority of its property from the County of Los Angeles (the County). A lease with the County was executed in 1988 to enable the Association to complete the Hotel Project, Equestrian Center, and Pavilion Project. The term of the lease is for 56 years commencing January 1, 1988. The Association also has the option to renew for two five-year terms. During the term of the lease, the Association pays as rent to the County a percentage of the gross revenues derived from the use of the property and received by the Association. The percentage of gross revenues payable as rent is divided among Fair Revenues (1.5 percent of gross revenues), Interim Revenues (7.5 percent for 2018, 5.0 percent for 2017), and Parcel 1 Revenue (75 percent). Certain adjustments to these percentages will be made during the term of the lease. See Note 9 for further discussion.

Lease expense included in general and administrative expense in the accompanying consolidated statement of activities for the years ended December 31, 2019 and 2018, was $1,304,324 and $1,624,233, respectively.

Note 9 - Functional Expense Schedule

The Association's operating expenses for the Fairplex by functional classification for the year ended December 31, 2019 are:

	Program: Fair Time	Program: Year-round and Other	Management and Administative	Total
Salaries and benefits	$ 4,127,214	$ 4,155,188	$ 5,227,237	$ 13,509,639
Temporary labor	1,206,158	289,204	86,938	1,582,300
Equipment rentals	1,939,608	242,251	1,004	2,182,863
Travel, meals, and employee relations	111,748	43,896	278,796	434,440
Office and other general expenses	360,983	100,451	327,823	789,257
Insurance	268,171	-	755,937	1,024,108
Taxes, licenses, and fees	275,136	32,689	759,854	1,067,679
Donations	12,231	2,500	1,679,522	1,694,253
County lease	280,729	45,346	169,324	495,399
Utilities	159,844	69,559	2,775,675	3,005,078
Repair and maintenance	488,586	127,893	1,867,737	2,484,216
Supplies	668,871	104,425	480,415	1,253,711
Facilities subcontractors	3,802,337	1,227,278	1,859,404	6,889,019
Advertising and promotions	-	-	1,626,468	1,626,468
Security services	1,059,512	78,180	448,573	1,586,265
Legal and other professional services	30,000	-	2,930,235	2,960,235
Event premiums and entertainment	2,919,979	324,373	48,014	3,292,366
Subtotal operating expenses	17,711,107	6,843,233	21,322,956	45,877,296
Interest expense	-	-	797,051	797,051
Depreciation expense	1,234,075	282,805	4,800,106	6,316,986
Total expenses	$ 18,945,182	$ 7,126,038	$ 26,920,113	$ 52,991,333

The Association's operating expenses for the Fairplex by functional classification for the year ended December 31, 2018 are:

	Program: Fair Time	Program: Year-round and Other	Management and Administative	Total
Salaries and benefits	$ 4,652,324	$ 4,250,831	$ 4,461,693	$ 13,364,848
Temporary labor	2,054,591	102,845	507,598	2,665,034
Equipment rentals	598,816	235,713	468,727	1,303,256
Travel, meals, and employee relations	142,468	43,201	289,065	474,734
Office and other general expenses	287,904	106,730	539,028	933,662
Insurance	370,849	980	832,986	1,204,815
Taxes, licenses, and fees	575,778	45,800	778,877	1,400,455
Donations	-	-	1,482,707	1,482,707
County lease	277,937	1,011,787	334,509	1,624,233
Utilities	56,543	208,512	1,838,334	2,103,389
Repair and maintenance	693,698	1,072,486	1,177,459	2,943,643
Supplies	528,130	305,012	595,795	1,428,937
Facilities subcontractors	2,152,615	1,046,303	1,427,768	4,626,686
Advertising and promotions	-	-	2,310,729	2,310,729
Security services	644,871	-	211,923	856,794
Legal and other professional services	45,246	22,613	1,215,731	1,283,590
Event premiums and entertainment	3,705,635	1,345	3,992	3,710,972
Subtotal operating expenses	16,787,405	8,454,158	18,476,921	43,718,484
Interest expense	-	-	886,808	886,808
Depreciation expense	1,206,333	1,496,636	3,408,068	6,111,037
Total expenses	$ 17,993,738	$ 9,950,794	$ 22,771,797	$ 50,716,329

Note 10 - Contingencies

The Association is currently negotiating with the County of Los Angeles the results of a 2016 audit on its lease agreement with the County and amounts that would be payable from the Association to the County. The amounts have not been officially determined or agreed to as of December 31, 2019 and no accrual for any amounts payable are included in the financial statements for the year ended December 31, 2019.

The Association is involved in various lawsuits arising in the ordinary course of business. Included in the liability balances in the statement of financial position as of December 31, 2019 are approximately $930,000 in accrued settlement expenses. In the opinion of management, based on the advice of legal counsel, the effect of the resolution of additional lawsuits is not determinable as of the date of these financial statements.

Note 11 - Related Party Transactions

The Association provides administrative and programmatic support to The Learning Centers at Fairplex (TLC), a related not-for-profit organization as an in-kind donation. The Association recognized $1,432,561 and $930,700 for the years ending years ended December 31, 2019 and 2018, respectively. These expenses have been recognized as general and administrative expense in the accompanying consolidated statements of activities. Additionally, amounts due to TLC from the Association were $116,447 and $58,240 at December 31, 2019 and 2018, respectively.

Note 12 - Subsequent Events

Subsequent to year-end, the Association has been negatively impacted by the effects of the world-wide COVID-19 pandemic. The Association is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. On May 9, 2020, the Association entered into an unsecured promissory note, dated as of May 8, 2020 (“the PPP Loan”), with Wells Fargo Bank under the Paycheck Protection Program (the “PPP”) administered by the United States Small Business Administration (“SBA”), which is part of the Coronavirus Aid, Relief, and Economic Security Act, enacted on March 27, 2020. The principal amount of the PPP Loan is $2,619,723, bears interest of 1.0% per annum and was disbursed on May 11, 2020.

The PPP Loan has a maturity date of May 8, 2022. No payments of principal or interest are required during the first six months, but interest accrues during this period. After this period, monthly payments of principal and interest are required and continue until maturity with respect to any portion of the PPP Loan not forgiven, as discussed below. The PPP Loan may be prepaid, in full or in part, at any time prior to maturity with no prepayment penalties. The note contains events of default and other provisions customary for a loan of this type.

Under the terms of the PPP, the Company can apply for, and be granted, forgiveness for all or a portion of the PPP Loan. Such forgiveness will be determined, subject to limitations and ongoing rulemaking by the SBA, based on the use of loan proceeds for eligible purposes, including payroll costs, mortgage interest, rent, utility costs and the maintenance of employee and compensation levels. At least 75% of such forgiven amounts must be used for eligible payroll costs. The amount of loan forgiveness will be reduced if the Company terminates employees or reduces salaries during the eight-week period following the date the proceeds are disbursed. No assurance is provided that the Company will obtain forgiveness of the PPP Loan in whole or in part.

Subsequent to year-end, the Association entered into a forbearance agreement in relation to several of their long-term liabilities. See Note 5 for additional information.

The Association has evaluated subsequent events for recognition and disclosure through November 5, 2020, which is the date the financial statements were available to be issued.