

**14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013**

**MCGILLOWAY, RAY, BROWN & KAUFMAN
ACCOUNTANTS & CONSULTANTS**

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To Management
14th District Agricultural Association
Watsonville, California

We have reviewed the accompanying financial statements of the 14th District Agricultural Association (DAA), Santa Cruz County Fair, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the DAA's basic financial statements as listed in the table of contents. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Management has not presented the management's discussion and analysis, information that the Governmental Accounting Standards Board has determined is required to supplement, although not required to be part of, the basic financial statements.



McGilloway, Ray, Brown & Kaufman
Salinas, California
December 10, 2015

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14TH DISTRICT AGRICULTURAL ASSOCIATION
 STATEMENTS OF NET POSITION
 DECEMBER 31, 2014 AND 2013

ASSETS		
	2014	2013
Current assets		
Cash and cash equivalents	\$ 186,284	\$ 134,904
Accounts receivable, net	16,940	5,189
Other receivables, net	2,327	1,229
Prepaid expenses	1,380	3,978
Total current assets	206,931	145,300
Noncurrent assets		
Capital assets, net	1,926,773	1,940,193
TOTAL ASSETS	\$ 2,133,704	\$ 2,085,493
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and other liabilities	\$ 45,063	\$ 52,446
Unearned income	22,666	25,365
Guaranteed deposits	3,320	12,670
Compensated absences liability	2,669	4,517
Line of credit	50,000	-
Total current liabilities	123,718	94,998
Net position		
Net investment in capital assets	1,926,773	1,940,193
Restricted for junior livestock auction	32,114	23,708
Unrestricted	51,099	26,594
Total net position	2,009,986	1,990,495
TOTAL LIABILITIES AND NET POSITION	\$ 2,133,704	\$ 2,085,493

See accompanying notes and independent accountant's review report.

14TH DISTRICT AGRICULTURAL ASSOCIATION
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
OPERATING REVENUE		
Admissions	\$ 451,795	\$ 420,612
Commercial space	40,870	38,906
Carnival	67,242	72,596
Food concessions	146,322	174,346
Exhibits	3,320	9,212
Horse show	20,714	15,485
Miscellaneous fair	124,812	89,191
JLA revenue	31,347	26,016
Rents and other non-fair revenue	537,699	528,062
Other revenue	1,999	2,523
Total operating revenue	1,426,120	1,376,949
OPERATING EXPENSES		
Administration	381,582	228,922
Maintenance and operations	526,253	689,114
Publicity	111,409	112,957
Attendance	94,942	91,030
Miscellaneous fair	47,903	37,837
JLA expense	23,920	25,298
Premiums	16,329	16,902
Exhibits	72,520	106,034
Horse show	13,611	15,008
Attractions	111,207	124,003
Interim expenses	62,826	58,517
Depreciation expense	110,365	110,960
Other expenses	73	18,196
Total operating expenses	1,572,940	1,634,778
OPERATING LOSS	(146,820)	(257,829)
NONOPERATING REVENUE		
State apportionments	30,000	30,000
Contributions	116,460	13,584
Sponsorships	19,845	28,690
Interest income	6	4
Total nonoperating revenue	166,311	72,278
CHANGE IN NET POSITION	19,491	(185,551)
NET POSITION, BEGINNING OF YEAR	1,990,495	2,176,046
NET POSITION, END OF YEAR	\$ 2,009,986	\$ 1,990,495

See accompanying notes and independent accountant's review report.

14TH DISTRICT AGRICULTURAL ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,401,222	\$ 1,395,149
Payments to suppliers	(1,008,784)	(1,049,575)
Payments to employees	(460,424)	(467,682)
Net cash used by operating activities	<u>(67,986)</u>	<u>(122,108)</u>
CASH FLOWS FROM NON-CAPITAL ACTIVITIES		
Cash from state apportionments	30,000	30,000
Cash from contributions	116,460	13,584
Cash from sponsorships	19,845	28,690
Net change in line of credit	50,000	-
Net cash provided by non-capital financing activities	<u>216,305</u>	<u>72,274</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	<u>(96,945)</u>	<u>(9,083)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>6</u>	<u>4</u>
Net decrease in cash and cash equivalents	51,380	(58,913)
Cash and cash equivalents, beginning of year	<u>134,904</u>	<u>193,817</u>
Cash and cash equivalents, end of year	<u>\$ 186,284</u>	<u>\$ 134,904</u>

See accompanying notes and independent accountant's review report.

14TH DISTRICT AGRICULTURAL ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
RECONCILIATION OF OPERATING LOSS		
TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (146,820)	\$ (257,829)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation	110,365	110,960
Bad debts	-	6,910
(Increase) decrease in:		
Accounts receivable	(11,751)	(1,301)
Other receivables	(1,098)	(1,229)
Prepaid expenses	2,598	3,775
Increase (decrease) in:		
Accounts payable and other liabilities	(7,383)	11,892
Unearned income	(2,699)	4,770
Compensation liabilities	(9,350)	9,050
Guarantee deposits	(1,848)	(9,106)
Total adjustments to net income	78,834	135,721
Net cash used by operating activities	\$ (67,986)	\$ (122,108)

See accompanying notes and independent accountant's review report.

14TH DISTRICT AGRICULTURAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

1. Significant Accounting Policies

Nature of Organization

The 14th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Santa Cruz County Fair each year in Watsonville, California. The Association also markets the Fairgrounds exhibition halls, grounds and racetrack facilities and manages hundreds of events each year. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions, provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the DAA are revenues related to the operation of the annual fair and year round rental of buildings and grounds. Operating expenses for enterprise funds include the cost of sales and services, 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 resources are available for use, it is the DAA's policy to use restricted resources first, then unrestricted resources as they are needed.

Accounting Changes

Pending Accounting Standards

Management has evaluated new accounting pronouncements and determined that GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (GASB 68) will have an impact on the DAA's basic financial statements. The provisions of this statement are required to be implemented in 2015. This statement provides

14TH DISTRICT AGRICULTURAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

requirements for how pension costs and obligations are measured and reported in the basic financial statements. When an organization's pension liability exceeds the pension plan's net assets available for paying benefits, there is a net pension liability. Governments will now be required to report that amount as a liability in their basic financial statements. In addition, GASB 68 requires that projected benefit payments be discounted to their actuarial present value using a single rate that reflects: (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to achieve that rate; and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions under (1) are not met.

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 the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The DAA is a state agency and, therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents

The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$50,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. Therefore, the DAA considers all pooled government funds with the LAIF to be cash equivalents.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories

Inventories, if any, consist primarily of souvenir items sold during fair time and are stated at cost.

Capital Assets

Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds, contributions, and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated

14TH DISTRICT AGRICULTURAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 5 to 30 years, and purchases of equipment are depreciated over five years. Capitalized infrastructure assets, such as drainage systems and paving, may be depreciated over 20 to 40 years. Costs of repair and maintenance are expensed as incurred by the DAA. Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets, net of related interest income in the case of tax-exempt debt. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The cost of projects that have not been placed in service are recorded as construction-in-progress and no depreciation is recorded until the project is completed and the asset is placed in service.

The Fair periodically evaluates whether events or circumstances have occurred that may have resulted in an impairment of its capital assets. No such impairment occurred in the years ended December 31, 2014 or 2013.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. The DAA has no deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The DAA has no deferred inflows of resources.

Compensated Absences

Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

Revenue Recognition

Generally, the DAA recognizes revenues upon completion of services provided. Revenue from contractual agreements is recognized as it is earned in accordance with the agreements. Advance payments received are recorded as unearned income in the statement of net position until performance is complete.

Net Position

Net position comprises various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified into the following three components:

Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

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NOTES TO FINANCIAL STATEMENTS
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Restricted net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net assets that do not meet the definition of restricted net position or net investment in capital assets.

Date of Management's Review

Management has evaluated subsequent events through December 10, 2015, the date which financial statements were available to be issued.

2. Cash and Cash Equivalents

At December 31, 2014 and 2013, the DAA has the following cash and investments (all of which are considered Cash Equivalents):

	2014	
	Fair Value	Carrying Value
Petty cash	\$ 400	\$ 400
Bank checking accounts	181,773	181,773
Bank savings accounts	2,648	2,648
Local government investment pool	1,463	1,463
	<hr/>	<hr/>
Total cash and cash equivalents	<u>\$ 186,284</u>	<u>\$ 186,284</u>
	2013	
	Fair Value	Carrying Value
Petty cash	\$ 400	\$ 400
Bank checking accounts	130,702	130,702
Bank savings accounts	2,343	2,343
Local government investment pool	1,459	1,459
	<hr/>	<hr/>
Total cash and cash equivalents	<u>\$ 134,904</u>	<u>\$ 134,904</u>

Local Agency Investment Fund (LAIF)

The State of California Local Agency Investment Fund (LAIF) is an external investment pool. The investment pool does not have a credit rating. LAIF operates in accordance with appropriate state laws and regulations. The share value of the DAA's investment in LAIF is \$1,463 and \$1,459 at December 31, 2014 and 2013, respectively. The average life of the LAIF portfolio was 200 and 209 days at December 31, 2014 and 2013, respectively. Under LAIF's investment policy, the DAA can withdraw all its funds with 24 hour notice.

Investment Policy

Under the provisions of the DAA's investment policy, and in accordance with Section 53601 of the California Government Code, the DAA may invest in the following types of investments:

- Securities of the U.S. Government or its agencies.
- Certificate of Deposit (or Time Deposits placed with commercial banks and or/savings and loan companies).

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- State of California Local Agency Investment Fund (State Pool) Deposits.
- Interest bearing demand accounts with commercial banks and/or savings and loan companies.

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. To address credit risk, the DAA invests its funds in accordance with state statutes and the DAA's investment policy. The criteria for selecting investments are, in order of priority; (1) safety – consideration of the potential loss of principal or interest, (2) liquidity – the ability to have funds available at any moment in time with a minimal potential loss, and (3) yield – the optimum rate of return while preserving capital.

The following table provides the credit ratings for the DAA's cash and investments:

	2014			
	Fair Value	S&P	Moody's	% of Total
Rabobank	\$ 177,392	A+/Negative/A-1	Aa2/P-1	95.4%
Union Bank	4,381	A+/Stable/A-1	A2/Stable/P-1	2.4%
Santa Cruz County Bank	2,648	NR	NR	1.4%
Local Agency Investment Fund	1,463	NR	NR	0.8%
Total	\$ 185,884			100.0%

	2013			
	Fair Value	S&P	Moody's	% of Total
Rabobank	\$ 129,206	AA-/Negative/A-1+	Aa2/P-1	96.1%
Union Bank	1,496	A+/Stable/A-1	A2/Negative/P-1	1.1%
Santa Cruz County Bank	2,343	NR	NR	1.7%
Local Agency Investment Fund	1,459	NR	NR	1.1%
Total	\$ 134,504			100.0%

* NR - denotes not rated.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. All of the DAA's cash and investments have maturities of 3 months or less.

Custodial Credit Risk

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the DAA's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following

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NOTES TO FINANCIAL STATEMENTS
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provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure DAA deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

The DAA's balance in banks and book balances as of each year-end is as follows:

<u>December 31,</u>	<u>Book Balance</u>	<u>Bank Balance</u>
2014	\$ 184,421	\$ 203,617
2013	\$ 133,045	\$ 147,274

All of the bank balances at each year-end were covered by federal depository insurance or the collateral requirements described in the preceding paragraph. The bank balance differs from the book balance because of deposits in transit and outstanding checks.

3. Receivables

Accounts receivable, net consists of the following at December 31:

	<u>2014</u>	<u>2013</u>
Accounts receivable	\$ 23,850	\$ 12,099
Allowance for doubtful accounts	(6,910)	(6,910)
Accounts receivable, net	<u>\$ 16,940</u>	<u>\$ 5,189</u>

Other receivables, net consists of the following at December 31:

	<u>2014</u>	<u>2013</u>
Other receivables	\$ 22,327	\$ 21,229
Allowance for doubtful accounts	(20,000)	(20,000)
Accounts receivable, net	<u>\$ 2,327</u>	<u>\$ 1,229</u>

14TH DISTRICT AGRICULTURAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

4. Capital Assets

The changes in capital assets of the DAA for the year ended December 31, 2014 are summarized as follows:

	2013	Increases	Decreases	2014
Nondepreciable assets				
Land	\$ 8,500	\$ -	\$ -	\$ 8,500
Construction in progress	962	96,945	-	97,907
Total nondepreciable assets	<u>9,462</u>	<u>96,945</u>	<u>-</u>	<u>106,407</u>
Depreciable assets				
Buildings and improvements	4,340,298	-	-	4,340,298
Equipment	294,652	-	-	294,652
Total depreciable assets	<u>4,634,950</u>	<u>-</u>	<u>-</u>	<u>4,634,950</u>
Less accumulated depreciation	<u>(2,704,219)</u>	<u>(110,365)</u>	<u>-</u>	<u>(2,814,584)</u>
Total depreciable assets, net	<u>1,930,731</u>	<u>(110,365)</u>	<u>-</u>	<u>1,820,366</u>
Total capital assets, net	<u>\$ 1,940,193</u>	<u>\$ (13,420)</u>	<u>\$ -</u>	<u>\$ 1,926,773</u>

The changes in capital assets of the DAA for the year ended December 31, 2013 are summarized as follows:

	2012	Increases	Decreases	2013
Nondepreciable assets				
Land	\$ 8,500	\$ -	\$ -	\$ 8,500
Construction in progress	-	962	-	962
Total nondepreciable assets	<u>8,500</u>	<u>962</u>	<u>-</u>	<u>9,462</u>
Depreciable assets				
Buildings and improvements	4,332,178	8,120	-	4,340,298
Equipment	294,652	-	-	294,652
Total depreciable assets	<u>4,626,830</u>	<u>8,120</u>	<u>-</u>	<u>4,634,950</u>
Less accumulated depreciation	<u>(2,593,259)</u>	<u>(110,960)</u>	<u>-</u>	<u>(2,704,219)</u>
Total depreciable assets, net	<u>2,033,571</u>	<u>(102,840)</u>	<u>-</u>	<u>1,930,731</u>
Total capital assets, net	<u>\$ 2,042,071</u>	<u>\$ (101,878)</u>	<u>\$ -</u>	<u>\$ 1,940,193</u>

5. Line of Credit

The DAA opened a line of credit with Santa Cruz County Bank in the amount of \$150,000 on July 7, 2012, with an original maturity date of July 7, 2013. Subsequent to December 31, 2014, the DAA received an extension of the maturity date through July 17, 2016.

The line of credit is secured by inventory, chattel paper, accounts, equipment and general intangibles. The outstanding principal balance shall bear an interest rate of 2.000 percentage points above the prime rate posted in the Wall Street Journal.

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The line of credit provides financing for operating expenses. The following is a summary of changes in the line of credit for the year ended December 31, 2014:

	2013	Increases	Decreases	2014
Line of credit	\$ -	\$ 100,000	\$ (50,000)	\$ 50,000

The following is a summary of changes in the line of credit for the year ended December 31, 2013:

	2012	Increases	Decreases	2013
Line of credit	\$ -	\$ 150,000	\$ (150,000)	\$ -

6. Retirement Plans

Plan Description

Employees of the DAA are considered to be employees of the State, and as such, participate in the State's retirement plans, as described below. Since the employees are State employees, information particular to DAA's pension liabilities is not separately calculated.

Contributions and Funding Policy

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California. Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in Cal PERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Directors Administration. The required employer contribution rate for the DAA for January 2013 through June 2013 was 20.503%, for July 2013 through June 2014 was 21.203%, and July 2014 through December 2014 was 24.28% of annual covered payroll.

14TH DISTRICT AGRICULTURAL ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Annual Pension Cost

For 2014, the DAA's annual pension cost of \$34,127 was equal to the DAA's required and actual contributions. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual Independent Auditor's Report on the State of California's basic financial statements.

Three-Year Trend Information for the Plan

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2012	\$ 19,961	100%	N/A
12/31/2013	\$ 13,087	100%	N/A
12/31/2014	\$ 34,127	100%	N/A

Schedule of Funding Progress

The Schedule of Funding Progress is presented as required supplementary information to the annual Independent Auditor's Report on the State of California's basic financial statements and, is available on the State of California's website, www.bsa.ca.gov.

7. Interest

Interest incurred and expensed in 2014 and 2013 totaled \$1,263 and \$302, respectively. No interest was capitalized during 2014 and 2013.

8. Santa Cruz County Fair Heritage Foundation

The Santa Cruz County Fair Heritage Foundation (Foundation) is a California Corporation exempt from tax under IRC Section 501(c)(3). As such, the Foundation is eligible to receive tax deductible contributions to be used for public relations activities and capital improvements on behalf of the Santa Cruz County Fair Grounds.

The Foundation is an affiliate of the DAA. The DAA has no ownership or voting interest in the Foundation. The activities of the Foundation are not included in the financial statement of the DAA.

The Association receives free use of vehicles from the Foundation. The value of the free use of these vehicles is not included in the financial statements of the Association.

9. Contingencies

The DAA is subject to various claims and legal actions relating to a range of matters that are incidental to the conduct of its operations, the DAA's management believes none of which will have a material adverse effect on its financial position or results of operations.