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

## FINANCIAL STATEMENTS

## FOR THE YEAR ENDED
## DECEMBER 31, 2015

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

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# INDEPENDENT AUDITOR'S REPORT

Board of Directors
14th District Agricultural Association
Watsonville, California

## Report on the Financial Statements

We have audited the accompanying financial statements of 14th District Agricultural Association (DAA), Santa Cruz County Fair, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the DAA's basic financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the DAA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DAA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Daniel M. McGilloway, Jr., CPA, CVA | Gerald C. Ray, CPA | Patricia M. Kaufman, CPA, CGMA
Larry W. Rollins, CPA | Jesus Montemayor, CPA

Sarita C. Shannon, CPA | Whitney Ernest, CPA | Devvyn MacBeth, CPA
Smriti Shrestha, CPA | Wei Ding, CPA | Mark Moran, CPA, CFE | Mohamed Elkadi, CPA

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 14th District Agricultural Association as of December 31, 2015, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

*Implementation of New Accounting Standard*

The District Agricultural Association adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, during the year ended December 31, 2015. Statement No. 68 expands disclosures related to pensions and requires the District to report the net pension liability in the statement of net position. The adoption of this statement reduced net position by $347,280 as of January 1, 2015 as disclosed in Note 6, also refer to Note 9. Our opinion is not modified with respect to this matter.

## Other Matters

*Summarized Comparative Information*

The financial statements include partial and summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2014, from which such partial and summarized information was derived.

We have previously reviewed the 14th District Agricultural Association's 2014 basic financial statements, and our report dated December 10, 2015, stated that we were not aware of any material modifications that should be made to those financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the reviewed financial statements from which it has been derived.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the plan's net pension liability, and the schedule of pension plan contributions, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required pension supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has elected to omit the required management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

McGilloway, Ray, Brown & Kaufman

McGilloway, Ray, Brown & Kaufman
Salinas, California
March 1, 2017

14TH DISTRICT AGRICULTURAL ASSOCIATION
STATEMENTS OF NET POSITION
DECEMBER 31, 2015
(with prior year data for comparative purposes only)

| | 2015 | 2014 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 433,994 | $ 186,284 |
| Accounts receivable, net | 8,616 | 16,940 |
| Other receivables, net | 1,585 | 2,327 |
| Prepaid expenses | 6,554 | 1,380 |
| Total current assets | 450,749 | 206,931 |
| Noncurrent assets | | |
| Capital assets, net | 1,980,276 | 1,926,773 |
| Total noncurrent assets | 1,980,276 | 1,926,773 |
| Total assets | 2,431,025 | 2,133,704 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred pension outflows | 82,216 | - |
| Total assets and deferred outflows of resources | $ 2,513,241 | $ 2,133,704 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and other liabilities | $ 39,367 | $ 45,063 |
| Unearned income | 19,655 | 22,666 |
| Guaranteed deposits | 5,720 | 3,320 |
| Compensated absences liability | 3,514 | 2,669 |
| Line of credit | 85,000 | 50,000 |
| Total current liabilities | 153,256 | 123,718 |
| Long-term liabilities | | |
| Net pension liability | 426,595 | - |
| Total noncurrent liabilities | 426,595 | - |
| Total liabilities | 579,851 | 123,718 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Net difference between projected and actual earnings on pension plan investments | 9,423 | - |
| Total liabilities and deferred inflows of resources | 589,274 | 123,718 |
| NET POSITION | | |
| Net investment in capital assets | 1,980,276 | 1,926,773 |
| Restricted for junior livestock auction | 38,075 | 32,114 |
| Unrestricted | (94,384) | 51,099 |
| Total net position | 1,923,967 | 2,009,986 |
| Total liabilities, deferred inflows of resources, and net position | $ 2,513,241 | $ 2,133,704 |

See accompanying notes to basic financial statements.

14TH DISTRICT AGRICULTURAL ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015
(with prior year data for comparative purposes only)

| | 2015 | 2014 |
|---|---|---|
| PROGRAM REVENUES | | |
| Admissions | $ 503,577 | $ 451,795 |
| Commercial space | 44,073 | 40,870 |
| Carnival | 91,597 | 67,242 |
| Food concessions | 164,109 | 146,322 |
| Exhibits | 6,127 | 3,320 |
| Horse show | 27,249 | 20,714 |
| Miscellaneous fair | 123,357 | 124,812 |
| JLA revenue | 34,726 | 31,347 |
| Rents and other non-fair revenue | 619,598 | 537,699 |
| Contributions | 187,514 | 116,460 |
| Sponsorships | 34,650 | 19,845 |
| Other revenue | 8,368 | 1,926 |
| Total program revenues | 1,844,945 | 1,562,352 |
| OPERATING EXPENSES | | |
| Administration | 370,333 | 381,582 |
| Maintenance and operations | 571,952 | 526,253 |
| Publicity | 101,906 | 111,409 |
| Attendance | 102,480 | 94,942 |
| Miscellaneous fair | 25,758 | 47,903 |
| JLA expense | 26,384 | 23,920 |
| Premiums | 16,666 | 16,329 |
| Exhibits | 75,852 | 72,520 |
| Horse show | 18,163 | 13,611 |
| Attractions | 134,861 | 111,207 |
| Interim expenses | 57,501 | 62,826 |
| Depreciation expense | 111,837 | 110,365 |
| Total operating expenses | 1,613,693 | 1,572,867 |
| Income (loss) from operations | 231,252 | (10,515) |
| GENERAL REVENUES | | |
| State apportionments | 30,000 | 30,000 |
| Interest income | 9 | 6 |
| Total general revenues | 30,009 | 30,006 |
| Change in net position | 261,261 | 19,491 |
| NET POSITION, BEGINNING OF YEAR | 2,009,986 | 1,990,495 |
| PRIOR PERIOD ADJUSTMENTS - NOTE 9 | (347,280) | - |
| NET POSITION, END OF YEAR | $ 1,923,967 | $ 2,009,986 |

See accompanying notes to basic financial statements.

14TH DISTRICT AGRICULTURAL ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
(with prior year data for comparative purposes only)

| | 2015 | 2014 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | $ 1,631,236 | $ 1,401,149 |
| Cash from contributions | 187,514 | 116,460 |
| Cash from sponsorships | 34,650 | 19,845 |
| Payments to suppliers | (1,075,425) | (1,008,711) |
| Payments to employees | (429,934) | (460,424) |
| Net cash provided by operating activities | 348,041 | 68,319 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITES | | |
| Cash from state apportionments | 30,000 | 30,000 |
| Net change in line of credit | 35,000 | 50,000 |
| Net cash provided by non-capital financing activities | 65,000 | 80,000 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition of capital assets | (165,340) | (96,945) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received | 9 | 6 |
| Net increase in cash and cash equivalents | 247,710 | 51,380 |
| Cash and cash equivalents, beginning of year | 186,284 | 134,904 |
| Cash and cash equivalents, end of year | $ 433,994 | $ 186,284 |

See accompanying notes to basic financial statements.

14TH DISTRICT AGRICULTURAL ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
(with prior year data for comparative purposes only)

| | 2015 | 2014 |
|---|---|---|
| RECONCILIATION OF OPERATING GAINS (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Income (loss) from operations | $ 231,252 | $ (10,515) |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities | | |
| Depreciation | 111,837 | 110,365 |
| Bad debts | - | - |
| (Increase) decrease in: | | |
| Accounts receivable | 8,324 | (11,751) |
| Other receivables | 742 | (1,098) |
| Prepaid expenses | (5,174) | 2,598 |
| Deferred outflow of resources | (64,947) | - |
| Increase (decrease) in: | | |
| Accounts payable and other liabilities | (5,696) | (7,383) |
| Unearned income | (3,011) | (2,699) |
| Compensation liabilities | 2,400 | (9,350) |
| Guarantee deposits | 845 | (1,848) |
| Net pension liability | 122,165 | - |
| Deferred inflow of resources | (50,696) | - |
| Total adjustments to net income | 116,789 | 78,834 |
| Net cash used by operating activities | $ 348,041 | $ 68,319 |

See accompanying notes to basic financial statements.

## 1. Significant Accounting Policies

***Nature of Organization***

The 14th District Agricultural Association (DAA), a component unit of the State of California, 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 board members of the DAA are appointed by the Governor of the State of California.

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.

***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.

***Receivables***
Receivables include amounts due from customers as well as amounts due from interest and other receivables. An allowance for doubtful accounts is made annually.

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

***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 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, 2015.

***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.

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.

***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 deferred pension outflows as describe further in Note 6.

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 deferred pension inflows as describe further in Note 6.

***Pensions***

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of 14th District Agricultural Association District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS finance office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 6 for the CalPERS Plan disclosures. GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

| | |
|---|---|
| Valuation Date (VD) | June 30, 2013 |
| Measurement Date (MD) | June 30, 2014 |
| Measurement Period (MP) | June 30, 2013 to June 30, 2014 |

***Compensated Absences***

Compensated absences are absences for which permanent employees will be paid, such as vacation and sick leave. 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.

***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.

***Restricted and Unrestricted Resources***

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.

***New Accounting Pronouncements***

The District applies all applicable GASB pronouncements for certain accounting and financial reporting guidance.

The DAA implemented the following statements for the year ended December 31, 2015:

- GASB Statement No. 68 – In June, 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.* This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses relating to financial reporting by state and local governments for pensions. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for periods beginning after June 15, 2014. This statement was implemented July 1, 2013, and the DAA has recognized the unfunded liability and expense related to the District's pension obligation, see Note 6.

- GASB Statement No. 69 – In January, 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for periods beginning after December 15, 2013. This statement has no financial effect on these financial statements.

- GASB Statement No. 70 – In April, 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* This statement improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement is effective for periods beginning after June 15, 2013. This statement has no financial effect on these financial statements.

- GASB Statement No. 71 – In November, 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The provisions of this statement are effective for financial statements for fiscal year beginning after June 15, 2014. This statement has been applied simultaneously with statement No. 68.

***Pending Accounting Standards***

GASB has issued the following statements which may impact the District's financial reporting requirements in the future:

- GASB Statement No. 72, *Fair Value Measurement and Application,* effective for reporting periods beginning after June 15, 2015. The District has not determined the effect of the statement.
- GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*, effective for reporting periods beginning after June 15, 2015. This statement has no financial effect on these financial statements, as the District is within the scope of GASB No. 68.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for reporting periods beginning after June 15, 2016. The District has not determined the effect of the statement.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for reporting periods beginning after June 15, 2017. The District has not determined the effect of the statement.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* effective for reporting periods beginning after June 15, 2015. The District has not determined the effect of the statement.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26, and 40, which are effective for reporting periods beginning after December 15, 2015. The District has not determined the effect of the statement.

***Comparative Prior Year Financial Information***

Selected information regarding the prior year has been included in the accompanying financial statements and notes to the basic financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

***Reclassifications***

Certain accounts in the comparative prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements. The reclassification did not affect the year ended December 31, 2014 assets, liabilities, net position, or change in net position.

## 2. Cash and Cash Equivalents

At December 31, 2015, the DAA has the following cash and investments (all of which are considered Cash Equivalents):

| | Fair Value | Carrying Value |
|---|---|---|
| Petty cash | $ 400 | $ 400 |
| Bank checking accounts | 399,513 | 399,513 |
| Bank savings accounts | 2,614 | 2,614 |
| Local government investment pool | 31,467 | 31,467 |
| Total cash and cash equivalents | $ 433,994 | $ 433,994 |

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 $31,467 at December 31, 2015. The average life of the LAIF portfolio was 179 days at December 31, 2015. 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).
- 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 as of December 31, 2015:

| | Fair Value | S&P | Moody's | % of Total |
|---|---|---|---|---|
| Rabobank | $ 393,365 | A+/Stable/A-1 | Aa2/Stable/P-1 | 90.7% |
| Union Bank | 6,148 | NR | A2/P-1 | 1.4% |
| Santa Cruz County Bank | 2,614 | NR | NR | 0.6% |
| Local Agency Investment Fund | 31,467 | NR | NR | 7.3% |
| Total | $ 433,594 | | | 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 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.

At December 31, 2015, the DAA's balance in banks and book balances is as follows:

| Book Balance | Bank Balance |
|---|---|
| $ 402,127 | $ 474,305 |

All of the bank balances at 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 at December 31, 2015 consists of the following:

| | | |
|---|---|---|
| Accounts receivable | $ | 15,526 |
| Allowance for doubtful accounts | | (6,910) |
| Accounts receivable, net | $ | 8,616 |

Other receivables at December 31, 2015 consists of the following:

| | | |
|---|---|---|
| Other receivables | $ | 21,585 |
| Allowance for doubtful accounts | | (20,000) |
| Accounts receivable, net | $ | 1,585 |

**4. Capital Assets**

The changes in capital assets of the DAA for the year ended December 31, 2015 are summarized as follows:

| | 2014 | Increases | Decreases | 2015 |
|---|---|---|---|---|
| Nondepreciable assets | | | | |
| Land | $ 8,500 | $ - | $ - | $ 8,500 |
| Construction in progress | 97,907 | 160,190 | - | 258,097 |
| Total nondepreciable assets | 106,407 | 160,190 | - | 266,597 |
| Depreciable assets | | | | |
| Buildings and improvements | 4,340,298 | - | - | 4,340,298 |
| Equipment | 294,652 | 5,150 | - | 299,802 |
| Total depreciable assets | 4,634,950 | 5,150 | - | 4,640,100 |
| Less accumulated depreciation | (2,814,584) | (111,837) | - | (2,926,421) |
| Total depreciable assets, net | 1,820,366 | (106,687) | - | 1,713,679 |
| Total capital assets, net | $ 1,926,773 | $ 53,503 | $ - | $ 1,980,276 |

**5. Line of Credit**

The DAA has an approved line of credit with Santa Cruz County Bank in the amount of $150,000. The line of credit is secured by inventory, chattel paper, accounts, equipment, and general intangibles. The balance due on the line of credit was $75,000 as of December 31, 2015. The outstanding principal balance shall bear an interest rate of 2.00 percentage points above the prime rate posted in the Wall Street Journal. This is a variable interest note with interest computed on a 365/365 simple interest basis. The line of credit was due on July 17, 2017, and was renewed.

The DAA opened a line of credit with Rabobank in the amount of $30,000 during the year ended December 31, 2015. The line of credit is secured by inventory, chattel paper, accounts, equipment, and general intangibles. The balance due on the line of credit was $10,000 as of December 31, 2015. The outstanding principal balance shall bear an interest rate of 2.250 percentage points above the prime rate posted in the Wall Street Journal. The line of credit was due on September 16, 2016, and is currently being re-negotiated for extension.

The changes in the line of credit of the DAA for the year ended December 31, 2015 are summarized as follows:

| | 2014 | Increases | Decreases | 2015 |
|---|---|---|---|---|
| Line of credit | $ 50,000 | $ 180,000 | $ (145,000) | $ 85,000 |

## 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. Permanent employees of the DAA are eligible to participate in the State Miscellaneous Plan, an Agent Multiple-Employer Defined Benefit Plan. The District is pooled with the other DAA's with this plan.

***Contributions and Funding Policy***

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 Ca1 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.

***Benefit Provided:*** CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employments.

The DAA's Plan' provisions and benefits in effect at December 31, 2015, are summarized as follows:

| | State Miscellaneous | |
|---|---|---|
| | Classic | PEPRA |
| Hire Date | *Prior to January 1, 2013 | On or after January 1, 2013 |
| Benefit formula | 2.5% @ 55 | 2.0% @ 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Retirement age | 55 | 62 |
| Monthly benefits, as a % of eligible compensation | 2.50% | 2.00% |
| Required employee contribution rates | 8.00% | 8.00% |
| Required employer contribution rates | 24.28% | 25.15% |

*On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. In addition to creating new retirement formulas for new hired members, PEPRA also effectively closed all existing active pools to new employees.

***Contributions Description:*** Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The DAA is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. These rates reflect section 20683.2, which mandates that certain employees must contribute more as of July 1, 2013. Furthermore, any reduction in employer contributions due to the increase in the employee contributions must be paid by the employer toward the unfunded liability.

For the year ended December 31, 2015 the DAA's contribution to the State Miscellaneous Plan was $41,691.

***Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions –*** As of December 31, 2015, the DAA reported net pension liabilities of $426,595 for its proportionate share of the net pension liability.

The DAA's net pension liability is measured as the proportionate share of the total net pension liability. The net pension liability is measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The DAA's proportion of the net pension liability was based on a projection of the DAA's long-term share of contributions to the pension plans relative to the projected contributions for all participating employers, actuarially determined.

The DAA's proportionate share of the net pension liability as of December 31, 2015 and 2014 was a follows:

| | Percentage Share of Risk Pool | | Change: |
|---|---|---|---|
| | 12/31/2015 | 12/31/2014 | Increase (Decrease) |
| Measurement date | 6/30/2015 | 6/30/2014 | |
| Percentage of Miscellaneous Pool | 0.001511% | 0.001276% | 0.000235% |
| Percentage of DAA's Pool | 0.5300% | 0.4240% | 0.106000% |

For the year ended December 31, 2015, the DAA recognized pension expense of $48,213. At December 31, 2015, the DAA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 7,791 | $ - |
| Changes of Assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 9,423 |
| Change in employer proportion | 52,123 | - |
| Difference between the employer's contribution and the employer's proportionate share of contributions | - | - |
| Pension contributions subsequent to measurement date | 22,302 | - |
| Total | $ 82,216 | $ 9,423 |

$22,302 reported as deferred outflows of resources to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016.

Other amounts reported as deferred outflows of resources and deferred inflow of resources related to pensions will be recognized as pension expense as follows:

| Measurement Period Ended June 30: | Deferred Outflows (Inflows) of Resources |
|---|---|
| 2016 | $ (13,893) |
| 2017 | (13,893) |
| 2018 | (11,827) |
| 2019 | (10,878) |
| 2020 | - |
| Thereafter | - |
| Total | $ (50,491) |

***Actuarial Methods and Assumptions used to determine Total Pension Liability*** - For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability determined in the June 30, 2014 actuarial accounting valuation. The June 30, 2015 total pension liability were based on the following actuarial methods and assumptions:

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal in accordance with the requirements of GASB Statement No. 68 |
| Actuarial Assumptions | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Salary Increases | Varies by Entry Age and Service |
| Investment rate of return | 7.65% net of pension plan investment expense, includes inflation |
| Mortality Rate Table* | Derived using CalPERS's Membership Data for all Funds |
| Post Retirement Benefits adjustments (COLAs) | Contract COLA up to 2.75% until Purchasing Power Protection Allowance floor on Purchasing Power applies, 2.75% thereafter |

*The Mortality table used was developed based on CalPERS's specific data. The table include 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and requirement rates. The Experience Study report can be found on CalPERS' website under Forms and Publications.

***Change in Assumption*** - GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50% (net of administrative expense in 2014) to 7.65% as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

***Discount Rate*** - The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculations is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rates of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

| Asset Class | Current Target Allocation | Real Return* Years 1 - 10 | Real Return** Years 11 |
|---|---|---|---|
| Global Equity | 51.0% | 5.25% | 5.71% |
| Global fixed income | 19.00 | 0.99 | 2.43% |
| Inflation sensitive | 6.00 | 0.45 | 3.36% |
| Private equity | 10.00 | 6.83 | 6.95% |
| Real estate | 10.00 | 4.5 | 5.13% |
| Infrastructure and forestland | 2.00 | 4.5 | 5.09% |
| Liquidity | 2.00 | -0.55 | -1.05% |
| Total | 100.0% | | |

**An expected inflation of 2.5% used for this period*
***An expected inflation of 3.0% used for this period*

***Amortization of Deferred Outflows and Deferred Inflows of Resources*** - Under GASB 68, actuarial gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the sources of the gain or loss:

| | |
|---|---|
| Difference between projected and actual earnings on investments | 5 year straight-line amortization |
| All other amounts | Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period |

Deferred outflows of resources and deferred inflows of resources relating to Differences between Expected and Actual Experience, Changes of Assumptions and employer-specific amounts should be amortized over the EARSL of members provided with pensions through the Plan. The EARSL for PERF C for the June 30, 2015 measurement date is 3.8 years, which was obtained by dividing the total service years of 467,023 (the sum of remaining service lifetimes of all active employees) by 122,410 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the proportionate share of the net pension liability of the DAA's Plan as of the Measurement Date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

| | Discount Rate - 1% (6.65%) | Current Discount Rate (7.65%) | Discount Rate +1% (8.65%) |
|---|---|---|---|
| Plan's Net Pension Liability | $ 602,506 | $ 426,595 | $ 279,005 |

***Pension Plan Fiduciary Net Positions*** – The DAA's plan net position disclosed in your GASB 68 accounting valuation report may differ from the plan assets reported in your funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included as assets. These amounts are excluded for rate setting purposes in your funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

***Subsequent Events*** – There were no subsequent events that would materially affect the results presented in this disclosure.

## 7. Interest

Interest incurred and expensed in 2015 totaled $2,555. No interest was capitalized during 2015.

## 8. Santa Cruz County Fairgrounds Foundation

The Santa Cruz County Fairgrounds 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.

During the year ended December 31, 2015 the DAA received $174,834 of contributions from the Foundation. In addition, DAA receives free use of vehicles from the Foundation. The value of the free use of these vehicles in not included in the financial statements of the DAA.

**9. Prior Period Adjustment**

As part of implementing the requirement of GASB 68 and 71, the DAA adjusted its beginning net position as of December 31, 2014 for the portion of pension liability attributable to periods before the year ended December 31, 2014. This adjustment was recorded prospectively as it was not practical for management to attempt to estimate pension expense for prior years. The DAA adjusted its beginning net position as follows:

| | |
|---|---|
| Net Position at December 31, 2014 | $ 2,009,986 |
| Implementation of GASB 68 and 71: | |
| Net pension liability (measurement date) | (304,430) |
| Deferred inflow - projected vs actual investment earnings | (60,119) |
| Deferred outflows - PERS contributions made between July 1, 2014 and December 31, 2014 | 17,269 |
| Prior period adjustment | (347,280) |
| Restated net position at December 31, 2014 | $ 1,662,706 |

**10. Subsequent Events**

***Date of Management Review***

Events occurring after December 31, 2015 have been evaluated by Management for possible adjustment to the financial statements or disclosure as of March 1, 2017 which is the date the financial statements were available to be issued.

# REQUIRED SUPPLEMENTARY INFORMATION

14TH DISTRICT AGRICULTURAL ASSOCIATION
SCHEDULE OF THE DAA's PROPORTIONATE SHARE OF THE PLAN'S
NET PENSION LIABILITY AND RELATED NOTES AS OF MEASUREMENT DATE
COST SHARING DEFINED BENEFITS PENSION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2015
LAST 10 YEARS^

| | | |
|---|---|---|
| Measurement Date | | 6/30/2015 |
| DAA's proportion of the net pension liability | | 0.001511% |
| DAA's proportionate share of the net pension liability | $ | 426,595 |
| DAA's covered-employee payroll* | | 123,300 |
| DAA's proportionate share of the net pension liability percentage of the covered employee payroll | | 345.98% |
| DAA's plan share of the fiduciary net position | $ | 1,028,502 |
| Plan's fiduciary net position as a percentage of the plan's total pension liability | | 70.68% |

**Related Notes**

^ Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

* For the fiscal year ended on the date shown

14TH DISTRICT AGRICULTURAL ASSOCIATION
SCHEDULE OF THE DAA's PENSION PLAN CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2015
LAST 10 YEARS^

| Contributions for the fiscal year ended | 12/31/2015 |
|---|---|
| Actuarially determined contribution | $ 41,691 |
| Contributions in relation to the actuarially determined contribution | (41,691) |
| Contribution deficiency (excess) | $ - |
| DAA's covered-employee payroll* | $ 123,300 |
| Contributions as a percentage of covered-employee payroll | 33.81% |

^ Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.
* For the fiscal year ended on the date shown

***Note to Schedule:***
The actuarial methods and assumptions used to set the actuarially determined contributions for the fiscal year 2015 were from the June 30, 2013 actuarial valuations.

| | |
|---|---|
| Actuarial cost method | Entry age normal |
| Amortization method | For details, see June 30, 2013, Funding Valuation Report |
| Asset valuation method | Actuarial value of assets; for detail see June 30, 2013 funding Valuation Report |
| Inflation | 2.75% |
| Salary increase | Varies by entry age and service |
| Payroll growth | 3.00% |
| Investment rate of return | 7.50% net of pension plan investment and administrative expenses; includes inflation |
| Retirement age | The probabilities of Retirement are based on the 2014 CalPERS Experience Study from 1997 to 2011 |
| Mortality | The probabilities of mortality rates are based on the 2014 CalPERS Experience Study from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries |