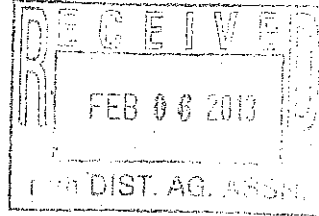




CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

Karen Ross, Secretary

February 4, 2013



Ms. Jody Belgard Akimoto, Chair
Board of Directors
14th DAA, Santa Cruz County Fair
2601 East Lake Ave
Watsonville, CA 95076

Dear Ms. Belgard Akimoto:

The California Department of Food and Agriculture, Audit Office, has completed its audit of the financial records of the 14th District Agricultural Association, Santa Cruz County Fair. The final report is enclosed.

We appreciate the cooperation and assistance extended to the auditor during the course of the audit. If you have any questions, please call me at (916) 900-5026.

Sincerely,

Ron Shackelford, CPA
Chief, Audit Office

Enclosure

cc: David Kegebien, CEO

RS:sw



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

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Jason Jones, CPA

Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#12-033

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

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

Karen Ross, Secretary

Jody Belgard Akimoto, President
Board of Directors
14th DAA, Santa Cruz County Fair
2601 E. Lake Ave.
Watsonville, California 92626

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 14th District Agricultural Association (DAA), Santa Cruz County Fair, Watsonville, California, as of December 31, 2011 and 2010, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 14th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

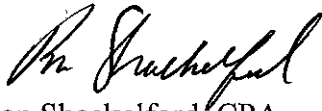
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 14th DAA, Santa Cruz County Fair, as of December 31, 2011 and 2010, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 14th DAA, Santa Cruz County Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Ron Shackelford". The signature is written in a cursive style with a large initial "R".

Ron Shackelford, CPA
Chief, Audit Office

October 26, 2012

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

**STATEMENTS OF FINANCIAL CONDITION
As of December 31, 2011 and 2010**

	Account Number	2011	2010
ASSETS			
Cash	111-117	\$ 266,724	\$ 578,453
Accounts Receivable, Net	131-133	27,459	24,890
Deferred Charges	143	378	6,521
Construction in Progress	190	-	10,095
Land	191	8,500	8,500
Buildings and Improvements, Net	192	2,127,175	2,071,940
Equipment, Net	193	3,607	18,911
TOTAL ASSETS		\$ 2,433,843	\$ 2,719,310
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable & Other Liabilities	212-226	191,158	48,830
Deferred Income	228	83,934	163,400
Guaranteed Deposits	241	4,120	3,650
Compensated Absences Liability	245	17,015	39,037
Total Liabilities		296,227	254,917
Net Resources			
Net Resources - Junior Livestock Auction	251	23,356	46,589
Net Resources - Operations	291	(25,022)	308,358
Net Resources - Capital Assets, less Related Debt	291.1	2,139,282	2,109,446
Total Net Resources Available		2,137,616	2,464,393
TOTAL LIABILITIES AND NET RESOURCES		\$ 2,433,843	\$ 2,719,310

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

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
For the Years Ended December 31, 2011 and 2010**

	<u>Account Number</u>	<u>2011</u>	<u>2010</u>
REVENUE			
State Apportionments	312	\$ 143,200	\$ 136,400
Reimbursements & Other Revenue Sources	317-340	177,696	162,351
Admissions	410	373,297	397,788
Commercial Space	415	40,480	39,075
Carnival	421	69,151	67,859
Food Concessions	422	148,232	151,769
Exhibits	430	15,325	18,055
Horse Show	440	14,005	11,575
Miscellaneous Fair	470	85,993	89,107
JLA Revenue	476	17,496	26,086
Non-Fair Revenue	480	461,438	510,713
Prior Year Adjustment	490/800	9,132	5,264
Other Revenue	495	3,196	7,311
Total Revenue		<u>1,558,641</u>	<u>1,623,352</u>
EXPENSES			
Administration	500	448,918	281,045
Maintenance and Operations	520	660,177	596,316
Publicity	540	123,186	110,460
Attendance	560	89,994	141,740
Miscellaneous Fair	570	27,240	28,880
JLA Expense	576	40,729	18,013
Premiums	580	20,995	23,927
Exhibits	630	167,099	153,395
Horse Show	640	25,473	11,010
Attractions	660	136,227	109,915
Equipment	723	-	4,421
Cash Over/Short from Ticket Sales	850	266	612
Depreciation Expense	900	127,007	122,247
Other Expenses	945	18,107	-
Total Expenses		<u>1,885,418</u>	<u>1,601,980</u>
RESOURCES			
Net Change - Income / (Loss)		(326,777)	21,372
Resources Available, January 1		2,464,393	2,443,021
Resources Available, December 31		<u>\$ 2,137,616</u>	<u>\$ 2,464,393</u>

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

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
For the Years Ended December 31, 2011 and 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	(326,777)	21,372
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
Non-Cash Charges (Credits) to Net Income		
Depreciation and Amortization	127,007	122,247
(Increase) Decrease in Current Assets		
(Increase) Decrease in Accounts Receivable	(2,569)	322
(Increase) Decrease in Deferred Charges	6,143	1,378
Increase (Decrease) in Current Liabilities		
Increase (Decrease) in Accounts Payables & Other Liabilities	142,327	19,828
Increase (Decrease) in Deferred Income	(79,466)	16,575
Increase (Decrease) in Compensated Absence Liability	(22,022)	8,972
Increase (Decrease) in Workers Compensation Liability	-	(78)
Increase (Decrease) in Guarantee Deposits	470	2,550
Total Adjustments	171,890	171,794
Net Cash Provided (Used) by Operating Activities	(154,887)	193,166
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	10,095	26,583
(Increase) Decrease in Buildings & Improvements	(166,937)	(224,639)
(Increase) Decrease in Equipment	-	-
Net Cash Provided (Used) by Investing Activities	(156,842)	(198,056)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Cash Provided (Used) by Financing Activities	-	-
NET INCREASE (DECREASE) IN CASH	(311,729)	(4,890)
Cash at Beginning of Year	578,453	583,343
CASH AT END OF YEAR	\$ 266,724	\$ 578,453

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 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 DAAs 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.

Basis of Accounting - 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. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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.

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 \$40,000,000 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, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds 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 costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress 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 property and equipment. No such impairment occurred in the years ended December 31, 2011 or 2010.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, state and local governmental entities are required to report the liability for 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 primarily under authorized contractual agreements. Advance payments received are deferred in accrued liabilities and other in the combined balance sheets until performance is complete. Operating lease revenue is recognized, in part, based on the combined financial statement provided by the lessee.

NOTE 2

NEW ACCOUNTING STANDARDS

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods

beginning after June 15, 2007. The adoption of this statement did not have a material effect on the financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, ("GASB Statement No. 51"). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the financial statements.

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* ("GASB Statement No. 52"). GASB Statement No. 52 is effective for periods beginning after June 15, 2008, and establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. Management does not believe that the implementation of this statement will have a material effect on the DAA's financial statements.

In June 2008, the GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB Statement No. 53"). GASB Statement No. 53 is effective for periods beginning after June 15, 2009. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Management does not believe that implementation of this statement will have a material effect on the DAA's financial statements.

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB Statement No. 54"). The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. Management has not determined the effect of GASB Statement No. 54 on the financial statements.

In March 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*. GASB Statement No. 55 was effective upon issuance and is intended to assist preparers of state and local government financial statements to identify and apply the accounting principles generally accepted in the United States of America hierarchy. This statement did not have an impact on the DAA's combined financial statements.

In March 2009, the FASB issued FASB Accounting Standards Board (ASC) No. 85, *Subsequent Events*, which is effective for periods ending after June 15, 2009. FASB ASC 855 establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. As a result of the issuance of FASB ASC 855, the DAA evaluated and disclosed subsequent events through the date of the release of these financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2011</u>	<u>2010</u>
Cash in Bank, Change Funds	\$ 115,167	\$ 270,489
Cash in Bank – Investment & Savings	151,557	307,964
Total Cash and Cash Equivalents	<u>\$ 266,724</u>	<u>\$ 578,453</u>

NOTE 4 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2011</u>	<u>2010</u>
Accounts Receivable	\$ 46,853	\$ 38,420
Accounts Receivable - JLA	3,132	8,320
Allowance for Doubtful Accounts	<u>(22,526)</u>	<u>(21,850)</u>
Accounts Receivable - Net	<u>\$ 27,459</u>	<u>\$ 24,890</u>

NOTE 5 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Building & Improvements	\$ 4,317,586	\$ 4,151,282
Less: Accumulated Depreciation	<u>(2,190,411)</u>	<u>(2,079,342)</u>
Building & Improvements - Net	<u>\$ 2,127,175</u>	<u>\$ 2,071,940</u>
Equipment	\$ 294,651	\$ 294,651
Less: Accumulated Depreciation	<u>(291,044)</u>	<u>(275,740)</u>
Equipment - Net	<u>\$ 3,607</u>	<u>\$ 18,911</u>

NOTE 6

RETIREMENT PLANS

The DAA's defined benefit pension plan, California Public Employees' Retirement System (the "Plan"), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan, part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), is an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating member agencies within the State of California. A menu of benefits provisions, as well as other requirements, is established by state statutes within the Public Employees' Retirement Law. The DAA's selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS's annual financial report may be obtained by contacting the CalPERS Fiscal Services Division.

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 CalPERS 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.

NOTE 7 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

NOTE 8 **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.

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

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 14th DAA Board of Directors
1	Chief Executive Officer, 14th DAA
1	Director, Division of Fairs and Expositions
1	General Counsel, CDFCA Legal Office
1	Chief, CDFCA Audit Office