

DATE: February 13, 2015
MEETING OF: February 24, 2013
FROM: David Kegebein
RE: **ACTION ITEMS X.1 – 2012 Audit Review & Auditor**
Selection for 2013 & 2014

BACKGROUND: The 2012 Auditor review of the Financial Statements of the 14th District Agricultural Association by McGilloway, Ray, Brown & Kufman LLP has been completed and is presented to the Board at this meeting. The fiscal year 2013 and 2014 financial statement review has not yet been approved for audit review.

FISCAL IMPACT: The 2012 Auditor review cost is \$7,151.60 in line with the budget approved by the full board in October 2013. The proposed cost for the 2013 and 2014 is \$7,000 plus expenses per year which is consistent with the 2012 Audit review.

STAFF RECOMMENDATION: Two recommendations. First, after your review of the 2012 Financial Statements accept the Auditors report for the fiscal year 2012. Secondly, we recommend that McGilloway, Ray, Brown & Kaufman, LLP be selected to perform the year-end 2013 and 2014 financial statement review for the above stated budget amount of \$7,000 plus expenses. In addition once the recently approved state laws are clarified as to audit requirements we will submit an RFP for audits and/or reviews for a 3 to 5 year period.

ATTACHMENTS:

1. 2012 (Reviewed) and 2011 (Audited) Financial Statements
2. McGilloway, Ray, Brown & Kaufman Proposal for the years ending 2013 and 2014

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

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2012 (REVIEWED)
AND 2011 (AUDITED)**

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

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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 year ended December 31, 2012, 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 the management of DAA. 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.

The management of the DAA 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.

The financial statements for the year ended December 31, 2011, were audited by other accountants, and they expressed an unqualified opinion on them in their report dated October 26, 2012. Their report stated that the information was fairly stated in all material respects in relation to the financial statements as a whole. They have not performed any auditing procedures on the financial statements since October 26, 2012.

McGilloway, Ray, Brown & Kaufman

December 5, 2014
Monterey, California

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14TH DISTRICT AGRICULTURAL ASSOCIATION
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2012 (REVIEWED) AND 2011 (AUDITED)

ASSETS		
	2012	2011
Current assets		
Cash and cash equivalents	\$ 193,817	\$ 266,724
Accounts receivable, net	10,798	27,459
Prepaid expenses	7,753	378
Total current assets	212,368	294,561
Noncurrent assets		
Capital assets, net	2,042,070	2,139,282
TOTAL ASSETS	\$ 2,254,438	\$ 2,433,843
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and other liabilities	\$ 40,554	\$ 191,158
Deferred income	20,595	83,934
Guaranteed deposits	3,620	4,120
Compensated absences liability	13,623	17,015
Total current liabilities	78,392	296,227
Net position		
Net investment in capital assets	2,042,070	2,139,282
Restricted for junior livestock auction	26,269	23,356
Unrestricted	107,707	(25,022)
Total net position	2,176,046	2,137,616
TOTAL LIABILITIES AND NET POSITION	\$ 2,254,438	\$ 2,433,843

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, 2012 (REVIEWED) AND 2011 (AUDITED)

	2012	2011
OPERATING REVENUE		
Admissions	\$ 376,481	\$ 373,297
Commercial space	39,765	40,480
Carnival	72,518	69,151
Food concessions	160,981	148,232
Exhibits	14,400	15,325
Horse show	14,483	14,005
Miscellaneous fair	92,205	79,952
JLA revenue	24,501	17,496
Rents and other non-fair revenue	326,952	461,438
Other revenue	12,582	11,208
Total operating revenue	1,134,868	1,230,584
OPERATING EXPENSES		
Administration	148,174	448,918
Maintenance and operations	418,409	660,177
Publicity	106,500	123,186
Attendance	118,975	89,994
Miscellaneous fair	21,123	27,240
JLA expense	23,957	40,729
Premiums	18,764	20,995
Exhibits	138,272	167,099
Horse show	8,717	25,473
Attractions	111,969	136,227
Cash over / short from ticket sales	(66)	266
Depreciation expense	111,804	127,007
Other expenses	-	18,107
Total operating expenses	1,226,598	1,885,418
OPERATING LOSS	(91,730)	(654,834)
NONOPERATING REVENUE		
State apportionments	-	143,200
Contributions	69,500	177,696
Sponsorships	60,494	6,041
Interest income	166	1,120
Total nonoperating revenue	130,160	328,057
CHANGE IN NET POSITION	38,430	(326,777)
NET POSITION, BEGINNING OF YEAR	2,137,616	2,464,393
NET POSITION, END OF YEAR	\$ 2,176,046	\$ 2,137,616

See accompanying notes and independent accountant's review report.

14TH DISTRICT AGRICULTURAL ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 (REVIEWED) AND 2011 (AUDITED)

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,087,690	\$ 1,149,019
Payments to suppliers	(948,855)	(1,041,600)
Payments to employees	(327,310)	(590,363)
Net cash used by operating activities	<u>(188,475)</u>	<u>(482,944)</u>
CASH FLOWS FROM NON-CAPITAL ACTIVITIES		
Cash from state apportionments	-	143,200
Cash from contributions	69,500	177,696
Cash from sponsorships	60,494	6,041
Net cash provided by non-capital financing activities	<u>129,994</u>	<u>326,937</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	<u>(14,592)</u>	<u>(156,842)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>166</u>	<u>1,120</u>
Net decrease in cash and cash equivalents	(72,907)	(311,729)
Cash and cash equivalents, beginning of year	<u>266,724</u>	<u>578,453</u>
Cash and cash equivalents, end of year	<u>\$ 193,817</u>	<u>\$ 266,724</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	<u>\$ (91,730)</u>	<u>\$ (654,834)</u>
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation	111,804	127,007
Allowance for doubtful accounts	-	676
(Increase) decrease in:		
Accounts receivable	16,661	(3,245)
Prepaid expenses	(7,375)	6,143
Increase (decrease) in:		
Accounts payable and other liabilities	(150,604)	142,327
Deferred income	(63,339)	(79,466)
Compensation liabilities	(500)	470
Guarantee deposits	(3,392)	(22,022)
Total adjustments to net income	<u>(96,745)</u>	<u>171,890</u>
Net cash used by operating activities	<u>\$ (188,475)</u>	<u>\$ (482,944)</u>

See accompanying notes and independent accountant's review report.

14TH DISTRICT AGRICULTURAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 (REVIEW) AND 2011 (AUDITED)

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 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

Implemented

In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (GASB 63). The statement requires that the difference between assets and liabilities be reported as net position. In addition, the impact of a deferred outflow of resources on net position must be explained. The implementation of this statement to the DAA is limited to renaming of "Net Assets" to "Net Position".

14TH DISTRICT AGRICULTURAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 (REVIEW) AND 2011 (AUDITED)

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 fiscal year 2015. This statement provides 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.

14TH DISTRICT AGRICULTURAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 (REVIEW) AND 2011 (AUDITED)

Property and Equipment

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 property and equipment. No such impairment occurred in the years ended December 31, 2012 or 2011.

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.

Date of Management's Review

Management has evaluated subsequent events through December 5, 2014, the date which financial statements were available to be issued.

14TH DISTRICT AGRICULTURAL ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 (REVIEW) AND 2011 (AUDITED)

2. Cash and Cash Equivalents

At December 31, 2012 and 2011, the DAA has the following cash and investments (all of which are considered Cash Equivalents):

	2012	
	Fair Value	Carrying Value
Petty cash	\$ 400	\$ 400
Bank checking accounts	189,427	189,427
Bank savings accounts	2,535	2,535
Local government investment pool	1,455	1,455
Total cash and cash equivalents	\$ 193,817	\$ 193,817
	2011	
	Fair Value	Carrying Value
Petty cash	\$ 300	\$ 300
Bank checking accounts	55,670	55,670
Bank savings accounts	81,885	81,885
Certificates of deposit	75,624	75,624
Local government investment pool	53,245	53,245
Total cash and cash equivalents	\$ 266,724	\$ 266,724

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 \$1,455 and \$53,245 at December 31, 2012 and 2011, respectively. The average life of the LAIF portfolio was 208 and 256 days at December 31, 2012 and 2011, 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).
- State of California Local Agency Investment Fund (State Pool) Deposits.
- Interest bearing demand accounts with commercial banks and/or savings and loan companies.

14TH DISTRICT AGRICULTURAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 (REVIEW) AND 2011 (AUDITED)

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:

	2012			
	Fair Value	S&P	Moody's	% of Total
Rabobank	\$ 187,262	AA-/Stable/A-1+	Aa2/P-1	96.8%
Union Bank	2,165	A+/Stable/A-1	A2/StableP-1	1.1%
Santa Cruz County Bank	2,535	NR	NR	1.3%
Local Agency Investment Fund	1,455	NR	NR	0.8%
Total	\$ 193,417			100.0%

	2011			
	Fair Value	S&P	Moody's	% of Total
Rabobank	\$ 50,634	AA	Aaa/P-1	19.0%
Union Bank	80,970	A+/Stable/A-1	A2/Stable/P-1	30.4%
Santa Cruz County Bank	81,575	NR	NR	30.6%
Local Agency Investment Fund	53,245	NR	NR	20.0%
Total	\$ 266,424			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.

3. Accounts Receivable, net

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

	2012	2011
Accounts receivable	\$ 30,798	\$ 49,985
Allowance for doubtful accounts	(20,000)	(22,526)
Accounts receivable, net	\$ 10,798	\$ 27,459

14TH DISTRICT AGRICULTURAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 (REVIEW) AND 2011 (AUDITED)

4. Capital Assets

The changes in capital assets of the DAA for the year ended December 31, 2012 are summarized as follows:

	2011	Increases	Decreases	2012
Nondepreciable assets				
Land	\$ 8,500	\$ -	\$ -	\$ 8,500
Depreciable assets				
Buildings and improvements	4,317,586	14,592	-	4,332,178
Equipment	294,651	-	-	294,651
Total depreciable assets	4,612,237	14,592	-	4,626,829
Less accumulated depreciation	(2,481,455)	(111,804)	-	(2,593,259)
Total depreciable assets, net	2,130,782	(97,212)	-	2,033,570
Total capital assets, net	<u>\$ 2,139,282</u>	<u>\$ (97,212)</u>	<u>\$ -</u>	<u>\$ 2,042,070</u>

The changes in capital assets of the DAA for the year ended December 31, 2011 are summarized as follows:

	2010	Increases	Decreases	2011
Nondepreciable assets				
Land	\$ 8,500	\$ -	\$ -	\$ 8,500
Construction in progress	10,095	-	(10,095)	-
Total nondepreciable assets	18,595	-	(10,095)	8,500
Depreciable assets				
Buildings and improvements	4,151,282	166,937	(633)	4,317,586
Equipment	294,651	-	-	294,651
Total depreciable assets	4,445,933	166,937	(633)	4,612,237
Less accumulated depreciation	(2,355,082)	(127,007)	634	(2,481,455)
Total depreciable assets, net	2,090,851	39,930	1	2,130,782
Total capital assets, net	<u>\$ 2,109,446</u>	<u>\$ 39,930</u>	<u>\$ (10,094)</u>	<u>\$ 2,139,282</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, 2012, the DAA received an extension of the maturity date through July 17, 2015. The balance due on the line of credit was zero as of December 31, 2012 and 2011.

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.

14TH DISTRICT AGRICULTURAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 (REVIEW) AND 2011 (AUDITED)

6. Retirement Plans

Plan Description

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 benefit provisions, as well as other requirements, is established by state statutes within the Public Employees' Retirement Law. The DAA 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 annual financial report may be obtained by writing to CalPERS, 400 "Q" Street, Sacramento, California 95811.

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. Participating employees are required to contribute between 8 and 10 percent of their annual covered salary. The DAA makes the contributions required of the DAA's employees on their behalf and for their account. The DAA is required to make the employer contribution at an actuarially determined rate.

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 the fiscal year 2011-2012 was 20.503 percent of annual covered payroll.

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 participates 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.

14TH DISTRICT AGRICULTURAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 (REVIEW) AND 2011 (AUDITED)

Annual Pension Cost

For the fiscal year 2011-2012 the DAA's annual pension cost of \$19,961 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.

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. 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.

8. Reclassification

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

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.

McGILLOWAY, RAY, BROWN & KAUFMAN

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February 11, 2015

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You have requested that we prepare the financial statements of the 14th District Agricultural Association (DAA), Santa Cruz County Fair, which comprise the statements of financial position as of December 31, 2013 and December 31, 2014, and the related statements of revenues, expenses, and changes in fund net position, and cash flows for the years then ended, and the related notes to the financial statements and perform a review engagement with respect to those financial statements. We are pleased to confirm our acceptance and understanding of this engagement by means of this letter.

Our Responsibilities

The objectives of our engagement are to

- a) prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you, and
- b) obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statement in order for the statements to be in accordance with accounting principles generally accepted in the United States of America.

We will conduct our engagement in accordance with Statements on Standards for Accounting and Review Services (SSARs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including ethical principles of integrity, objectivity, professional competence, and due care.

A review engagement includes primarily applying analytical procedures to your financial data and making inquiries of company management. A review engagement is substantially less in scope than an audit engagement, the objective of which is the expression of an opinion regarding the financial statements as a whole. A review engagement does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents; or other procedures ordinarily performed in an audit engagement. Accordingly, we will not express an opinion regarding the financial statements.

*Daniel M. McGilloway, Jr., CPA, CVA, Gerald C. Ray, CPA, Clyde W. Brown, CPA, Patricia M. Kaufman, CPA,
Larry W. Rollins, CPA*

*Sarita C. Shannon, CPA, Whitney Ernest, CPA, Devvyn MacBeth, CPA,
Jesus Montemayor, CPA, Smriti Shrestha, CPA, Wei Ding, CPA*

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by errors or fraud, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations. However, we will inform the appropriate level of management of any material errors and any evidence or information that comes to our attention during the performance of our review procedures that indicates fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our review procedures regarding noncompliance with laws and regulations that may have occurred, unless they are clearly inconsequential.

Your Responsibilities

The engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to prepare financial statements in accordance with accounting principles generally accepted in the United States of America and to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARs:

- a) The selection of accounting principles generally accepted in the United States of America as the financial reporting framework to be applied in the preparation of the financial statements
- b) The preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and the inclusion of all informative disclosures that are appropriate for accounting principles generally accepted in the United States of America
- c) The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements
- d) The prevention and detection of fraud
- e) To ensure that the entity complies with the laws and regulations applicable to its activities
- f) To make all financial records and related information available to us
- g) The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement
- h) To provide us with unrestricted access to persons within the entity of whom we determine it necessary to make inquiries
- i) To provide us, at the conclusion of the engagement, with a letter that confirms certain representations made during the review

You are responsible for all management decisions and responsibilities, and for designating an individual with suitable skills, knowledge, and experience to oversee our preparation of your financial statements. You are responsible for evaluating the adequacy and results of services performed and accepting responsibility for such services.

Our Report

We will issue a written report upon completion of our review of 14th District Agricultural Association financial statements. Our report will be addressed to the board of directors of 14th District Agricultural Association. We cannot provide assurance that an unmodified accountant's review report will be issued. Circumstances may arise in which it is necessary for us to report known departures from accounting principles generally accepted in the United States of America, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement. If, for any reason, we are unable to complete the review of your financial statements, we will not issue a report on such statements as a result of this engagement.

Other Relevant Information

Patricia M. Kaufman is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

To ensure that McGilloway, Ray, Brown and Kaufman's independence is not impaired under the *AICPA Code of Professional Conduct*, you agree to inform the engagement partner before entering into any substantive employment discussions with any of our personnel.

We estimate that our fees for these services will be as follows:

December 31, 2013	\$7,000
December 31, 2014	\$7,000

You will also be billed for out-of-pocket costs such as report production, word processing, postage, travel, etc. Additional fees are estimated to be \$200 per year. The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the work performed. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation.

Accounts past due over 30 days are considered delinquent and will be subject to an annual finance charge of twelve percent (12%), or a monthly rate of one percent (1%). There will be a minimum finance charge of \$1.00. Payments received on account will first be credited against any delinquency charges. Further, we will cease performing services on delinquent accounts if the

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account becomes 60 days or more overdue and will not be resumed until your account is paid in full. All expenses incurred to collect past due accounts, including collection fees will be added to any amount due. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

If any dispute arises among the parties, they agree to try first in good faith to settle the dispute by mediation administered by the American Arbitration Association (AAA) under its Commercial Mediation Rules. All unresolved disputes shall then be decided by final and binding arbitration in accordance with the Commercial Arbitration Rules of the AAA. Fees charged by any mediators, arbitrators, or the AAA shall be shared equally by all parties. In agreeing to arbitration, we both acknowledge that in the event of a dispute, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury and instead we accepting the use of arbitration for resolution.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein and to perform a review of those same financial statements, and our respective responsibilities.

Very truly yours,



McGilloway, Ray, Brown & Kaufman
Accountants and Consultants

Acknowledged and agreed on behalf of 14th District Agricultural Association by:

David Kegebein

Date