

**SAN MATEO COUNTY EXPOSITION
AND FAIR ASSOCIATION**

**Financial Statements with
Auditor's Reports Thereon
December 31, 2005 and 2004**

SAN MATEO COUNTY EXPOSITION AND FAIR ASSOCIATION

December 31, 2005 and 2004

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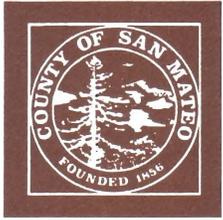
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Office of Controller



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Independent Auditor's Report

To the Board of Directors
San Mateo County Exposition and Fair Association

We have audited the accompanying statements of net assets of the San Mateo County Exposition and Fair Association as of December 31, 2005 and 2004, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Association as of December 31, 2005 and 2004, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1(b), the Association has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosure - an amendment to GASB No. 3*, which modifies, adds and deletes certain disclosure requirements for cash and investments.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2006 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

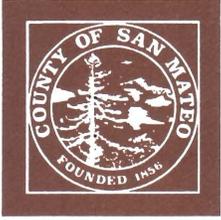
The Management's Discussion and Analysis on pages 4 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

County of San Mateo Controller

Redwood City, California

November 9, 2006

Office of Controller



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Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Directors
San Mateo County Exposition and Fair Association

We have audited the basic financial statements of the Association as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated November 9, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Association in a separate letter dated November 9, 2006.

This report is intended solely for the information and use of the board of directors and management of the Association and for filing with the Division of Fairs and Expositions of the California Department of Food and Agriculture and is not intended to be and should not be used by anyone other than these specified parties.

County of San Mateo Controller

Redwood City, California
November 9, 2006

San Mateo County Exposition and Fair Association

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the San Mateo County Exposition and Fair Association (Association), we offer our readers of the Association's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes.

Financial Highlights

- The Association's total net assets as of December 31, 2005 amounted to \$1,234,600, a decrease of \$21,058 from prior year. Most of the decrease was due to the increase in capital expenditures during the current year.
- Most of the \$1,234,600 in net assets was comprised of surplus cash and the investment in capital assets.
- The Association received \$1,695,416 from the City of San Mateo Redevelopment Agency during the fiscal year ended December 31, 2005 for the financing of capital improvements; \$700,410 was deferred for future capital projects.
- Total operating revenue for the year amounted to \$4,258,954 and were comprised of fair revenue of \$1,359,628; rental revenue of \$2,328,600; horse racing revenue of \$ 547,797 and other revenue of \$22,929.
- During the current fiscal year the Association implemented Governmental Accounting Standards Board's Statement No.40, *Deposit and Investment Risk Disclosure - an amendment to GASB No. 3*, which modifies, adds and deletes certain disclosure requirements for cash and investments.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Association's basic financial statements.

As required by accounting principles, the financial transactions of the Association are accounted for in an enterprise fund. An enterprise fund is used to account for operations financed and operated in a manner similar to private business enterprises, where the intent of the governing body is to have the costs of providing goods or services to the general public be financed primarily through user charges and where the periodic determination of net income is appropriate for accountability, management control, or other purposes.

The *statements of net assets* on page 7 present information on the Association's assets and liabilities, with the difference reported as net assets. Changes in net assets over time provide an indicator of whether the financial position of the Association is improving or deteriorating. When both restricted and unrestricted net assets are available for the same purpose, the Association uses restricted assets only after unrestricted assets are depleted.

The *statements of revenues, expenses and changes in fund net assets* on page 8 report how the Association's net assets changed during the most recent fiscal years. Changes in net assets are reported as soon as underlying events occur, regardless of the timing of the related cash flows. Thus, some revenues and expenses reported in this statement may result in cash flows only in future periods.

The *notes to the financial statements* on pages 10 through 15 provide additional information that is essential to the full understanding of the data provided in the financial statements.

San Mateo County Exposition and Fair Association
MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

Net Assets

- Total assets stand at \$2,576,917, an increase of \$38,087 or 2% compared to the previous fiscal year. There was a large increase in capital equipment of \$635,617 that was partially offset by a large decrease in cash of \$617,700. Changes in the other asset account balances were relatively less significant.
- Total liabilities increased \$59,145 or 5% between fiscal years to \$1,342,317. The increase is due mainly to an increase in deferred funding resulting from unspent redevelopment funds and an increase in accrued liabilities. These increases were partially offset by decreases in the other liability balances.

Net Assets	2005	2004
Cash	\$ 1,345,008	\$ 1,962,708
Securities Lending Collateral	97,859	149,350
Accounts receivable, net	153,854	84,265
Prepaid insurance	3,546	4,143
Deferred charges	31,847	29,178
Capital equipment, net	944,803	309,186
Total Assets	2,576,917	2,538,830
Accounts payable	68,303	105,531
Securities Lending Collateral due	97,859	149,350
Accrued liabilities	241,822	165,189
Advance billings	174,963	222,157
Deferred revenue	41,202	46,906
Deferred funding	718,168	594,039
Total Liabilities	1,342,317	1,283,172
Total Net Assets - Unrestricted	\$ 1,234,600	\$ 1,255,658

Changes in Net Assets

	2005	2004
Revenues and Other Financing Sources:		
Fair revenues	\$ 1,359,628	\$ 1,136,205
Rental revenues	2,328,600	2,669,933
Horse racing	547,797	291,213
Supports – Contributions	1,733,896	656,487
Investment earnings	30,605	16,121
Securities Lending Income	2,155	2,067
Other Income	23,279	41,853
Total Revenues and Other Financing Sources	6,025,960	4,813,879
Expenses and Other Financing Uses:		
Salaries & Benefits	1,912,753	1,770,638
General Operating Expenses	2,367,661	2,359,947
Securities Lending Expense	2,004	1,787
Capital Expenditures - County Improvements	1,591,244	363,338
Depreciation Expense	173,356	47,832
Total Expenses and Other Financing Uses	6,047,018	4,543,542
Change in Net Assets	(21,058)	270,337
Net Assets - January 1	1,255,658	985,321
Net Assets - December 31	\$ 1,234,600	\$ 1,255,658

Changes in Net Assets

- Revenues earned during the current period were \$6,025,960 an increase of \$1,212,081 or 25% compared to the prior fiscal year. This was primarily the result of an increase in capital contributions.
- Total Expenses incurred during the year amounted to \$6,047,018; for an increase of \$1,503,476 or 33% compared to the prior fiscal year. This was due mainly to an increase in spending on capital improvements.

San Mateo County Exposition and Fair Association
MANAGEMENT'S DISCUSSION AND ANALYSIS

Beyond FY2005

Racing at the Bay Meadows Race Track and the continuation of the racing heritage at the San Mateo County Fair continues to be a priority of the Management and Board of Directors of the Association.

Based on the latest information available, live racing will be held on the Bay Meadows Race Track for the 2007 and 2008 Seasons, ensuring the Fair will be able to utilize their historic dates.

The Association has begun planning for construction of a satellite wage earning facility, which should be operational at the end of 2008. The new facility would replace the existing Bay Meadows Race Track. Live racing will end at the existing track in 2008.

Negotiations will take place with the California Horse Racing Board, Area Fairs with tracks and private tracks to ensure the Association is able to continue its long heritage of horse racing during the San Mateo County Fair after the closing of the Bay Meadows Race Track in 2008, although based on recent information, the prospects of this is not favorable.

The \$3,000,000 redevelopment project funded with a grant from the City of San Mateo Redevelopment Agency will be completed by December 31, 2006. The improvements made from the grant have been instrumental in attracting new business and retaining existing business.

Requests for Information

This financial report is designed to provide a general overview of the Association's finances for all those interested. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to San Mateo County Exposition and Fair Association, 2495 South Delaware St, San Mateo, CA 94403.

San Mateo County Exposition and Fair Association
Statements of Net Assets
December 31, 2005 and 2004

	2005	2004
Assets		
Current Assets:		
Cash (Note 2)	\$ 1,345,008	\$ 1,962,708
Securities Lending Collateral (Note 2(e))	97,859	149,350
Accounts receivable:		
General (Note 3)	105,145	68,959
State Fairs and Expositions Division	26,250	8,032
Other	22,459	7,274
Prepaid insurance	3,546	4,143
Deferred charges	31,847	29,178
Total Current Assets	1,632,114	2,229,644
Noncurrent Assets:		
Capital Assets, net of accumulated depreciation (Notes 1(c), 4)		
	944,803	309,186
Total Noncurrent Assets	944,803	309,186
 Total Assets	 2,576,917	 2,538,830
 Liabilities		
Current Liabilities:		
Accounts payable	68,303	105,531
Securities Lending Collateral Due (Note 2(e))	97,859	149,350
Accrued payables:		
Salaries and wages	23,532	23,837
Employee leave benefits (Note 1(d))	105,593	70,306
Other	112,697	71,046
Advance billings	174,963	222,157
Deferred income	-	26,975
Advance deposits	40,797	19,560
Deferred funding (Note 1(e))	718,168	594,039
Livestock auction account	405	371
Total Current Liabilities	1,342,317	1,283,172
 Net Assets		
Invested in capital assets (Note 1(c))	944,803	309,186
Unrestricted	289,797	946,472
Total Net Assets	\$ 1,234,600	\$ 1,255,658

The notes to the financial statements are an integral part of this statement.

San Mateo County Exposition and Fair Association
Statements of Revenues, Expenses, and Changes in Fund Net Assets
For the Years Ended December 31, 2005 and 2004

	2005	2004
Operating Revenues		
Fair (Note 5(a))	\$ 1,359,628	\$ 1,136,205
Rental (Note 5(b))	2,328,600	2,669,933
Horse racing	547,797	291,213
Other	22,929	41,853
Total Operating Revenues	4,258,954	4,139,204
Operating Expenses		
Administrative	1,311,268	1,145,570
Maintenance	1,220,884	1,286,852
Publicity	242,794	260,470
Attendance/Operations	495,993	497,310
Premium	55,751	48,178
Exhibits	168,443	176,662
Racing	136,598	177,391
Attractions	492,924	411,231
Depreciation expense (Note 4)	173,356	47,832
Miscellaneous fair expense	155,759	126,921
Total Operating Expenses	4,453,770	4,178,417
Operating Income (Loss)	(194,816)	(39,213)
Nonoperating Revenues (Expenses)		
Investment earnings	30,605	16,121
Securities Lending Income (Note 2(e))	2,155	2,067
Securities Lending Expense (Note 2(e))	(2,004)	(1,787)
Contributions - noncapital	113,500	123,106
Gain on disposal of capital assets	350	-
Total Nonoperating Revenues (Expenses)	144,606	139,507
Net Income Before Capital Contributions and Improvements	(50,210)	100,294
Capital Contributions (Note 4)	1,620,396	533,381
Capital Improvements (Note 4)	(1,591,244)	(363,338)
Change in Net Assets	(21,058)	270,337
Net Assets - beginning	1,255,658	985,321
Net Assets - ending	\$ 1,234,600	\$ 1,255,658

The notes to the financial statements are an integral part of this statement.

**San Mateo County Exposition and Fair Association
Statements of Cash Flows
For the Years Ended December 31, 2005 and 2004**

	2005	2004
Cash Flows from Operating Activities		
Receipts from customers	\$ 4,154,685	\$ 4,274,917
Payments to suppliers	(2,365,310)	(2,290,121)
Payments to employees	(1,877,771)	(1,808,412)
Net Cash Provided (Used) by Operating Activities	(88,396)	176,384
Cash Flows From Non-Capital Financing Activities		
Contributions received	113,500	123,106
Net Cash Provided by Non-Capital Financing Activities	113,500	123,106
Cash Flows From Capital and Related Financing Activities		
Capital contributions	1,726,307	1,087,533
Proceeds from sale of capital assets	350	-
Acquisition of equipment	(808,973)	(251,039)
Improvements	(1,591,244)	(363,338)
Net Cash Provided (Used) by Capital and Related Financing Activities	(673,560)	473,156
Cash Flows From Investing Activities		
Investment earnings	30,756	16,401
Net Cash Provided by Investing Activities	30,756	16,401
Net Increase (Decrease) in Cash	(617,700)	789,047
Cash - beginning of year	1,962,708	1,173,661
Cash - end of year	\$ 1,345,008	\$ 1,962,708
Reconciliation of Operating (Loss) to Net Cash Provided (Used) By Operating Activities		
Operating (Loss)	\$ (194,816)	\$ (39,213)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation expense	173,356	47,832
Change in Assets and Liabilities:		
(Increase) decrease in:		
Accounts receivable	(51,371)	(1,104)
Prepaid insurance	597	24,843
Deferred charges	(2,669)	10,726
Increase (decrease) in:		
Accounts payable	(37,228)	45,330
Accrued expenses	76,633	(48,847)
Advance billings	(47,194)	149,854
Deferred income	(26,975)	725
Advance deposits	21,271	(13,762)
Net Cash Provided (Used) by Operating Activities	\$ (88,396)	\$ 176,384

The notes to the financial statements are an integral part of this statement.

San Mateo County Exposition and Fair Association
Notes to the Financial Statements
December 31, 2005 and 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Description of the Reporting Entity

The San Mateo County Exposition and Fair Association (the Association) is a nonprofit organization incorporated on August 8, 1938. The Association conducts the County Fair and manages the Event Center under contract with the County of San Mateo (the County) pursuant to Section 25906 of the California Government Code. It is governed by an eleven-member board of directors appointed by the County board of supervisors.

(b) Implementation of Governmental Accounting Standards Board (GASB) Statement

GASB Statement No. 40

During the year the Association implemented GASB Statement No. 40 – *Deposit and Investment Risk Disclosure – an amendment to GASB No 3*. This statement adds to and changes some of the financial statement disclosures required for cash and investments. See Note 2.

(c) Measurement focus, basis of accounting, and financial statement presentation

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs. Under this method, revenues are recognized as soon as they are earned and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows. Nonexchange transactions, in which the Association receives (or gives) value without directly giving (or receiving) equal value in exchange, include grant contributions. On an accrual basis, revenues from these contributions are recognized when all the eligibility requirements are satisfied.

All financial transactions of the Association are accounted for in an enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is to have the costs of providing goods or services to the general public be financed primarily through user charges and where the periodic determination of net income is appropriate for accountability, management control, capital maintenance, or other purposes.

When both restricted and unrestricted net assets are available for the same purpose, restricted resources are used only after the unrestricted resources are depleted.

Cash and Cash Equivalents: Cash and cash equivalents include all monies held in bank, highly liquid investments with maturities of less than three months and cash held in the San Mateo County Investment Pool (County Pool). A portion of the cash balance is pooled with other funds of the County to earn a higher rate of return than could be earned by investing the funds individually.

Receivables: All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Expense/Deferred Charges: An asset is established at the date of payment and subsequently amortized over the accounting periods that are expected to benefit from the initial payment.

Capital Assets: Since the County of San Mateo holds title to the land and buildings used by the Association (see Note 4), any capital improvements to such assets financed by the Association or its contributors are expensed in

San Mateo County Exposition and Fair Association
Notes to the Financial Statements
December 31, 2005 and 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the year of acquisition. Equipment purchases over \$1,000 are capitalized and depreciated over a useful life of 5 to 10 years. Assets acquired through donations are recorded at their estimated fair value at the time of acquisition.

Net Assets: The net asset balance not invested in capital assets represents the amount available for future operations.

(d) Employee Leave Benefits

The liability for unpaid employee leave benefits is computed at the end of each year and includes the liability for unused vacation leave which has accrued and has not been paid, up to the limits set forth in the Association's administrative policies.

(e) Deferred Funding

Unused portions of amounts received for capital improvements or other activities are recorded as deferred funding until those capital improvements and activities are accomplished.

(f) Income Taxes

The Association falls under the purview of Section 501(c)(3) of the Internal Revenue Code and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal or state income taxes.

2. CASH AND CASH EQUIVALENTS

(a) Cash

A portion of the cash balance reported on the *statement of net assets* is pooled with other funds in the County Pool, which is a governmental investment pool managed and directed by the elected San Mateo County Treasurer. The County Pool is not registered with the Securities and Exchange Commission. An oversight committee, comprised of local government officials and various participants, provide oversight to the management of the fund. The Association is a voluntary participant in the County Pool.

Cash and cash equivalents in the County Pool are reported at fair value, as required by GASB 31. The change in fair value for the year is recorded as unrealized gain or loss and reported as part of interest earnings. Fair value is based on information provided by the County Treasurer. The fair value of cash and cash equivalents as of December 31, 2005 and 2004 approximates book value.

For purposes of the accompanying statements of cash flows, the Association considers its equity in the County Pool to be cash equivalents.

At December 31, 2005, the County Pool was invested in the following securities:

Investment Type	Interest Rate	Maturities	Maturity (Years)	Rating
U.S. Governmental Securities:				
Not on securities loan	3.875%	5/15/10	.60	AAA
Loaned securities for cash collateral	2.625% - 5.625%	5/15/08-10/15/09	2.84	AAA
U.S. Government Agency Securities:				
Not on securities loan	1.70% - 6.25%	9/9/05-4/2/14	1.56	AAA

San Mateo County Exposition and Fair Association
Notes to the Financial Statements
December 31, 2005 and 2004

2. CASH AND CASH EQUIVALENTS (continued)

Investment Type	Interest Rate	Maturities	Maturity (Years)	Rating
Loaned securities for cash collateral	2.50% - 3.875%	9/15/06-4/15/09	.21	AAA
U.S. Government Agency Securities – Discount:				
Not on securities loan	2.36% - 3.04%	7/1/05-8/29/05	.07	AAA
Loaned securities for cash collateral	2.41%	7/22/05	-	AAA
Certificate of Deposit	3.28%	10/18/05	-	AA
Commercial Paper - Discount	2.73% - 3.39%	7/1/05-9/1/05	.02	A1
Corporate Bonds	1.75% - 6.25%	7/15/05-11/10/09	2.01	AAA-A
Repurchase Agreements	2.85%	7/1/05	-	AAA
Local Agency Investment Fund (LAIF)	2.95%	On Demand	.45	Unrated

(b) County Pool: Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

State law and the San Mateo County's Investment Policy limits County Pool investments in commercial paper to the rating of A-1 by Standards & Poor's or P-1 by Moody's Investors Service. State law and the San Mateo County's Investment Policy also limit County Pool investments in corporate bonds to the rating of A by both Standards & Poor's and Moody's Investors Service. The County Pool does not have credit limits on government agency securities.

(c) County Pool: Interest Rate Risk

Interest rate risk is the risk that changes in market interest rate 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 change in market interest rate. One of the ways the County Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

(d) County Pool: Concentration of Credit Risk

State law restricts the County's investments in commercial paper to 40% of its investment pool and to 10% per issuer. State law also limits the County's investment in corporate bonds and medium term notes to 30% of its investment pool and to 10% per issuer. At June 30, 2005, the County had 12% of its investment pool in Federal Home Loan Mortgage Corporation, 7% in Federal Home Loan Bank, 13% in Federal Home Loan Association, 18% in commercial paper and 24% in corporate bonds and medium term notes. The County did not have 5% or more of its net investment in commercial paper, corporate bonds or medium term notes of a single organization.

(e) Securities Lending Transactions

State Statutes and San Mateo County's Investment Policy permits the use of a securities lending program with its principal custodian bank. The investment policy allows the custodial bank to lend up to 20% of the portfolio within the guidelines of the investment policy. The custodial agreement authorizes the bank to loan

San Mateo County Exposition and Fair Association
Notes to the Financial Statements
December 31, 2005 and 2004

2. CASH AND CASH EQUIVALENTS (continued)

securities in the County Pool. The loaned securities represent securities on loan to brokers or dealers by the County Pool. The County receives a fee from the borrower for the use of the loaned securities. If loaned securities are not returned by the borrower, the County's Custodian is responsible for replacement of the loaned securities with similar securities. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the County or borrowers

The loaned securities as of December 31, 2005 and 2004 consisted of U.S. Treasury notes and bonds, U.S. government securities, and corporate bonds. In return, the County receives collateral in the form of cash or securities equal to at least 102% of the transferred securities plus accrued interest for reinvestment. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end has a weighted average maturity of one day. The relationship between the maturities of the investment pool and the County's loans is affected by the maturities of the securities loans made by the other entities that use the agent's pool, which San Mateo County cannot determine. Securities lending collateral represents investments in an investment pool purchased with cash collateral that may not be pledged or sold without default by the borrower. Total cash collateral as of December 31, 2005 and 2004 amounted to \$97,859 and \$149,350, respectively.

The value of underlying securities loaned by the County Pool as of December 31, 2005 and 2004 amounted to \$95,963 and \$146,421, respectively.

The Association does not have any exposure to credit risk related to the securities lending transactions as of December 31, 2005 and 2004, because the amounts owed to borrowers exceed the amounts the borrowers owe to the San Mateo County Investment Pool.

(f) Deposits with Financial Institutions: Custodial Credit Risk

Custodial credit risk for *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 custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty to a transaction, an entity will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

As of December 31, 2005, \$436,322 (2004: \$860,521) of the Association's deposits with financial institutions was in excess of federal depository insurance limits.

3. ACCOUNTS RECEIVABLE - GENERAL

At December 31, 2005 and 2004, the accounts receivable - general balance composed of the following:

	2005	2004
Total accounts receivable – general	\$ 111,057	\$ 78,672
Less: allowance for uncollectible accounts	(5,912)	(9,713)
Accounts Receivable – general, net	\$ 105,145	\$ 68,959

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4. CAPITAL ASSETS

Capital assets are comprised of equipment owned by the Association. A summary of changes in capital assets is presented below.

Summary of changes in capital assets:

	<u>Balance 1/1/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2004</u>
Equipment financed by the Association	\$ 804,457	\$ 251,039	\$ (14,044)	\$1,041,452
Less: accumulated depreciation	<u>(698,478)</u>	<u>(47,832)</u>	<u>14,044</u>	<u>(732,266)</u>
Investment in Equipment, net of Accumulated Depreciation	<u>\$ 105,979</u>	<u>\$ 203,207</u>	<u>\$ -</u>	<u>\$ 309,186</u>
	<u>Balance 1/1/2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2005</u>
Equipment financed by the Association	\$ 1,041,452	\$ 808,973	\$ (8,264)	\$1,842,162
Less: accumulated depreciation	<u>(732,266)</u>	<u>(173,356)</u>	<u>8,264</u>	<u>(897,359)</u>
Investment in Equipment, net of Accumulated Depreciation	<u>\$ 309,186</u>	<u>\$ 635,617</u>	<u>\$ -</u>	<u>\$ 944,803</u>

Land and buildings are owned by the County and are made available to the Association for its use under the terms of the contract with the County. Improvements to land and buildings are made subject to County approval and are funded jointly by the Association, the State and the County. Improvements to County owned land and buildings are expensed in the year incurred. For the year ended December 31, 2005, the associated spent \$1,591,244 (2004: \$363,338) for improvements to land and buildings owned by the County.

In 2004, the City of San Mateo Redevelopment Agency (RDA) awarded a grant of \$3,000,000 to the Association for use towards improvements to the County owned land and buildings. As of December 31, 2005 the Association had received \$2,638,083 from the RDA and had spent \$1,937,673. The remaining balance of funds received is included in deferred funding liability presented in the Statement of Net Assets.

5. REVENUES

(a) Fair Revenues

Fair revenues are mainly from fees charged for admission to the Annual Fair. Commercial space rentals, sponsorships, parking, and a percentage of carnival and concession revenues are also included in fair revenues.

(b) Rental Revenues

The Association rents out its buildings and grounds during the year for a variety of events. Included in the rental revenues are rents charged for the use of the building and facilities, labor, parking, a percentage of concessions, and equipment rental fees.

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5. REVENUES (continued)

(c) Interest Income

Interest is received quarterly from the County Treasurer on investments made by the Association in the San Mateo County investment pool. Interest is also received from other financial institutions on funds deposited in certificates of deposits. Interest is recorded in the year it is earned and is available to pay current liabilities.

6. POSTEMPLOYMENT BENEFITS

(a) Deferred Compensation Plan Assets Held In Trust

The Association offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Association does not contribute to the plan. As required by IRC Section 457 (g), all assets of the plan are held in trust for the exclusive benefit of participants and their beneficiaries.

As of December 31, 2005 and 2004 the plan had net assets of \$214,569 and \$304,415, respectively.

(b) Pension Plan

The San Mateo County Fair Association Money-Purchase Pension Plan is a defined contribution plan established by the Association to provide benefits at retirement to eligible employees. Benefits are solely dependent upon amounts contributed to the plan plus investment earnings. The plan provisions, including the contribution requirements, are established under a plan agreement. An Administrative Committee appointed by the Association administers the plan. The funds are held and invested by a plan trustee as determined by the plan participants. All non-union, permanent and full-time employees who have been continuously employed for six months are eligible to participate in the plan. The Association quarterly contributes 20% of each participant's quarterly compensation to the plan. Voluntary contributions by employees are prohibited. The Association's contributions for each employee and the interest allocated to the employee's account are vested at the rate of 20% for every year of service, with full vesting after 5 years of service.

The non-vested portion of the Association's contributions plus interest for employees who leave employment before 5 years of service are used to reduce the Association's current period contribution.

The actual contributions made by the Association after deducting forfeitures relating to employees who left employment before completing 5 years of service amounted to \$162,480 in 2005 and \$180,554 in 2004.

As of December 31, 2005 and 2004 the plan had net assets of \$1,733,734 and \$2,055,917, respectively.