SAN MATEO COUNTY EXPOSITION AND FAIR ASSOCIATION

Financial Statements with Auditor's Report Thereon

December 31, 2009 and 2008

SAN MATEO COUNTY EXPOSITION AND FAIR ASSOCIATION

December 31, 2009 and 2008

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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 (Association) as of December 31, 2009 and 2008, 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 mis statement. 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, 2009 and 2008, 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.

In accordance with *Government Auditing Standards*, we have issued our report dated June 7, 2010 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 2 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States. 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
June 7, 2010

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, 2009. 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, 2009 amounted to $4,353,353, an increase of $925,694 from prior year. The increase in net assets was mostly due to an increase in satellite wagering facility revenue.

- Most of the $4,353,353 in net assets was comprised of surplus cash and the investment in capital assets offset by long-term liabilities.

- Total operating revenues for the year, amounted to $7,958,638 and were comprised of fair revenue of $1,591,722; rental revenue of $3,005,189; satellite wagering facility revenue of $3,324,195 and other revenue of $37,532.

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 5 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.

The *statements of revenues, expenses and changes in fund net assets* on page 6 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 8 through 16 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

Net Assets	2009	2008	2007
Current and other assets	$2,930,888	$ 1,751,083	$ 2,389,018
Capital assets, net	5,453,699	5,997,314	891,741
Total Assets	8,384,587	7,748,397	3,280,759
Current and other liabilities	1,280,047	1,160,009	663,790
Noncurrent liabilities	2,751,187	3,160,729	154,665
Total Liabilities	4,031,234	4,320,738	818,455
Total Net Assets	$ 4,353,353	$ 3,427,659	$ 2,462,304

- Total assets stand at $8,384,587 an increase of $636,190 or 8% compared to the previous fiscal year. The increase was mainly due to an increase in cash. Changes in the other asset account balances were relatively less significant.

- Total liabilities decreased by $289,504 or 7% between fiscal years to $4,031,234. The decrease was due to a decrease in long-term liabilities.

Changes in Net Assets

Changes in Net Assets	2009	2008	2007
Revenues and Other Financing Sources:			
Fair revenues	$ 1,591,722	$ 1,571,111	$ 1,652,473
Rental revenues	3,005,189	3,483,240	3,172,043
Horse racing	-	419,484	440,684
Satellite wagering facility	3,324,195	940,523	-
Supports – Contributions	137,833	1,482,805	146,425
Investment earnings	12,034	11,194	73,700
Securities Lending Income	-	-	6,247
Other Income	37,532	57,527	1,303
Total Revenues and Other Financing Sources	8,108,505	7,965,884	5,492,875
Expenses and Other Financing Uses:			
Salaries & Benefits	2,952,665	1,994,975	2,050,081
General Operating Expenses	3,582,302	4,180,111	3,105,559
Securities Lending Expense	-	-	5,849
Capital Expenditures - County improvements	-	551,785	79,272
Interest paid on capital debt	87,371	43,662	-
Depreciation Expense	560,473	229,996	198,553
Total Expenses and Other Financing Uses	7,182,811	7,000,529	5,439,314
Change in Net Assets	925,694	965,355	53,561
Net Assets - January 1	3,427,659	2,462,304	2,408,743
Net Assets - December 31	4,353,353	$ 3,427,659	$ 2,462,304

- Revenues earned during the current period were $8,108,505, an increase of $142,622 or 2% compared to the prior year. This was primarily due to revenue received from the satellite wagering facility that opened during the prior year.

- Total Expenses incurred during the year amounted to $7,182,811, an increase of $182,282 or 3% compared to the prior year. The increase was mostly due to increased spending on salaries and benefits, interest paid on capital debt and an increase in depreciation expense.

Beyond 2009

Racing at the Bay Meadows Race Track ended on Sunday, August 17, 2008, ending a 73-year tradition in San Mateo. The Grandstand and Track at Bay Meadows were demolished in the Fall of 2008, making way for a mixed use, transit oriented development.

The "Jockey Club" (our Satellite Wagering Facility) opened on August 20, 2008 in Cypress Hall (a temporary location). Oak Hall underwent major remodeling, and opened as the "Jockey Club" on November 18, 2008. Currently, the Jockey Club operates in both Oak and Cypress Halls and is the number one satellite wagering location in Northern California.

The San Mateo County Fair was not awarded live horse racing dates in 2009 or 2010, and did not receive any revenues from the CARF I and CARF II races, which were to support California Fairs.

Revenues from the Satellite Wagering Facility are being used to repay the debt incurred with the construction of the Satellite Wagering Facility, as well as to improve and upgrade the San Mateo County Event Center, as well as provide programming support to the annual San Mateo County Fair.

Since the Fair is no longer involved with live horse racing, the Board voted to move the annual fair dates from August to June. This date change will allow better marketing of the Fair to the youth of San Mateo County, since schools will still be in session during competitive entry deadlines. So a major focus in 2010 will be the change in Fair dates, as well as maintaining the current year around rental operations and Satellite Wagering Facility.

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, 2009 and 2008

	2009	2008
Assets		
Current Assets:		
Cash (Note 2)	$ 2,490,314	$ 1,412,234
Securities lending collateral (Note 2(g))	47,611	2,222
Accounts receivable:		
General (Note 3)	345,930	305,459
Prepaid expenses	47,033	27,250
Deferred charges	-	3,918
Total Current Assets	2,930,888	1,751,083
Noncurrent Assets:		
Capital assets, net of accumulated depreciation (Notes 1(b), 4)	5,453,699	5,997,314
Total Noncurrent Assets	5,453,699	5,997,314
Total Assets	8,384,587	7,748,397
Liabilities		
Current Liabilities:		
Accounts payable	146,664	272,232
Securities lending collateral due (Note 2(g))	47,611	2,222
Accrued payables:		
Salaries and wages	123,020	94,454
Other	107,188	31,498
Advance billings	360,554	264,132
Deferred funding (Note 1(b))	18,251	8,251
Livestock auction account	18,022	16,786
Loans payable - current (Note 5)	432,582	445,682
Capital lease payable - current (Note 5)	24,145	22,742
Other current liabilities	2,010	2,010
Total Current Liabilities	1,280,047	1,160,009
Noncurrent Liabilities:		
Employee leave benefits (Note 1(b))	211,785	169,708
Loans payable - noncurrent (Note 5)	2,526,773	2,954,318
Capital lease payable - noncurrent (Note 5)	12,629	36,703
Total Noncurrent Liabilities	2,751,187	3,160,729
Total Liabilities	4,031,234	4,320,738
Net Assets		
Invested in capital assets, net of related debt (Note 1(b))	2,457,570	2,597,314
Unrestricted	1,895,783	830,345
Total Net Assets	$ 4,353,353	$ 3,427,659

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, 2009 and 2008

	2009	2008
Operating Revenues		
Fair (Note 6(a))	$ 1,591,722	$ 1,571,111
Rental (Note 6(b))	3,005,189	3,483,240
Horse racing	-	419,484
Satellite wagering facility (Note 6(c))	3,324,195	940,523
Other	37,532	57,527
Total Operating Revenues	7,958,638	6,471,885
Operating Expenses		
Administrative	1,325,785	1,171,992
Maintenance	1,523,470	1,538,945
Publicity	401,777	494,988
Attendance/Operations	1,043,814	1,260,578
Premium	49,981	70,014
Exhibits	232,184	326,574
Racing	545	97,674
Satellite wagering facility	1,369,573	538,391
Attractions/Entertainment	478,493	572,639
Depreciation expense (Note 4)	560,473	229,996
Miscellaneous fair expense	109,345	103,291
Total Operating Expenses	7,095,440	6,405,082
Operating Income	863,198	66,803
Nonoperating Revenues (Expenses)		
Investment earnings	12,034	11,194
Interest expense	(87,371)	(43,662)
Contributions - noncapital	107,833	113,750
Total Nonoperating Revenues (Expenses)	32,496	81,282
Income Before Capital Contributions and Capital Improvements	895,694	148,085
Capital Contributions	30,000	1,369,055
Capital Improvements	-	(551,785)
Change in Net Assets	925,694	965,355
Net Assets - beginning	3,427,659	2,462,304
Net Assets - ending	$ 4,353,353	$ 3,427,659

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, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Receipts from customers	$ 8,015,825	$ 6,257,704
Payments to suppliers	(3,648,045)	(4,054,378)
Payments to employees	(2,882,022)	(1,955,063)
Net Cash Provided by Operating Activities	1,485,758	248,263
Cash Flows From Non-Capital Financing Activities		
Contributions received	107,833	113,750
Net Cash Provided by Non-Capital Financing Activities	107,833	113,750
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt	-	3,470,391
Capital contributions	40,000	1,331,435
Acquisition and construction of capital assets	(16,858)	(5,335,569)
Principal paid on capital debt	(463,316)	(10,946)
Interest paid on capital debt	(87,371)	(43,662)
Improvements	-	(551,785)
Net Cash (Used) by Capital and Related Financing Activities	(527,545)	(1,140,136)
Cash Flows From Investing Activities		
Investment earnings	12,034	11,194
Net Cash Provided by Investing Activities	12,034	11,194
Net Increase (Decrease) in Cash	1,078,080	(766,929)
Cash - beginning of year	1,412,234	2,179,163
Cash - end of year	$ 2,490,314	$ 1,412,234
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income (Loss)	$ 863,198	$ 66,803
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation expense	560,473	229,996
Change in Assets and Liabilities:		
(Increase) decrease in:		
Accounts receivable	(40,471)	(187,930)
Prepaid insurance	(19,783)	(22,710)
Deferred charges	3,918	(3,918)
Increase (decrease) in:		
Accounts payable	(125,568)	193,596
Accrued expenses	146,333	(1,323)
Advance billings	96,422	(32,654)
Advance deposits	1,236	6,403
Net Cash Provided by Operating Activities	$ 1,485,758	$ 248,263

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The San Mateo County Exposition and Fair Association (Association) is a California nonprofit organization under section 501(c)(3) of the Internal Revenue Code. The Association was incorporated on August 8, 1938, for the purpose of conducting the annual County Fair and managing the Event Center, and its buildings and facilities, which includes a satellite wagering facility, under agreement with the County of San Mateo (the County) pursuant to Section 25906 of the California Government Code. The term of the agreement is from July 1, 2008 to June 30, 2020. The Association is governed by a seven-member Board of Directors appointed by the County Board of Supervisors. The Association is subject to the policies, procedures and regulations set forth in the California Government Code, California Business and Professional Code, Public Contracts Code, Food and Agriculture Code, State Administration Manual and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

(b) 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.

Cash and Cash Equivalents: Cash and cash equivalents include all monies held in banks, 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: Leasehold improvements over $5,000 and a useful life of more than one year are capitalized and depreciated over the lease term. Equipment purchases over $1,000 are capitalized and depreciated over a useful life of 3 to 10 years. Amounts spent on projects that have not been placed in service are reported as construction-in-progress until the project is completed and the asset is placed in service. Assets acquired through donations are recorded at their estimated fair value at the time of acquisition. Amounts spent on repairs and maintenance to County owned property are expensed as incurred by the Association.

Long-term Obligations: Long-term debt and other long-term obligations are reported as liabilities in the *statements of net assets*.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

Employee Leave Benefits: The liability for unpaid employee leave benefits is computed at the end of each year and includes the liability for unused holiday, compensatory, personal, vacation and 20% of unused sick leave which has accrued and has not been paid, up to the limits set forth in the Association's administrative policies.

(c) Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results based on subsequent events could differ from those estimates.

(d) 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 *statements 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 investment earnings. Fair value is based on information provided by the County Treasurer. The fair value of cash and cash equivalents held in the County Pool as of December 31, 2009 and 2008 approximated book value.

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

2. CASH AND CASH EQUIVALENTS (continued)

(b) Authorized Investments of the County Pool

The County Pool's Investment Policy and the California Government Code allow the County Pool to invest in the following, provided the credit ratings of the issuers are acceptable to the County Pool. The following also identifies certain requirements of the County Pool and California Government Code that address interest rate risk, credit risk, and concentrations of credit risk:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum % Allowed in Portfolio	Maximum % Investment in One Issuer
U.S. Treasury Obligations	15 years	-	100	100
Obligations of U.S. Agencies or government sponsored enterprises	15 years	-	100	100
Bankers acceptances	180 days	A1/P-1	15	10
Collateralized time deposits within the state of California	1 year	-	30	10
Negotiable certificates of deposit	5 years	-	30	10
Commercial paper/Floating rate notes	270 days or less	A1/P-1	40	10
Repurchase agreements	1 year	-	100	50
Reverse repurchase agreements	92 days	-	20	20
Corporate bonds and medium term notes	5 years	A	30	10
Local Agency Investment Fund (LAIF)	-	-	Up to the current state limit	-
Shares of beneficial interest	-	-	10	5
Mortgage backed securities	5 years	A	20	5

At December 31, 2009, the County Pool was invested in the following securities:

Investment Type	Interest Rate	Maturities	Weighted Average Maturity (Years)	Rating
U. S. Treasuries	0.00% - 2.13%	01/21/10-11/30/14	1.16	AAA
U.S. government agency securities	0.00% - 4.88%	01/11/10-05/15/14	1.10	AAA
U.S. government agency securities: floating rate	0.21% - 0.36%	05/27/11-08/05/11	1.49	AAA
Commercial paper - discount	0.00%	01/04/10-01/05/10	.01	AA+, A+
Repurchase agreements	0.00%	01/04/10	.01	AAA
Corporate bonds	1.70% - 5.90%	12/23/10-11/20/14	5.83	AAA, AA+, AA, A+, A
Corporate bonds: floating rate	0.89%	12/09/10	.94	AAA
Floating rate securities	0.27% - 2.37%	01/15/10-05/21/12	.76	AA, AA-, A, A-

2. CASH AND CASH EQUIVALENTS (continued)

(c) County Pool: Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State law and the County's investment policy limit the County's investments in commercial paper to the rating of A-1 or better by Standard & Poor's, or P-1 or better by Moody's Investors Service; and corporate bonds to the rating of A or higher by both Standard & Poor's and Moody's Investors Service. No limits are placed on the U.S. government agency securities and U.S. Treasuries.

(d) County Pool: Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the County Pool's investment in a single issuer of securities. For each authorized investment type, state law restricts the maximum percentages allowed in the portfolio and per issuer. See Note 2(b). As of December 31, 2009, the investment pool has five percent or more of its total investments with the following issuers: 34% in U.S. Treasuries (notes, t-bills and cash management bills), 15% in Federal National Mortgage Association, 13% in Federal Home Loan Mortgage Corporation, 9% in Repurchase Agreements, 8% in Federal Home Loan Bank and 6% in General Electric Capital Corporation (commercial paper, corporate bonds and corporate bonds - floating rate).

(e) County Pool: Foreign Currency Risk

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment or deposit. The County investment policy does not include specific provisions to address foreign currency risk.

(f) 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. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rate. Duration is calculated as the weighted average time to receive interest and principal payments. The longer the duration of the portfolio, the greater its price sensitivity to change in interest rates. The County Pool manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to five years or less in accordance with its investment policy. As of December 31, 2009, the County Pool had a weighted average maturity of 1.1 years and its floating rate securities were $235 million. These securities are tied to the three-month London Interbank Offered Rate (LIBOR) index.

(g) Securities Lending Transactions

State Statutes and San Mateo County's Investment Policy permit 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 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.

2. CASH AND CASH EQUIVALENTS (continued)

The loaned securities as of December 31, 2009 consisted of U.S. government agency securities and U.S. Treasuries. At December 31, 2008, loaned securities consisted of corporate bonds and U.S. government agency securities. 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. At year-end, all of the cash collateral was invested in repurchase agreements, certificates of deposit and commercial paper with a weighted average maturity of 4 days (2008: 2 days). Commercial paper and certificates of deposit were rated at least A1 by Standards and Poor's and P-1 by Moody's. The repurchase agreements are held by Bank of New York Mellon Corporation (BONY) in the County's name and were rated AAA by Standards and Poor's at December 31, 2009 and 2008.

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 at year-end amounted to $47,611 (2008: $2,222). The value of underlying securities loaned by the County Pool as of December 31, 2009 amounted to $47,237 (2008: $2,178). The Association has no exposure to credit risk related to the securities lending transactions as of December 31, 2009 and 2008, because the market value of the invested cash collateral exceeds that of the borrowed securities.

(h) 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, 2009, $672,548 (2008: $852,084) of the Association's deposits with financial institutions was in excess of federal depository insurance limits.

3. ACCOUNTS RECEIVABLE – GENERAL

At December 31, 2009 and 2008, the accounts receivable - general balance was composed of the following:

	2009	2008
Total accounts receivable – general	$ 470,984	$ 341,099
Less: allowance for uncollectible accounts	(125,054)	(35,640)
Accounts receivable - general, net	$ 345,930	$ 305,459

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:

	Balance 1/1/2008	Additions	Retirements	Balance 12/31/2008
Capital assets, not being depreciated:				
Construction-in-progress	$ 105,000	$ 4,889,813	$ -	$ 4,994,813
Total capital assets, not being depreciated	105,000	4,889,813	-	4,994,813
Capital assets, being depreciated:				
Leasehold improvements	$ -	$ 28,923	$ -	$ 28,923
Equipment financed by the Association	2,052,051	416,833	(89,573)	2,379,311
Less: accumulated depreciation	(1,265,310)	(229,996)	89,573	(1,405,733)
Total capital assets, being depreciated, net	786,741	215,760	-	1,002,501
Business-type activities capital assets, net	$ 891,741	$ 5,105,573	$ -	$ 5,997,314

	Balance 1/1/2009	Additions	Retirements	Balance 12/31/2009
Capital assets, not being depreciated:				
Construction-in-progress	$ 4,994,813	$ -	$ 4,994,813	$ -
Total capital assets, not being depreciated	4,994,813	-	4,994,813	-
Capital assets, being depreciated:				
Leasehold improvements	$ 28,923	$4,994,813	$ -	$ 5,023,736
Equipment financed by the Association	2,379,311	16,858	-	2,396,169
Less: accumulated depreciation	(1,405,733)	(560,473)	-	(1,966,206)
Total capital assets, being depreciated, net	1,002,501	4,451,198	-	5,453,699
Business-type activities capital assets, net	$ 5,997,314	$ 4,451,198	$ 4,994,813	$ 5,453,699

Per the lease agreement with the County, the buildings, tenant improvements and all other fixed assets on the fairgrounds remain property of the County. Construction-in-progress, leasehold improvements and equipment are acquired with operating funds and funds allocated by the State and County.

Depreciation expense of $560,473 (2008: $229,996) was incurred during the current year.

5. LONG-TERM DEBT

Loans Payable

On February 5, 2008, the Association entered into a loan agreement with the County for $900,000. The loan was used to fund the satellite wagering facility construction project. The loan bears interest at a rate of 3.5% per annum and is to be repaid in monthly installments over 5 years with the final payment due on June 5, 2013. At December 31, 2009, the outstanding loan amount was $698,652.

On April 10, 2008, the Association entered into a Project Funding and Repayment Agreement (Agreement) with the California Authority of Racing Fairs (CARF) and California Construction Authority (CCA). The Agreement includes various funding sources for the satellite wagering facility construction project. Per the Agreement, CARF made a grant of $650,000 and a loan of $750,000 (CARF Loan) and CCA made two loans to the Association. The First CCA Loan was for $1,000,000 and the Second CCA Loan was for $450,000. On October 7, 2008, the Agreement was amended to increase the Second CCA Loan amount to $750,000.

5. LONG-TERM DEBT (continued)

The CARF Loan and First CCA Loan are interest-free and payable in annual installments of $75,000 and $100,000, respectively, commencing November 1, 2009 and continuing until November 1, 2018. The Second CCA Loan bears interest at the rate of 4.96% per annum and is payable in annual installments of $96,300 beginning November 1, 2009. The final installment is due on November 1, 2018. As of December 31, 2009, the outstanding loan balances for the CARF Loan, First CCA Loan and Second CCA Loan were $675,000, $900,000 and $685,703 respectively.

As of December 31, 2009, annual debt service requirements for loans payable were summarized as follows:

Year Ending December 31,	Principal	Interest
2010	$ 432,582	$ 55,255
2011	437,401	45,398
2012	447,652	35,148
2013	349,331	25,304
2014	250,597	20,702
2015-2018	1,041,792	43,389
	$ 2,959,355	$ 225,196

Capital Lease

The Association entered into a lease agreement with All-Lines Leasing for financing the acquisition of a vacuum rider sweeper with a down payment of $2,216. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The asset acquired through capital lease is as follows:

Equipment	$ 70,391
Less: Accumulated depreciation	(28,156)
Total	$ 42,235

The future minimum lease obligation and the net present value of the minimum lease payments as of December 31, 2009 were as follows:

Year Ending December 31,	Principal
2010	$ 25,692
2011	12,848
Total Minimum Lease Payments	38,540
Less: Amount Representing Interest	(1,766)
Present Value of Minimum Lease Payments	$36,774

5. LONG-TERM DEBT (continued)

Changes in long-term liabilities:

Long-term liabilities activity for the year ended December 31, 2009 were as follows:

	Beginning Balance	Additions	Reduction	Ending Balance	Due Within One Year
Loans Payable:					
County Loan	$ 900,000	$ -	$ (201,348)	$698,652	$195,292
CARF Loan	750,000	-	(75,000)	675,000	75,000
First CCA Loan	1,000,000	-	(100,000)	900,000	100,000
Second CCA Loan	750,000	-	(64,297)	685,703	62,290
		-			
Capital Lease	59,445	-	(22,671)	36,774	24,145
	$ 3,459,445	$ -	$ (463,316)	$ 2,996,129	$ 456,727

6. 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.

(c) Satellite Wagering Facility Revenues

In August 2008, the Association opened The Jockey Club satellite wagering facility which is located on the County owned property. Included in satellite wagering facility revenues are track commissions received for live race meets held throughout California during the year, fees charged for admission, program sales, and lottery sales.

(d) Investment earnings

Interest is received quarterly from the County Treasurer on investments made by the Association in the San Mateo County Investment Pool and 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.

7. POSTEMPLOYMENT BENEFITS

(a) Deferred Compensation Plan

In October 2008, funds from the employee deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457 were transferred to a tax-sheltered annuity plan under IRC Section 403(b). The plan, which is administered by American United Life Insurance Company, a One America Company, accepts pre-

7. POSTEMPLOYMENT BENEFITS (continued)

tax employee contributions. The Association does not contribute to the plan. Amounts deferred under the plan are not available to employees until termination, retirement, death or unforeseeable emergency.

(b) Pension Plan

The Association has established a defined contribution pension plan to provide benefits at retirement to eligible employees. In October 2008, the Association transferred funds from the existing Money-Purchase Pension Plan to another Money-Purchase Pension Plan created in accordance with IRC Section 401(a). 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. American United Life Insurance Company, a One America Company, administers the plan. The funds are held by a designated plan trustee predetermined by the plan participants and are invested by either the plan trustee or the participant. The Association has the right to amend the plan at any time; however, in no event will any amendment authorize or permit any part of the plan assets to be used for purposes other than the exclusive benefit of participants or their beneficiaries. All employees who have completed one year of service, or 1,000 hours of service, are eligible to participate in the plan. For participants hired prior to June 1, 2008, the Association quarterly contributed 20% of each participant's quarterly compensation to the plan. Effective June 1, 2008, a resolution was adopted by the Board to change the Association's contribution rate to 5% for all new non-union, permanent and full-time employees hired on or after June 1, 2008. 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 $252,287 in 2009 and $166,903 in 2008.

As of December 31, 2009 and 2008, the deferred compensation plan and pension plan had combined net assets of $2,426,336 and $1,708,199, respectively.

8. RISK MANAGEMENT

The Association is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The California Fair Services Authority provides the Association with worker's compensation and general liability insurance. The existing insurance coverage is current as of the issuance of this report. Under an agreement with the County, the County Counsel provides legal representation for any claims or litigation of the Association.

Claims have not exceeded coverage in any of the past three years and there has not been a significant reduction in coverage during the current year.