22nd District Agricultural Association and its Blended Component Units

Financial Report
December 31, 2017

Contents

RSM US LLP

Independent Auditor's Report

To the Board of Directors of the
22nd District Agricultural Association and its Blended Component Units
Del Mar, California

Report on the Financial Statements

We have audited the accompanying financial statements of the 22nd District Agricultural Association (a component unit of the state of California) and its blended component units, the State Racetrack Leasing Commission and the Del Mar Race Track Authority (collectively referred to hereafter as the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2017, and the changes in its financial position and it's cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The supplemental schedule of fair revenues and expenses, and combining financial statements on pages 34 through 36 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedule of fair revenues and expenses, and combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the supplemental schedule of fair revenues and expenses, and combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

RSM US LLP

Irvine, California
April 2, 2019

Overview

The 22nd District Agricultural Association (the DAA) is a state agency that owns and operates the Del Mar Fairgrounds (the Fairgrounds), a 400-acre multi-use entertainment, exhibit, and horseracing facility, as well as the Horsepark equestrian facility. Our main event is the San Diego County Fair (the Fair), which in 2017 was the sixth largest fair in North America. We appeal to a very broad audience in San Diego County and beyond both county lines and country borders into Mexico. We are also producers of one of the top three horse shows in the country, the Del Mar National Horse Show. In the fall, we hold our annual Scream Zone haunted house. The Fairgrounds was the site of over 300 interim events in 2017, including car shows, rodeos, concerts, music festivals and many consumer shows.

The following analysis of the combined financial results of the DAA, Race Track Authority (RTA), and Race Track Leasing Commission (RTLC) (collectively the District) has been prepared to provide a more thorough understanding of the financial performance of these combined entities for the years ended December 31, 2017 and 2016. Please read this analysis in conjunction with the financial statements that follow this section.

This annual financial report includes three items:

1. Management's discussion and analysis.

2. Independent auditors' report.

3. Combined financial statements and supplemental schedules for the years ended December 31, 2017 and 2016, including notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

Statement of net position: The statement of net position includes all of the District's assets, deferred outflow of resources, liabilities and deferred inflow of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities), and net position—the difference between assets and liabilities—of the District and the changes in them. The statement of net position also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

Condensed statements of net position as of December 31 (dollars in thousands):

	2017	2016
Assets and Deferred Outflow of Resources		
Assets:		
Current assets	$ 28,425	$ 33,492
Current portion of restricted investments	3,297	3,297
Noncurrent restricted investments	3,306	3,297
Capital assets	109,283	107,587
Total assets	144,310	147,673
Deferred outflow of resources:		
Deferred outflow of pension liability	6,684	5,083
Total deferred outflow of resources	6,684	5,083
Total assets and deferred outflow of resources	$ 150,994	$ 152,756
Liabilities, Deferred Inflow of Resources and Net Position		
Liabilities:		
Current liabilities	$ 10,316	$ 9,574
Long-term debt	43,611	45,056
Other long-term liabilities	34,310	31,678
Total liabilities	88,237	86,308
Deferred inflow of resources:		
Deferred gain on debt defeasance	451	509
Deferred inflow of pension liability	320	-
Total deferred inflow of resources	770	509
Net position	61,986	65,938
Total net position	61,986	65,938
Total liabilities, deferred inflow of resources and net position	$ 150,994	$ 152,756

Analysis of the Statement of Net Position

- Current assets of the District, excluding the current portion of restricted investments, decreased $5.1 million in 2017. District cash and cash equivalents decreased $76,000. Several factors contributed to this decrease. Short-term investments for the District decreased $890,000, as pledged revenues were paid for the 2015 revenue bonds. Restricted cash to be transferred to the RTA as contributed capital to pay for approved projects increased $770,000. The balance in change funds increased $40,000 in part due to a year-end handicapping tournament at our satellite wagering facility, as well as change funds for parking that were returned in January 2018. RTA cash and equivalents increased $264,000 as the project fund checking account had a higher ending balance for invoices paid in January. RTA investments decreased $5.8 million as payments were made from the Project Fund for bond-related projects. When these bonds were issued, $25 million was deposited to the Project Fund to fund bond-related projects. At December 31, 2017, a balance of $10.6 million remained in this fund. The District's accounts receivable decreased $9,100 due to collection of bad debts and outstanding receivables. Accounts receivable for the RTA decreased $5,500. The amount due to the RTLC from the Del Mar Thoroughbred Club (DMTC) for the fall race meet increased $560,000 as DMTC revenues increased with the very successful Breeders Cup held at the Del Mar Race Track in early November. The District's interest accrued on investments increased $21,000, while interest accrued by the RTA on investments increased $5,000. The District's inventory of feed and bedding for horse shows decreased $20,000 as it was used for the horses sheltered at the fairgrounds after the Lilac Fire in December. Prepaid expenses for the District increased $14,000, primarily for insurance premiums paid at the inception of policy terms. The RTA's prepaid expenses remained flat.

- The current portion of restricted investments increased $5,000 as the RTA's debt service requirement for 2017 was greater than in 2016.

- Noncurrent restricted investments increased $8,400 as interest earned for the Bond Reserve Fund is not transferred to the Surplus Account until April.

- Capital assets net of depreciation increased $1.7 million. Capital assets for the District increased $302,000. Land and building improvements increased $83,000. Construction in progress for the DAA increased $1.3 million as plans and engineering studies were done for the remodel of our satellite wagering building to include an entertainment venue within the building. Depreciation expense was $1.1 million. Capital assets for the RTA increased $1.4 million. Construction in progress increased $2.3 million with bond funded projects underway. Building and land improvements and purchase of equipment increased $3.9 million as the RTA completed bond funded projects for the grandstand prior to the Breeders Cup. Depreciation expense was $4.8 million.

- Current liabilities of the District increased $742,000 in 2017. Accounts payable for the District increased $1.1 million, as invoices received in December, including utilities and peer security were paid in January. Accounts payable for the RTA increased $433,000, primarily due to invoices received in January 2018 for RTA bond funded projects. Short-term debt for the RTA decreased $784,000 as a significant portion of the consent order work was completed by the end of 2017. Accrued interest payable increased $166,000. In 2016, interest was accrued for only two months after the October 1st interest payment for the Series 2015 bonds. In 2017, interest was accrued for three months. Accrued liabilities decreased $415,000. A one-time pre-payment from a food concessionaire of $250,000 was paid in 2016. This was recognized as revenue in 2017, and was not repeated. Event deposits were $198,000 lower as invoicing for a major consumer show was delayed until 2018 for a series of shows in the subsequent year. Accrued liabilities for the RTA increased $39,000 for invoices not received for lease term monitoring and a bond funded sewer improvement project. The District's liability for accrued employee absences increased $207,000. Amounts due to the District from the RTA decreased $20,000 in 2017. The amount due from the RTLC to the RTA increased $560,000, which coincides with the receivable due from the DMTC to the RTLC for the Breeders Cup and the Fall Race Meet.

- Long-term debt decreased $1.4 million as principal payments were made on the 2015 bonds.

- Other long-term liabilities increased $2.8 million. Net pension liability of $34.2 million was recorded for 2017 as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 68. In 2016, this liability was $31.4 million. Please refer to Note 10 for further explanation of this reporting requirement for state entities that share the cost of employee pensions through CalPERS.

Statements of revenue, expenses and changes in net position: All of the District's revenue, expenses and other changes in net position are accounted for in the statements of revenue, expenses and changes in net position. This statement measures the success of the District's operations during the years presented and can be used to determine whether the District has successfully recovered all of its costs through its fees and other sources of revenue. It also shows profitability and creditworthiness. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating.

Condensed combined statements of revenues, expenses and changes in net position for the years ended December 31 (dollars in thousands):

	2017	2016
Operating revenues	$ 81,805	$ 78,196
Operating expenses	84,267	81,201
Income from operations	(2,462)	(3,005)
Nonoperating expenses	(1,489)	(1,445)
Change in net position	(3,952)	(4,450)
Beginning net position	65,938	70,388
Ending net position	$ 61,986	$ 65,938

Analysis of the statement of revenues, expenses and changes in net position: Operating revenues increased $3,609,000 in 2017 due to the following:

- Food and beverage revenues increased $781,000 in 2017, largely due to concessions and catering revenues for the Breeders Cup Championship of horse racing, which took place on November 2nd and 3rd at our Del Mar track.

- Concessions and carnival revenues decreased $478,000 for the 2017 fair as attendance decreased 43,548 from 2016. Gross carnival ride revenues decreased $512,000. The District's share of fairtime food concessions revenue decreased $5,000. Carnival games revenues increased $16,000. Commercial space rentals increased $23,000.

- Admissions increased $1,191,000. Fair admissions increased $816,000 with price increases for admissions to the 2017 fair. Attendance in 2017 was 1,565,933, compared to 1,609,481 in 2016. This represents a decrease of 43,548, or 3 percent from 2016. Fairtime concert revenues were stronger in 2017 than in 2016, resulting in an increase in concert sales of $393,000. Admissions to the Del Mar National Horse Show decreased $5,000. Revenues for the Scream Zone, our Halloween event, decreased $12,500.

- Facility rentals decreased $817,400 as the District decreased the number of long-term boarders at our equestrian facility, as revenues were not keeping up with the rising costs of operating the facility. This is offset by lower expenses to the District for feed, bedding and maintenance.

- Satellite wagering revenues decreased $131,000, primarily due to increased competition of internet wagering. Admissions and memberships declined $28,100. Program sales decreased $22,000. Track commissions declined $53,000. Account wagering and mini-satellite revenue declined $24,000. Lottery sales decreased $3,800.

The industry's economic indicators suggest that changes to tax rules regarding withholding and reporting of large pari-mutuel winnings will result in an increase in handle that satellite wagering should see in 2018.

- Parking revenues increased $868,000 as rates were increased from $10 to $13 per vehicle.

- Leases/operating agreement revenue of the District increased $2 million. The DMTC's final net profits payable to the RTLC was $1,570,000 more than 2016. Revenues from racing were down in 2016 because of a decline in wagering during the first part of the summer meet, and a one-time write-off of purses that were paid, while wagering revenues did not offset this liability. The Breeders Cup paid the District $400,000 to hold their event at Del Mar in November, 2017. The District's lease revenues for Surf & Turf recreation park and cell sites increased $30,000.

- Surf & Turf driving range, miniature golf and RV park revenues remained flat. While revenues from miniature golf, the driving range, tennis courts and the pro shop increased $19,000, RV Lot revenues decreased by the same amount. Some tenants moved out in mid-May to make room for fair time renters, revenues from which are included under facility rentals.

- Sponsorship revenues increased $233,000 as we had a high number of returning sponsors as well as new sponsors. There was also an increase in the number of sponsors who hosted mobile tours during the fair.

- Other income decreased $38,000. There was a one-time charge for credentials to a fair sponsor in 2016 that was not repeated in 2017 for $15,000. The District received an insurance settlement of $8,600 in 2016. In addition, revenues from ATM fees decreased $14,000 with increased use of credit cards by our patrons.

Operating expenses increased $3.1 million in 2017 due to the following:

- Payroll and related benefits increased $2.3 Million. The state granted permanent employees who are excluded from collective bargaining a 3.0 percent Cost of Living Adjustment (COLA) on October 1, 2016. Represented employees received a 3.0 percent increase in the spring of 2017. Vacant positions were also filled, promotions were given and some temporary positions were changed to semi-permanent. These factors contributed to an increase in payroll expense for permanent employees of $725,000, and a $64,300 increase in overtime pay. On January 1, 2017, the state raised its minimum hourly wage from $10.00 to $10.50. This was offset by a shift from temporary employees to permanent and semi-permanent positions, resulting in a decrease in temporary payroll of $382,700. The District's share of CalPERS pension expense rose $1.7 Million in 2017. Contributing to this increase is a debit adjustment to pension expense as required by GASB 68 in the amount of $1,570,000. This is further explained in Note 10. The cost of employee health benefits decreased $93,300. The District's share of payroll taxes increased $52,000. Unemployment taxes increased $27,000. The District, as a state agency, must pay on a pooled, claims-made basis, which has no upper limit. The expenses for unused leave liability increased $182,000 as employees took less vacation than was accrued.

- Food and beverage expense increased $1.2 million, due in large part to expenses related to the Breeders Cup. There were also increases in union labor costs, health insurance, payroll taxes and workers' compensation insurance for Premier Food Services.

- Entertainment expenses increased $74,000. The carnival ride operators' split decreased $197,000 along with the decrease in ride revenues. The cost of performers on the Grandstand, Paddock and ground stages increased $318,000. Prizes and premiums decreased $47,000 as there was one less handicapping contest at our Satellite Wagering facility.

- Maintenance expenses decreased $229,000. The DAA's expenses increased $125,000. Equipment rental costs for the fair increased $85,000. Temporary labor services increased $21,000. Costs for general maintenance increased $57,000. The cost of utilities for gas, electricity and water decreased $26,000 as energy efficiency projects were completed. The remainder was attributable to a decrease in general repairs to equipment and vehicles. Maintenance expenses for the RTA decreased $350,000. Expenses for repairs and maintenance decreased as bond funds were used to perform capital improvements to the grandstand and other buildings on the fairgrounds.

- Facilities and related supplies decreased $748,000. The largest decrease was $680,000 for feed and bedding at our Horsepark equestrian facility, This is directly related to the decrease in facility rental revenues from the decision to limit the number of long-term boarders, as revenues were not keeping up with rising costs.

- Insurance expense decreased $100,000 due in large part to a decrease in workers' compensation premiums, and a refund of $34,000 after a payroll audit for the preceding policy year.

- Depreciation expense increased $84,000. Depreciation for the District increased $17,000. New Point of Sale and food service equipment was purchased, and land improvements were made to expand the useful areas for our fair, which increased depreciation expense in 2017. Depreciation for the RTA increased $162,000 as the new main track surface was put into service.

- Professional services increased $119,000. The cost of peer security increased $314,000 for the fair, and $93,000 for interim events with the increase in minimum wage in San Diego from $10.50 to $11.50 per hour on January 1, 2017. Sponsorship commissions increased $60,000 in line with increased revenues. These increases were offset by lower expenses for fairtime exhibits and staging services of $135,000, end of contract for an administrative legal contract for $180,000, talent procurement of $20,000, and fairtime marketing services of $13,000.

- Marketing expenses increased $241,000. The expense for cash-in-kind sponsorships increased $92,000, in line with the increase in revenue. Advertising expenses decreased $133,000 as we spent less on print and billboard advertising, in favor of online marketing. Public relations expenses for the fair increased $40,000 as the District held a cattle drive in downtown San Diego on opening day in 2017.

- Other expenses increased $145,000 for the District. The District paid $39,000 less from the Food & Beverage Reserve Account (a contra-expense account) for equipment related to Food & Beverage operations, as a large quantity of point-of-sale systems were purchased in 2015, but this was not repeated in 2016 or 2017. Credit card fees increased $58,000 as more patrons used credit cards to purchase admission and ride tickets at the fair. The District also accepted credit card payments for parking for the first time in 2017. The balance of the increase is from increases in software licensing fees, offset by less travel. RTA's other expenses increased $36,000 with increased audit fees of $25,000 as additional procedures were performed during the fair to monitor and assess internal controls, and $11,000 in increased expenses for environmental services.

Economic and Other Factors

Recruitment and retention: The District, as a state agency, falls under the purview of the California Department of Human Resources (CalHR). This department was created on July 1, 2012, by Governor Brown's reorganization plan, which consolidated the Department of Personnel Administration with the State Personnel Board. CalHR sets all pay scales and administers health benefits for state employees.

Over the past several years, these pay scales have posed challenges to the District to recruit and retain qualified, highly competent personnel. Legislation that would allow the Board of Directors more autonomy in determining pay levels that are competitive with those in the San Diego area has to date not been successful. In 2006, senior management requested that the Department of Personnel Administration approve a recruiting and retention differential for the District's represented employees to help offset salary levels that have fallen woefully behind the market in San Diego. To date, this request has not been approved.

Minimum wage: The state of California increased its minimum wage from $9.00 to $10.00 on January 1, 2016. It increased to $10.50 on January 1, 2017, and to $11.00 on January 1, 2018. Each year after that, minimum wage will increase by $1.00 per year until January 1, 2022, when the state minimum wage will be $15.00 per hour. These increases affect payroll and payroll tax expense, as well as workers' compensation and unemployment insurance. The minimum wage for the City of San Diego increased from $10.50 to $11.50 on January 1, 2017. It will increase to $12.00 on January 1, 2019. These impact the cost of contracted labor and peer security for the District at the annual fair and for interim events.

Employer pension costs: The rates to the District for pension contributions for its tier one employees increased in July 2017 to 28.423 percent, up from 26.728 percent for the fiscal years 2016 and 2017.

Indian casinos/advance deposit wagering and off-track wagering: In 2017, attendance and handle continued to decline across the nation. Legislation in the state of California allows mini-satellites to open as long as they are not within 20 miles of an established satellite wagering facility. A mini-satellite about 30 miles to the north of our facility opened in 2011. In 2014, Ocean's Eleven Casino in Oceanside, California, opened for satellite wagering, and in 2016, Striders opened in San Diego. Since two of the mini-satellites are within 20 miles of our facility, the District had the right to approve their operations, and gave its approval for these mini-satellites. An agreement is in place to share in the revenues. Revenues from these two mini-satellites decreased $7,828 in 2017.

Handle at our satellite wagering facility decreased $2.6 million in 2017. Online wagering decreased $9,700. Attendance declined 9,362.

Legislation passed or pending: In October 2010, Assembly Bill 1321 was chaptered by the Secretary of State. This bill was enacted to set a sunset date for the State Race Track Leasing Commission of January 1, 2013. In February 2011, Senator Christine Kehoe introduced Senate Bill 855, which would extend the operative date of the State Race Track Leasing Commission until January 1, 2023, and later amended that date to January 1, 2018. The Series 2015 term bonds do not mature until October 1, 2038. In January 2012, Senator Kehoe amended SB 1, which formerly had allowed the sale of the Fairgrounds to the City of Del Mar, to a bill that would repeal the sunset date of the RTLC, thereby indefinitely extending the existence of the Commission. That bill was chaptered in August 2012.

In March 2011, Assembly Bill 95 was enrolled and chaptered as urgency legislation. This legislation, along with the passing of the state's 2011/2012 budget, cut all General Fund financial assistance to the state's 54 District Agricultural Associations. While the 22nd DAA did not receive allocations from the state, the elimination of funding to Fairs may result in changes in the manner in which Fairs conduct their business, as well as their form of governance.

On September 15, 2014, Assembly Bill 2490 was chaptered. This bill affects all District Agricultural Associations in California. It revised the oversight responsibilities of the Department of Food and Agriculture, and the Department of General Services. Its intent is to reduce some of the cumbersome bureaucracy and preapproval requirements that impact the ability of the DAAs to operate by streamlining the contracting and procurement processes. It is also intended to give greater authority to local fair boards.

In July 2017, California Assembly Constitutional Amendment Number 18 (ACA 18) was introduced. Under existing federal law, referred to as the Professional and Amateur Sports Protection Act (PASPA), a governmental entity or a person is prohibited from conducting betting or wagering on competitive games or performances in which amateur or professional athletes participate. This federal law prohibits sports betting in all states other than Nevada, Oregon, Delaware and Montana. The state of New Jersey's case, Chris Christie vs. National Collegiate Athletics Association, is expected to be heard by the Supreme Court early in 2018. If New Jersey prevails, sports betting would become legal only as each state allows it. ACA 18 would amend the constitution of the state of California to allow sports betting if federal law is changed. If ACA 18 passes the state legislature with a two-thirds majority, it will then go to a statewide referendum. The District is in support of this legislation, as well as the DMTC.

Other matters pending: With the decline in attendance and revenue from off-track wagering, the District has considered alternative uses for a large portion of its 90,000 square foot Satellite Wagering facility. This repurposing will include a small entertainment venue, and eating areas. Plans and designs have been initiated. The District Board of Directors has approved loan funding of up to $15 million for this project. Construction will begin in the spring of 2019.

22nd District Agricultural Association and its Blended Component Units

Statement of Net Position
December 31, 2017

Assets and Deferred Outflow of Resources	
Current assets:	
Cash and cash equivalents (Note 4)	$ 26,066,554
Current portion of restricted investments (Note 4)	3,296,631
Accounts receivable, net (Note 5)	1,812,521
Prepaid expenses and other	545,865
Total current assets	31,721,571
Restricted investments, long-term portion (Notes 4 and 7)	3,305,611
Capital assets, net (Note 6)	109,282,831
Total assets	144,310,013
Deferred outflow of resources:	
Deferred outflow of pension liability (Note 10)	6,683,938
Total deferred outflow of resources	6,683,938
Total assets and deferred outflow of resources	$ 150,993,951
Liabilities, Deferred Inflow of Resources and Net Position	
Current liabilities:	
Accounts payable	$ 3,184,622
Accrued interest	516,402
Accrued liabilities and other	2,667,146
Accrued compensated absences	2,695,537
Current portion of other long-term liabilities (Note 9)	22,639
Current portion of bonds payable (Note 7)	1,230,000
Total current liabilities	10,316,346
Other long-term liabilities (Note 9)	45,279
Bonds payable, long-term portion (Note 7)	43,611,020
Net pension liability (Note 10)	34,264,531
Total liabilities	88,237,176
Deferred inflow of resources:	
Deferred gain on debt defeasance (Note 7)	450,667
Deferred inflow on pension liability (Note 10)	319,777
Total deferred inflow of resources	770,444
Commitments and contingencies (Notes 8, 9 and 12)	
Net position:	
Net investment in capital assets	63,996,347
Restricted for debt service	6,602,242
Unrestricted	(8,612,258)
Total net position	61,986,331
Total liabilities, deferred inflow of resources and net position	$ 150,993,951

See notes to financial statements.

22nd District Agricultural Association and its Blended Component Units

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2017

Operating revenues:	
Food and beverage (Note 8)	$ 23,992,044
Concessions/carnivals	19,027,899
Admissions	12,090,108
Facility rentals	6,573,563
Satellite wagering	1,461,127
Parking	5,285,727
Leases/operating agreement	4,791,336
Surf and turf	1,468,608
Sponsorships	3,025,561
Other	4,088,857
Total operating revenues	81,804,830
Operating expenses:	
Payroll and related benefits, excluding pension cost	22,204,842
Pension cost (Note 10)	4,663,073
Food and beverage (Note 8)	18,186,392
Entertainment	10,060,009
Maintenance	8,574,125
Facilities and related supplies	2,028,388
Insurance	1,272,858
Depreciation (Note 6)	6,651,160
Professional services	5,561,983
Marketing	2,082,134
Other	2,982,335
Total operating expenses	84,267,299
Loss from operations	(2,462,469)
Nonoperating revenues (expenses):	
Interest income	293,225
Interest expense	(1,788,462)
Other	5,872
Total nonoperating expenses, net	(1,489,365)
Change in net position	(3,951,834)
Net position, beginning of year	65,938,165
Net position, end of year	$ 61,986,331

See notes to financial statements.

22nd District Agricultural Association and its Blended Component Units

Statement of Cash Flows
Year Ended December 31, 2017

Cash flows from operating activities:	
Receipts from operations	$ 81,417,188
Payments to vendors	(54,053,995)
Payments to employees	(20,843,666)
Net cash provided by operating activities	6,519,527
Cash flows from capital and related financing activities:	
Purchases of capital assets	(8,350,611)
Proceeds from disposal of capital assets	5,872
Payments on long-term debt	(2,196,029)
Interest paid	(1,891,933)
Net cash used in capital and related financing activities	(12,432,701)
Cash flows from investing activities:	
Sales of investments	(8,531)
Interest income	293,225
Net cash provided by investing activities	284,694
Net decrease in cash and cash equivalents	(5,628,480)
Cash and cash equivalents, beginning of year	31,695,034
Cash and cash equivalents, end of year	$ 26,066,554
Reconciliation of loss from operations to net cash provided by operating activities:	
Loss from operations	$ (2,462,469)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation	6,651,160
Changes in assets and liabilities:	
Accounts receivable, net	(545,410)
Prepaid expenses and other	(16,429)
Accounts payable	1,531,499
Accrued liabilities and other	(415,293)
Accrued compensated absences	206,685
Net pension liability	1,569,784
Net cash provided by operating activities	$ 6,519,527
Noncash disclosures of capital and related financing activities:	
Construction payables for acquisitions of capital assets	$ 627,766
Amortization of bond premium	$ 214,938

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of organization and reporting entity: The 22nd District Agricultural Association (the DAA), a component unit of the state of California, operates fairground facilities located in Del Mar, California. The DAA conducts an annual summer fair, operates an off-track horse race betting facility, and rents the fairground facilities for various non-fair events. The board members of the DAA are appointed by the Governor of the state of California. The state of California, Department of Food and Agriculture (CDFA), through the Division of Fairs and Expositions, supervises the activities of the DAA.

The accompanying financial statements present a one-column combination of the accounts and activities of the DAA, the State Rack Track Leasing Commission (RTLC), and the Del Mar Race Track Authority (RTA) (collectively, the District). All inter-entity transactions have been eliminated.

The District evaluates its financial reporting entity in accordance with Governmental Accounting Standards Board (GASB) Codification Section 2100, *Defining the Financial Reporting Entity*, which sets the criteria for defining the reporting entity of a governmental unit for financial reporting. It states that, if certain criteria are met, the financial data of a separate governmental unit is to be included as part of the reporting entity. The RTLC, created by the state of California in January 1968 to oversee capital improvement funds provided by the horse racing operating agreement described in Note 8, meets these criteria because of its financial interdependence with the District and as such is reported as a blended component unit. The RTLC is managed by a commission consisting of six members, appointed by statute in the CDFA Code Section 4351, who are empowered to oversee the development of ground improvements and structures. Once constructed, the assets approved and funded by the RTLC become the property of the District.

In addition, the RTA is included as part of the reporting entity as a blended component unit in the financial statements because it also meets the aforementioned criteria. The RTA is a joint powers authority created in August 1990 by a joint exercise of powers agreement between the RTLC and the District to finance the construction of a new grandstand and related facilities at the Del Mar Fairgrounds (the Fairgrounds) of the District. The RTA is managed by a board of six directors, who are the six members of the RTLC commission, who oversaw the financing for the grandstand construction project and who continue to oversee the financing and improvements at the Fairgrounds. The RTA is funded through operating transfers from the District and the RTLC. The joint exercise of powers agreement expires in August 2040. Upon the termination of the joint powers agreement, title to the grandstand will vest to the District.

A summary of the District’s significant accounting policies is as follows:

Basis of accounting: The District is reported similar to a special purpose government engaged in only business-type activities. As such, its financial statements are presented in accordance with the requirements established for enterprise funds. An enterprise fund is defined by the GASB as a fund related to an organization financed and operated similar to a private business enterprise where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Accordingly, the District’s accounts are maintained on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred, regardless of when the related cash flow takes place. The District defines its operating revenues and expenses in the accompanying statement of revenues, expenses and changes in net position as consisting of all revenues and expenses except those related to financing and investing activities (interest income and interest expense).

Cash and cash equivalents: Cash consists of cash on hand and cash in banks. For the purposes of the statement of cash flows, the District considers all pooled funds with the California Local Agency Investment Fund (LAIF) to be cash equivalents. Investments in LAIF are reported at fair value. Interest income is recognized when earned.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Restricted investments: Restricted investments as of December 31, 2017 relate to the Series 2015 Revenue Bonds (Series 2015 Bonds) as discussed in Note 4. Restricted investments are reported at fair value. As defined in GASB Statement No. 72, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Gains and losses are reported in the statement of revenues, expenses and changes in net position. Interest and dividend income is recognized when earned.

Accounts receivable: Accounts receivable are carried at original invoice amount less an estimate made for uncollectible receivables based on a review of outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Prepaid expenses and other: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the accompanying statement of net position. Other items include interest receivable, inventory, and deposits.

Capital assets: Capital assets are recorded at cost less accumulated depreciation, or acquisition value if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Useful lives range from five years for equipment to 40 years for buildings. The District has capitalized infrastructure assets, such as drainage systems and paving, which are depreciated over 20 to 40 years.

The District periodically evaluates whether events or circumstances have occurred that may have resulted in an impairment of its capital assets. No such impairment occurred in the year ended December 31, 2017.

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. Interest costs of $205,426 were capitalized for the year ended December 31, 2017.

Deferred gain on debt defeasance: For debt refunding resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt (i.e., deferred charges) is reported as a deferred outflow of resources and amortized to interest expense based on the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Bond premium: Bond premiums are reported as an addition to the outstanding debt balance and are amortized as interest expense over the life of the bond using the effective interest method.

Compensated absences: The District's compensated absences policies are set by the California Department of Human Resources. Employees who elect annual leave or vacation leave will be allowed to accumulate up to a maximum of 640 hours of leave as of January 1 of each year. Exceptions to this limit will not be allowed except in extremely unusual situations and must be approved in advance by the director of the California Department of Human Resources. Upon separation or retirement, employees with accrued annual leave and vacation leave will receive a lump-sum payment at their current salary rate for their accumulated credits. Sick leave has no maximum accrual limit and can be converted to service credit upon retirement.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Compensated absences activity for the year ended December 31, 2017, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 2,488,852	$ 536,214	$ (329,529)	$ 2,695,537	$ 2,695,537

Pensions: The net pension liability, deferred outflows and inflows of resources related to pensions, pension expense, information about the fiduciary net position of the California Public Employees' Retirement System (CalPERS) and additions to/deductions from CalPERS' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

A deferred outflow of resources and deferred inflow of resources related to pensions result from changes in the components of the net pension liability and are applicable to a future reporting period. As noted in Note 10, deferred outflows and inflows of resources will be recognized as pension expense in future years; however, contributions subsequent to the measurement period will be recognized as a reduction of the net pension liability during the fiscal year ending December 31, 2017.

Net position: Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on debt, deferred outflows and deferred inflows that are attributable to the acquisition, and construction or improvement of capital assets. Net position is reported as restricted when there are limitations imposed on its use, either through legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. Restricted resources are used first to fund applicable appropriations.

Revenue recognition: The District generally recognizes revenue when events take place, and when goods or services are provided.

- Food and beverage revenue is recognized at the time of sale.
- Concessions/carnivals revenue consists of space rentals at the Fair and ticket sales for carnival attractions. Revenue from space rentals is recognized when earned and revenue from ticket sales is recognized when the tickets are available to be used.
- Admissions revenue consists of ticket sales to events at the Fairgrounds and is recognized when the tickets are available to be used.
- Facility rentals revenue consists primarily of stall and arena rentals at the Horsepark and facility rentals for the various events presented on the Fairgrounds. Revenue is recognized over the term of the rental contract.
- Satellite wagering revenue primarily consists of the District's share of off-track betting proceeds, which is recognized when the races occur at tracks around the world.
- Parking revenue consists of charges for parking spaces at the District and is recognized immediately after spaces are used.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

- Leases/operating agreement revenue primarily consists of payments from the Del Mar Thoroughbred Club (DMTC) according to the operating agreement (see Note 8). Revenue from the direct payment (as defined in the operating agreement) is recognized pro rata over the year that the payment applies and remaining revenue charged is recognized when the net income of the DMTC is reported.

- Surf and Turf revenue consists of revenue from the driving range, pro shop, tennis club, recreational vehicle lot, and miniature golf. Revenue is recognized from these goods and services at the point of sale.

- Sponsorship revenue consists of sponsorship contracts for various events at the Fairgrounds. Revenue is recognized over the term of the sponsorship agreement.

- Other revenue consists of a variety of miscellaneous revenue accounts, including food and beverage revenue received from Premier Food Services generated by the Breeder's Cup, ATM fees, interest income, RV pumping fees, recycling, miscellaneous exhibit fees and event entry fees.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates. Significant estimates made by management include, but are not limited to, allowance for uncollectible receivables, assumptions used in the determination of pension liability and the obligation under consent orders with the California Coastal Commission (see Note 9).

Implementation of accounting pronouncements: The accompanying financial statements reflect the implementation of GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement is to enhance the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for periods beginning after June 15, 2015. The implementation of this statement resulted in additional disclosures, as outlined in Note 4.

Recent accounting pronouncements: In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. The District's defined benefit OPEB plan is not administered through trusts. The plan is funded by CalPERS and the District makes annual contributions to CalPERS as a State Entity. Although GASB Statement No. 75 was implemented in the current year, it will be reflected in the District's 2018 financial statements.

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues—An Amendment to GASB Statement Nos. 67, 68 and 73*. This Statement addresses certain issues that have been raised with the implementation of the listed GASB Statements. The provisions of this Statement are effective for reporting periods beginning after June 15, 2016, except for the selection of assumptions in certain circumstances, which is effective for the employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Management has not yet determined the effect of GASB Statement No. 82 on the District's financial statements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, and requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The provisions of this Statement are effective for reporting periods beginning after June 15, 2018. Management has not yet determined the effect of GASB Statement No. 83 on the District's financial statements.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. Management has not yet determined the effect of GASB Statement No. 84 on the District's financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement will improve the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. Management has not yet determined the effect of GASB Statement No. 86 on the District's financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the payment provision of the contract. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Management has not yet determined the effect of GASB Statement No. 87 on the District's financial statements.

In April, 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement requires that additional essential information related to debt be disclosed in notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Management has not yet determined the effect of GASB Statement No. 88 on the District's financial statements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

In June, 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement established accounting requirements for interest cost incurred before the end of a construction period. This statement required interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Early implementation is encouraged. Management plans to implement this Statement on January 1, 2019.

In August, 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61*. This Statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. Management has not yet determined the effect of GASB Statement No. 90 on the District's financial statements.

Note 2. Condensed Financial Information

The following is the condensed combining detail for the statement of net position as of December 31, 2017:

	22nd District	RTLC	RTA	Eliminations	Total
Current assets	$ 16,791,926	$ 660,150	$ 14,269,495	$ -	$ 31,721,571
Due from other funds	-	-	660,000	(660,000)	-
Restricted investments, long-term portion	-	-	3,305,611	-	3,305,611
Capital assets, net	20,937,501	-	88,345,330	-	109,282,831
Total assets	37,729,427	660,150	106,580,436	(660,000)	144,310,013
Deferred outflows of resources	6,683,938	-	-	-	6,683,938
Current liabilities	7,285,606	-	3,030,740	-	10,316,346
Due to other funds	-	660,000	-	(660,000)	-
Long-term liabilities	34,264,531	-	43,656,299	-	77,920,830
Total liabilities	41,550,137	660,000	46,687,039	(660,000)	88,237,176
Deferred inflows of resources	319,777	-	450,667	-	770,444
Net investment in capital assets	20,937,501	-	43,058,846	-	63,996,347
Restricted for debt service	-	-	6,602,242	-	6,602,242
Unrestricted	(18,394,050)	150	9,781,642	-	(8,612,258)
Total net position	$ 2,543,451	$ 150	$ 59,442,730	$ -	$ 61,986,331

Note 2. Condensed Financial Information (Continued)

The following is the condensed combining detail for the statement of revenues, expenses and changes in net position for the year ended December 31, 2017:

	22nd District	RTLC	RTA	Eliminations	Total
Operating revenues:					
Operating revenues	$ 79,377,598	$ 2,585,000	$ -	$ (157,768)	$ 81,804,830
Operating expenses:					
Operating expenses	77,315,750	-	7,109,317	(157,768)	84,267,299
Income (loss) from operations	2,061,848	2,585,000	(7,109,317)	-	(2,462,469)
Nonoperating revenues (expenses):					
Nonoperating revenues (expenses)	150,854	3	(1,640,222)	-	(1,489,365)
Changes in net position before transfers	2,212,702	2,585,003	(8,749,539)	-	(3,951,834)
Transfers in	-	-	6,990,162	(6,990,162)	-
Transfers out	(4,405,162)	(2,585,000)	-	6,990,162	-
Change in net position	(2,192,460)	3	(1,759,377)	-	(3,951,834)
Net position, beginning of year	4,735,911	147	61,202,107	-	65,938,165
Net position, end of year	$ 2,543,451	$ 150	$ 59,442,730	$ -	$ 61,986,331

The following is the condensed combining detail for the statement of cash flows for the year ended December 31, 2017:

	22nd District	RTLC	RTA	Total
Net cash provided by operating activities	$ 1,577,417	$ -	$ 4,942,110	$ 6,519,527
Net cash used in capital and related financing activities	(1,804,543)	-	(10,628,158)	(12,432,701)
Net cash provided by investing activities	151,431	3	133,260	284,694
Cash and cash equivalents, beginning of year	15,240,056	147	16,454,831	31,695,034
Cash and cash equivalents, end of year	$ 15,164,361	$ 150	$ 10,902,043	$ 26,066,554

Note 3. Joint Exercise of Power Agreements

California Fair Services Authority: The District is a member of the California Fair Services Authority (CFSA), a joint powers authority created by a joint exercise of powers agreement between the counties of Solano and El Dorado, and the 22nd, 32nd and 46th District Agricultural Associations. The governing body of CFSA is composed of five directors appointed by member entities.

The primary purpose of the CFSA is to provide financing, planning, design and construction services for projects at Fairgrounds throughout California. Additionally, the CFSA provides central administration for the common interests of the members and associated members for the financing and construction of satellite wagering facilities, and any other projects authorized by the agreement. Ownership of each of the satellite wagering facilities or other projects remains with the respective entity for which the project was constructed and financed.

The joint exercise of powers agreement expires on December 31, 2040. The District had no interest in CFSA's assets or liabilities at December 31, 2017.

Note 3. Joint Exercise of Power Agreements (Continued)

CFSA projects during 2017 included the completion of phase II of the Storm Water Project, completion of fencing on Via de la Valle, installation of Exhibit Hall exhaust fans and installation of the Hilton Sewer Pump Station. Costs incurred for these projects during the year ended December 31, 2017, were $258,413 and are recorded in capital assets.

Note 4. Cash and Cash Equivalents, and Restricted Investments

Cash and cash equivalents, and investments consisted of the following at December 31, 2017:

Cash on hand	$ 66,049
Cash in banks	1,554,283
LAIF	24,446,222
Cash and cash equivalents	26,066,554
Restricted investments	6,602,242
Total cash and cash equivalents, and restricted investments	$ 32,668,796

Cash and cash equivalents, and restricted investments are summarized on the financial statements as follows at December 31, 2017:

Cash and cash equivalents	$ 26,066,554
Current portion of restricted investments	3,296,631
Long-term portion of restricted investments	3,305,611
	$ 32,668,796

Investments: The state of California Government Code Section 53601 generally authorizes the District to invest unrestricted and board-designated assets in obligations of the U.S. Treasury and certain U.S. government agencies, obligations of the state of California and local government entities, bankers' acceptances, commercial paper, certificates of deposit, repurchase agreements and mortgage securities. Some of these investments may be purchased only in limited amounts, as defined in the Government Code.

The California State Treasury makes available LAIF through which local governments may pool investments. Each governmental entity may invest up to $40,000,000 in the fund. The District is a participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the state of California. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. Investments included in LAIF include primarily debt securities, including treasuries, commercial paper and agency debt, but also include real estate structured notes and asset-backed securities. As of December 31, 2017, the District had $24,446,222 invested in LAIF. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with state statute.

The current portion of restricted investments in the amount of $3,301,834 is restricted for bond projects only. Funds are distributed once a month upon the District's request to pay bond project invoices. The long-term portion of restricted investments in the amount of $3,305,611 represents the amount held in reserve in the event of default. The amount required to be held in reserve is $3,297,000. The District is in compliance with this requirement.

Note 4. Cash and Cash Equivalents, and Restricted Investments (Continued)

As of December 31, 2017, the District had investments and maturities as follows:

	Investment Maturities (in Years)	
Investment Type	Fair Value	Less Than One
LAIF (included in cash equivalents)	$ 24,446,222	$ 24,446,222
Money market accounts	6,602,242	6,602,242
Total	$ 31,048,464	$ 31,048,464

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of the investment. Interest rate is also the risk that the value of fixed-income securities will decline due to increasing interest rates. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes.

Credit risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investments. Fixed-income securities and investments in an external investment pool are subject to credit risk, which is the risk that an issuer will fail to pay interest or principal when due. Certain fixed-income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. LAIF is not rated.

Custodial credit risk bank deposits: The 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 District maintains its cash balances at California Bank & Trust. These deposits are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2017, $1,299,080 of the District’s bank balance of $1,549,080 was exposed to custodial credit risk as it was uninsured and uncollateralized. The District follows the State’s policies on permitted investments and does not have a policy for custodial credit risk.

Custodial credit risk investments: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the District 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, 2017, the District had money market accounts totaling $6,607,445 held with U.S. Bank, which were fully collateralized and invested in First American Funds through U.S. Bank, all of which were not FDIC-insured.

Concentration of credit risk: Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the District to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments. Investments issued or guaranteed by the U.S. government and investments in external investment pools, such as LAIF, are not considered subject to concentration of credit risk.

Note 4. Cash and Cash Equivalents, and Restricted Investments (Continued)

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are quoted prices for similar assets or liabilities in active markets; and Level 3 inputs are significant unobservable inputs. The District has the following recurring fair value measurement as of December 31, 2017:

Investment Type	Total as of December 31, 2017	Level 1	Level 2	Level 3
Money market accounts	$ 6,602,242	$ 6,602,242	$ -	$ -
LAIF	24,446,222	-	24,446,222	-
Total	$ 31,048,464			

Note 5. Accounts Receivable

Accounts receivable as of December 31, 2017, are summarized as follows:

Accounts receivable	$ 2,020,639
Less allowance for doubtful accounts	(208,118)
Accounts receivable, net	$ 1,812,521

Note 6. Capital Assets

A summary of changes in capital assets, net, for the year ended December 31, 2017, is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	$ 6,322,333	$ -	$ -	$ -	$ 6,322,333
Construction in progress	4,887,737	7,605,343	-	(4,052,465)	8,440,615
Total capital assets not being depreciated	11,210,070	7,605,343	-	(4,052,465)	14,762,948
Capital assets being depreciated:					
Building and improvements	175,370,558	71,930	(142,535)	1,839,359	177,139,312
Equipment and fixtures	37,567,303	282,591	(628,509)	886,188	38,107,573
Land improvements	25,717,947	390,747	(73,444)	1,326,918	27,362,168
Total capital assets being depreciated	238,655,808	745,268	(844,488)	4,052,465	242,609,053
Less accumulated depreciation and amortization					
Building and improvements	(98,868,280)	(4,259,124)	138,497	-	(102,988,907)
Equipment and fixtures	(31,154,625)	(1,289,521)	623,791	-	(31,820,355)
Land improvements	(12,255,502)	(1,097,850)	73,444	-	(13,279,908)
	(142,278,407)	(6,646,495)	835,732	-	(148,089,170)
Net capital assets being depreciated	96,377,401	(5,901,227)	(8,756)	4,052,465	94,519,883
Total capital assets, net	$ 107,587,471	$ 1,704,116	$ (8,756)	$ -	$ 109,282,831

Note 7. Bonds Payable

Activity of bonds payable during the fiscal year ended December 31, 2017, is as follows:

	Beginning Balance	Additions	Payments	Amortization of Premium	Ending Balance	Due Within One Year
Series 2015 Revenue Bonds	$ 43,550,000	$ -	$ (1,195,000)	$ -	$ 42,355,000	$ 1,230,000
2015 Unamortized Premium	2,700,958	-	-	(214,938)	2,486,020	-
Total bonds payable	$ 46,250,958	$ -	$ (1,195,000)	$ (214,938)	$ 44,841,020	$ 1,230,000

Series 2015 Revenue Bonds: On August 1, 2015, the RTA issued $44,435,000 in Series 2015 Bonds at a premium of $2,969,958 and net issuance costs of $666,741. The Series 2015 Bonds have fixed interest rates of 2.00 percent to 5.00 percent and mature annually on October 1 from 2016 to 2038. These bonds were issued for the purpose of refinancing the $25,460,000 outstanding principal amount of the Authority's Revenue Bonds, Series 2005 and to provide additional funds for grandstand improvements and other long-term improvements including electrical, sewer, roofing and elevator improvements. The refunding resulted in the recognition of an accounting net gain of $568,233 for the year ended December 31, 2015. The unamortized balance of the net gain is $450,667 at December 31, 2017. The source of repayment of these bonds includes pledged revenues and the interest or profits from the investment of money in any account or fund established under the Indenture. Pledged revenues consist of race track net revenues, satellite wagering net revenues and concession net revenues.

Future scheduled principal and interest payments as of December 31 are as follows:

	Principal	Interest	Total
Years ending December 31:			
2018	$ 1,230,000	$ 2,065,600	$ 3,295,600
2019	1,275,000	2,016,400	3,291,400
2020	1,330,000	1,965,400	3,295,400
2021	1,380,000	1,912,200	3,292,200
2022-2026	7,940,000	8,529,750	16,469,750
2027-2031	10,135,000	6,336,000	16,471,000
2032-2036	12,935,000	3,535,750	16,470,750
2037-2038	6,130,000	463,500	6,593,500
	$ 42,355,000	$ 26,824,600	$ 69,179,600

Source or repayment: Pursuant to the Series 2015 Bond Indenture between the RTA and the Trustee, the Trustee must establish and maintain a project fund and a bond fund. The bond fund contains an interest account, principal account, redemption account, reserve account and surplus account. All money in each of such accounts shall be invested by the Trustee and shall be used only for the purposes authorized by the Indenture. All money in the project fund must be used solely for the improvements at the Fairgrounds. All money in the interest and principal accounts shall be used solely for the purpose of paying the interest and principal on the Series 2015 Bonds as it shall become due and payable. All money in the redemption account must be held in trust by the Trustee and will be applied, used and withdrawn either to redeem bonds pursuant to an optional redemption or extraordinary redemption. Any insurance or eminent domain proceeds, which are to be used to redeem bonds, will be deposited by the Trustee in the redemption account. All money in the reserve account shall be used solely for the purpose of paying the interest on, or principal of, or redemption premiums, if any, on the Series 2015 Bonds in the event that no other money of the RTA is lawfully available therefore, or for the retirement of all Series 2015 Bonds then outstanding. The Trustee, if the RTA is not then in default hereunder and upon the written request of the RTA, shall apply amounts in the surplus account to redeem Series 2015 Bonds, to pay for project costs as defined, or to pay for any lawful purpose of the RTA.

Note 7. Bonds Payable (Continued)

As of December 31, 2017, the total principal and interest remaining to be paid on the bonds is $69,179,600. The next interest and principal payments for the Series 2015 Bonds are due on April 1, 2018, and October 1, 2018, respectively, with the final payment occurring on October 1, 2038.

Upon issuance of the Series 2015 Bonds, a portion of the proceeds was required to be deposited in the reserve account with the Trustee and a minimum balance must be maintained in this account. At December 31, 2017, the District held $3,305,611 in a reserve fund for the debt reserve requirement. Pledged revenues are deposited monthly into the bond fund accounts in a specific order and certain minimum balances are maintained, as indicated by the Indenture.

On or prior to January 15 of each Bond Year, commencing January 15, 2017, the District shall determine in writing and submit to the Trustee the total amount of Coverage Test Revenues for the preceding Bond Year. The District submitted written representation confirming the total amount of Coverage Test Revenues for the 2017 Bond Year on January 10, 2018. The District is in compliance with this requirement.

Note 8. Operating Leases and Agreements

Del Mar Thoroughbred Club: Under an operating agreement with the RTLC and District, the DMTC operates and controls the operations of the Del Mar race track and grandstand structures during the summer and fall race meets.

Revenues associated with the DMTC operating agreement totaled $3,810,000 for the year ended December 31, 2017. Included in the revenue associated with the DMTC operating agreement are the direct payment amounts noted below:

- Direct payment of $1,225,000 per year to the District, to be used by the District for the annual fair or other authorized purpose.

- Basic payment equal to final net earnings less the sum of (1) any amount in excess of funds available to DMTC which, subject to the approval of the District, is sufficient to pay or provide for projected operating capital from January 1 through to the commencement of the next race meet and (2) the direct payment amount. The basic payment totaled $2,585,000 for the year ended December 31, 2017.

The DMTC guarantees the performance of all of the terms, covenants and conditions of the operating agreement through a $500,000 letter of credit.

The RTLC may, at its sole discretion, elect to extend the new operating agreement for three five-year option periods. In February 2015, the RTLC elected to extend the operating agreement for the first five-year option period. In the event legislation is enacted by the California legislature authorizing a sale of the Fairgrounds, the RTLC has the option to terminate the contract by giving at least 180 days' written notice. The termination would be effective on December 31 in the year the notice is given unless the notice is given less than 180 days before the end of the year. In that event, the termination would be effective December 31 of the following year.

DMTC is not included as part of the District's reporting entity because it is governed by a separate board of directors and is fiscally independent of the District.

Note 8. Operating Leases and Agreements (Continued)

Premier Food Services, Inc.: The District has a management agreement granting the use of food and beverage services equipment to Premier Food Services, Inc. (Premier). During 2011, through a competitive bidding process, a new four-year contract was awarded to Premier with up to two additional three-year terms upon approval of the District. This original contract was set to expire on December 31, 2015, however on August 26, 2015, the District approved and renewed the contract for another three-year term. This contract expired on December 31, 2018. On November 14, 2018, the District approved and renewed the contract for a second three-year term. The new contract will expire on December 31, 2021. The District retains control over the operations. The daily gross receipts are deposited in the name and interest of the District and the District reimburses Premier for all reimbursable costs, as defined in the agreement, and pays a management fee equal to 12.5 percent of all net profits from the food and beverage operation. In 2014, Premier was acquired by SMG and the existing management agreement was assumed by SMG. Management fees related to this contract were $972,731 for the year ended December 31, 2017.

Other: The District owns a recreational park that is operated by an unrelated management company. Under the terms of the management agreement, the District recognized net revenue of $117,369 for the year ended December 31, 2017.

Note 9. Other Liabilities

Other debt: During 2013, the State of California Department of General Services Office of Risk Insurance and Management allocated out to the State of California District Agricultural Associations the cost of a legal settlement. The District was allocated $103,625, which is to be repaid over five years. No interest is being charged on the unpaid balance. The District made the final installation payment of $20,725 for this liability during the year and there is no remaining balance due as of December 31, 2017.

Restoration and monitoring activities: The District has incurred an obligation under consent orders with the California Coastal Commission to restore specific areas of its property and engage a third party to monitor the restoration through 2020. At December 31, 2017, the liability recorded in the accompanying statement of net position for the total remaining estimated cost of this obligation is $67,918, which represents the estimated future costs attributable to the restoration and monitoring activities based on projections by the District. Such estimates could change based on variability in projected costs and other factors, including the ultimate approval of the restoration by the California Coastal Commission.

A majority of the unfinished work was completed in 2017 with maintenance costs expected to be incurred through 2020.

	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
State of California DGS	$ 20,725	$ -	$ (20,725)	$ -	$ -
Consent order liability	1,048,222	-	(980,304)	67,918	22,639
	$ 1,068,947	$ -	$ (1,001,029)	$ 67,918	$ 22,639

Note 10. Public Employees' Retirement System

Plan description: The District participates in the State of California—Miscellaneous Plan, an agent multiple-employer defined benefit pension plan (the Plan) administered by CalPERS. The Plan, part of the public agency portion of the CalPERS, 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 state of California 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 contacting the CalPERS Fiscal Services Division.

Benefits provided: All employees who work half-time or more are eligible to participate in the Plan. CalPERS provides retirement, death, disability and survivor benefits. Vesting occurs after five years. The benefit provisions are established by the Public Employees' Retirement Law and the Public Employees' Pension Reform Act of 2013, and are summarized in Appendix B of the state's June 30, 2017 Actuarial Valuation Report, which may be found at www.CalPERS.ca.gov/docs/forms-publications/2017-state-valuation.pdf. In general, retirement benefits are based on a formula using a member's years of service credit, age at retirement and final compensation (average salary for a defined period of employment). Retirement formulas are based on membership category and specific provisions in the employees' contracts.

The three basic types of retirement are:

Service retirement: The "normal" retirement is a lifetime benefit. In most cases, employees become eligible for service retirement as early as age 50 with five years of service credit. If the employee became a member on or after January 1, 2013, he or she must be at least 52 years old with at least five years of service to retire. Second-tier employees become eligible at age 55 with at least 10 years of service credit.

Vested deferred retirement: Vested members who leave employment but keep their contribution balances on deposit with CalPERS are eligible for this benefit.

Disability retirement: Vested members who can no longer perform the usual duties of their current position due to illness or injury may receive this credit.

Contributions: Participating employers and active members are required to contribute a percentage of covered salary to the Plan. Section 20814(c) of the Plan requires that employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount necessary to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions. Those rates reflect Section 20683.2, which mandates that certain employees must contribute more as of July 1, 2015. Furthermore, any reduction in employer contributions due to the increase in employee contributions must be paid by the employer toward the unfunded liability.

Note 10. Public Employees' Retirement System (Continued)

The employee contribution rate for the year ended December 31, 2017 was 10 percent for the skilled craftsmen and 8 percent for all other employees. The employer contribution rate for the year ended December 31, 2017, was 28.325 percent for State Miscellaneous Member employees. The required contributions and the amount paid by the District for the year ended December 31, 2017, was $3,096,513. The District's employer contributions were equal to the required employer contributions for the year ended December 31, 2017.

Pension liability: At December 31, 2017, the District reported a net pension liability of $34,264,531 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017. The District's portion of the net pension liability was based on a projection of the District's pensionable compensation relative to the pensionable compensation of all participating employers, as determined by CalPERS. At June 30, 2017, the District's proportion was 0.09378 percent, which was a decrease of 0.00109 percent from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the District recognized pension expense of $1,569,784. At December 31, 2017, the District reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 971,950
Difference between expected and actual experience	4,136,577
District contributions subsequent to the measurement date	1,575,411
	$ 6,683,938

The amount reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date totaled $1,575,411 and will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31:	
2018	$ 1,277,132
2019	1,277,132
2020	1,277,132
2021	1,277,131
	$ 5,108,527

Note 10. Public Employees' Retirement System (Continued)

Actuarial methods and assumptions: The total pension liability was measured as of June 30, 2017 (measurement date), by rolling forward the total pension liability determined by the June 30, 2016, actuarial valuation (valuation date), based on the actuarial assumptions shown in the table below:

Valuation date	June 30, 2016
Actuarial cost method	Entry age normal in accordance with the requirements
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.15% Net of Pension Plan Investment Expense but without reduction for Administrative Expenses; includes Inflation
Mortality	Derived using CalPERS' Membership Data for all Funds
Postretirement benefit adjustments (COLAs)	Contract COLA up to 2.75% until the Purchasing Power Protection Allowance floor on purchasing power applies, 2.75% thereafter

Discount rate: The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would differ from the actuarially assumed discount rate. Results of the testing showed that none of the tested plans would exhaust assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in the "GASB Crossover Testing Report," which may be found on the CalPERS' website at www.CalPERS.ca.gov/docs/gasb-crossover-testing-2017.pdf.

CalPERS is scheduled to review all actuarial assumptions as part of its regular asset liability management review cycle, scheduled to be completed in February 2019. Any changes to the discount rate will require action on the part of CalPERS' Board of Administration and proper stakeholder outreach.

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

In determining the long-term expected rate of return, CalPERS took into account both short- and long-term market return expectation as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Fund's asset classes (which includes the agent plan), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11 to 60 years) using a building-block approach. Using the expected nominal returns for both short- and long-term, the present values of benefits were calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short- and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Note 10. Public Employees' Retirement System (Continued)

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation used to measure the total pension liability.

	New Strategic Allocation	Real Return Years 1-10 (1)	Real Return Years 11+ (2)
Global equity	47.0%	4.90%	5.38%
Global fixed income	19.0%	0.80%	2.27%
Inflation sensitive	6.0%	0.60%	1.39%
Private equity	12.0%	6.60%	6.63%
Real estate	11.0%	2.80%	5.21%
Infrastructure and forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
	100.0%		

(1) An expected inflation rate of 2.5 percent used for this period.

(2) An expected inflation rate of 3.0 percent used for this period.

In December 2016, the CalPERS Board of Administration voted to lower the discount rate used in its actuarial assumptions from 7.5 percent to 7.0 percent (net of 0.15 percent administrative expenses) effective July 1, 2017. A similar reduction to the discount rate in accordance with GASB 68 will increase the Net Pension Liability. This increase will be amortized over the expected remaining service lives of all employees provided with benefits through the pension plans. This period ranges from 3.5 to 5.2 years.

Sensitivity of the District's proportionate share of the state's net pension liability to changes in the discount rate: The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.15 percent) or one percentage point higher (8.15 percent) than the current rate.

	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
District's proportionate share of the net pension liability	$ 46,877,426	$ 34,264,531	$ 23,708,683

Pension plan fiduciary net position: Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial report at www.CalPERS.ca.gov.

Note 11. Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or emergency.

Note 11. Deferred Compensation (Continued)

All amounts of compensation deferred under the plan are submitted to the state of California after each pay period. Thus, no assets or liabilities associated with the plan are included in the District's financial statements.

Note 12. Contingencies

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has obtained insurance to cover these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The District is subject to various claims and legal actions relating to a range of matters that are incidental to the conduct of its operations. The District's management believes, after reviewing such matters and consulting with the District's legal counsel, that the aggregate effect of these matters will not have a material adverse effect on the District's financial position or results of operations.

Note 13. Subsequent Event

On May 24, 2018, the District entered into an Installment Sale Agreement with California Infrastructure and Economic Development Bank (IBank). The total amount borrowed from IBank was $8,900,000. Interest rate is 3.3 percent per annum, which includes the annual fee of .3 percent. The first principal and interest payments of $354,344 and $182,450 are due on August 1, 2019, and February 1, 2019, respectively. The money was borrowed to pay for a new Facility, which is necessary to improve the Fairgrounds' storm water quality system and to install chiller equipment. $8,411,000 will be utilized for the Environmental Remediation project, $400,000 will be utilized to pay for the Chiller Equipment Installation and $89,000 will be used pay for the IBank Origination Fee. The Project's estimated completion date is no later than June 1, 2022. Final principal and interest payments of $603,246 and $9,049 are due on August 1, 2037.

The District initiated the Confined Animal Feeding Operation (CAFO) Stormwater Improvement Project during 2017. The estimated total cost of the project is $15 million and will be funded through Bonds ($6.5 million) and new bank loan ($8.5 million). The entire cost of the Project will be capitalized. Approximately $1.3 million in expenses was incurred during 2017. The purpose and intent of the CAFO Stormwater Improvement Project is to satisfy Federal NPDES CAFO discharge requirements by designing a water quality system that collects and treats runoff up the 25-year, 24-hour storm event. The CAFO Stormwater Improvement Project will divert storm water runoff from all CAFO designated areas of the Del Mar Fairgrounds, including the Backstretch ground surface areas and Barn W Area surface areas (Arena, Expo Center, Wyland Center, Activity Center and Barn W) to the proposed infield lake/wetland treatment system. Two existing lakes within the infield will be regraded and include liners for both lakes, re-grading of the lake berms, a constructed wetland with biological filter and a treatment plant, which will all be connected through a circulation system and pump stations. The project will implement new storm drain lines to intercept discharges from CAFO areas and re-direct the discharges to a redesigned infield lake system that will have enough capacity to fully retain volumes associated with the 25-year storm event (designed to collect and retain up to 512,955 cubic feet (11.8 ac-ft) and following treatment through the constructed wetland/treatment system, flows will either remain within the lakes or discharged out to Stevens Creek under strict discharge requirements).

Required Supplementary Information

22nd District Agricultural Association and its Blended Component Units

Proportionate Share of Net Pension Liability
State of California—Miscellaneous Plan
Last 10 Fiscal Years (1)

	2017	2016	2015	2014
District's proportion of net pension liability	**0.09378%**	0.09487%	0.09858%	0.09858%
District's proportionate share of net pension liability	**$ 34,264,531**	$ 31,413,325	$ 23,470,069	$ 28,457,018
District's covered-employee payroll	**10,871,062**	10,615,289	10,421,064	9,866,599
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	**315.19%**	295.93%	225.22%	288.42%
Plan's fiduciary net position as a percentage of the total pension liability	**66.42%**	66.81%	74.17%	67.52%

(1) The amounts presented for each year were determined as of June 30. Data for the years ended December 31, 2008, through December 31, 2013, is not available in a comparable format.

22nd District Agricultural Association and its Blended Component Units

Schedule of Contributions
State of California—Miscellaneous Plan
Last 10 Fiscal Years (1)

	2017	2016	2015	2014
Contractually required contribution	**$ 3,096,513**	$ 2,771,056	$ 2,543,143	$ 2,149,623
Contributions in relation to the contractually required contribution	**3,096,513**	2,771,056	2,543,143	2,149,623
Contributions deficiency (excess)	**$ -**	$ -	$ -	$ -
District's covered-employee payroll contributions as a percentage of covered-employee payroll	28.48%	26.10%	24.40%	21.79%

(1) The amounts presented for each year were determined as of June 30. Data for years ended December 31, 2008, through December 31, 2013, is not available in a comparable format.

Supplementary Information

22nd District Agricultural Association and its Blended Component Units

Supplemental Schedule—Fair Revenues and Expenses
Year Ended December 31, 2017

Revenues:	
Food and beverage	$ 4,826,776
Concessions/carnivals	15,518,923
Admissions	11,508,096
Facility rentals	3,925,647
Parking	3,708,217
Sponsorships	2,145,294
Other	676,406
Total revenues	42,309,359
Expenses:	
Payroll and related benefits	10,872,557
Food and beverage	2,053,668
Entertainment	9,055,712
Maintenance	1,554,990
Facilities and related supplies	755,459
Insurance	470,873
Depreciation	432,575
Professional services	3,123,745
Marketing	967,377
Other	1,533,612
Total expenses	30,820,568
Fair revenues over expenses	$ 11,488,791

22nd District Agricultural Association and its Blended Component Units

Combining Statement of Net Position
December 31, 2017

	22nd District	RTLC	RTA	Eliminations	Total
Assets and Deferred Outflow of Resources					
Current assets:					
Cash and cash equivalents	$ 15,164,361	$ 150	$ 10,902,043	$ -	$ 26,066,554
Investments	-	-	-	-	-
Current portion of restricted investments	-	-	3,296,631	-	3,296,631
Accounts receivable, net	1,152,521	660,000	-	-	1,812,521
Due from other funds	-	-	660,000	(660,000)	-
Prepaid expenses and other	475,044	-	70,821	-	545,865
Total current assets	16,791,926	660,150	14,929,495	(660,000)	31,721,571
Restricted investments, long-term portion	-	-	3,305,611	-	3,305,611
Capital assets, net	20,937,501	-	88,345,330	-	109,282,831
Total assets	37,729,427	660,150	106,580,436	(660,000)	144,310,013
Deferred outflow of resources:					
Deferred outflow of pension liability	6,683,938	-	-	-	6,683,938
Total deferred outflow of resources	6,683,938	-	-	-	6,683,938
Total assets and deferred outflow of resources	$ 44,413,365	$ 660,150	$ 106,580,436	$ (660,000)	$ 150,993,951
Liabilities, Deferred Inflow of Resources and Net Position					
Current liabilities:					
Accounts payable	$ 1,976,718	$ -	$ 1,207,904	$ -	$ 3,184,622
Due to other funds	-	660,000	-	(660,000)	-
Accrued interest	-	-	516,402	-	516,402
Accrued liabilities and other	2,613,351	-	53,795	-	2,667,146
Accrued compensated absences	2,695,537	-	-	-	2,695,537
Current portion of other long-term liabilities	-	-	22,639	-	22,639
Current portion of bonds payable	-	-	1,230,000	-	1,230,000
Total current liabilities	7,285,606	660,000	3,030,740	(660,000)	10,316,346
Other long-term liabilities	-	-	45,279	-	45,279
Bonds payable, long-term portion	-	-	43,611,020	-	43,611,020
Net pension liability	34,264,531	-	-	-	34,264,531
Total liabilities	41,550,137	660,000	46,687,039	(660,000)	88,237,176
Deferred inflow of resources:					
Deferred gain on debt defeasance	-	-	450,667	-	450,667
Deferred inflow of pension liability	319,777	-	-	-	319,777
Total deferred inflow of resources	319,777	-	450,667	-	770,444
Net position:					
Net investment in capital assets	20,937,501	-	43,058,846	-	63,996,347
Restricted for debt service	-	-	6,602,242	-	6,602,242
Unrestricted	(18,394,050)	150	9,781,642	-	(8,612,258)
Total net position	2,543,451	150	59,442,730	-	61,986,331
Total liabilities, deferred inflow of resources and net position	$ 44,413,365	$ 660,150	$ 106,580,436	$ (660,000)	$ 150,993,951

22nd District Agricultural Association and its Blended Component Units

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2017

	22nd District	RTLC	RTA	Eliminations	Total
Operating revenues:					
Food and beverage	$ 23,992,044	$ -	$ -	$ -	$ 23,992,044
Concessions/carnivals	19,027,899	-	-	-	19,027,899
Admissions	12,090,108	-	-	-	12,090,108
Facility rentals	6,573,563	-	-	-	6,573,563
Satellite wagering	1,461,127	-	-	-	1,461,127
Parking	5,285,727	-	-	-	5,285,727
Leases/operating agreement	2,206,336	2,585,000	-	-	4,791,336
Surf & turf	1,468,608	-	-	-	1,468,608
Sponsorships	3,025,561	-	-	-	3,025,561
Other	4,246,625	-	-	(157,768)	4,088,857
Total operating revenues	79,377,598	2,585,000	-	(157,768)	81,804,830
Operating expenses:					
Payroll and related benefits	22,204,842	-	-	-	22,204,842
Pension cost	4,663,073	-	-	-	4,663,073
Food and beverage	18,186,392	-	-	-	18,186,392
Entertainment	10,060,009	-	-	-	10,060,009
Maintenance	7,314,462	-	1,383,222	(123,559)	8,574,125
Facilities and related supplies	2,028,388	-	-	-	2,028,388
Insurance	1,193,181	-	79,677	-	1,272,858
Depreciation	1,481,596	-	5,169,564	-	6,651,160
Professional services	5,547,105	-	14,878	-	5,561,983
Marketing	2,082,134	-	-	-	2,082,134
Other	2,554,568	-	461,976	(34,209)	2,982,335
Total operating expenses	77,315,750	-	7,109,317	(157,768)	84,267,299
Income (loss) from operations	2,061,848	2,585,000	(7,109,317)	-	(2,462,469)
Nonoperating revenues (expenses):					
Interest income	151,431	3	141,791	-	293,225
Interest expense	-	-	(1,788,462)	-	(1,788,462)
Other	(577)	-	6,449	-	5,872
Total nonoperating revenues (expenses)	150,854	3	(1,640,222)	-	(1,489,365)
Income (loss) before transfers	2,212,702	2,585,003	(8,749,539)	-	(3,951,834)
Transfers in	-	-	6,990,162	(6,990,162)	-
Transfers out	(4,405,162)	(2,585,000)		6,990,162	-
Change in net position	(2,192,460)	3	(1,759,377)	-	(3,951,834)
Net position, beginning of year	4,735,911	147	61,202,107	-	65,938,165
Net position, end of year	$ 2,543,451	$ 150	$ 59,442,730	$ -	$ 61,986,331