

CALIFORNIA FAIR SERVICES AUTHORITY

At CFSA, we get the job done.
always with the best interests



Done done. As in well done;
of California's fairs in mind.

Whatever it takes: forward thinking to thinking fast, we provide the programs our members can depend on. Risk management to safety training, employee benefits to balance sheets; we've been there, **DONE** that. We invite you to read our 2009 annual report – a look at what we did during the year, how we did it and who done it.



MISSION. California Fair Services Authority delivers efficient and cost-effective risk management, insurance and business solutions through a flexible and responsive partnership with our member fairs.

CFSA AT WORK ✓

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CFSA at Work

The California Fair Services Authority (CFSA) is governed by a seven-member board consisting of five elected representatives from CFSA member fairs, one public member appointed by the board and one member appointed by the secretary of the California Department of Food and Agriculture.

2009 Board of Directors

Barbara Boester-Quaid
Ventura County Fair

Brian Bullis
Mariposa County Fair

Kelley Ferreira
San Benito County Fair

Regina Goody
Yuba-Sutter Fair

Rick Pickering
Alameda County Fair

John Root
Public Member

Michael Treacy
Division of Fairs and Expositions

The terms of four directors expired at the end of 2008 setting the stage for an October 2008 election. Barbara Boester-Quaid, Ventura County Fair, was elected to complete the final two years of retiring fair manager/director Ed Scofield's term (representing Class III – VII fairs); Brian Bullis, Mariposa County Fair, was elected to represent Class I and II fairs; Regina Goody, Yuba-Sutter Fair, was elected as the board's director at large representing Class III – VII fairs; and Rick Pickering, Alameda County Fair, was re-elected to represent Class III – VII fairs.

Board Subcommittees

BUDGET COMMITTEE

Before presenting CFSA's proposed 2010 budget and pool rates to the full board in November, CFSA staff reviewed their proposals with this important board subcommittee comprised of three CFSA board members and one alternate board member. The Budget Committee agreed with staff's money-saving measures and base rate recommendations, which were approved unanimously by the full board.

REVENUE PROTECTION PROGRAM CLAIMS COMMITTEE

This key committee includes CFSA's executive director, a representative from the Division of Fairs and Expositions, one board representative and one elected pool member fair CEO. The committee met three times during the year

to review six of the eight claims filed. (Due to committee member changes late in the year, the final two claims will be reviewed in 2010.) All six claims were unanimously approved along with \$612,802.18 in payments.

During the committee's November meeting, they also discussed the Revenue Protection Program pool's reserves, now at their lowest level ever (due to higher than average claims activity in 2008 and 2009), and the negative impact 2010 fair date changes could have on the reserves. At the time of the meeting, 14 fairs had already changed or were considering changing their annual fair dates. (Event date changes add increased risk as there's little or no revenue history to compare against when calculating revenue losses.) You can read more about this topic in the Risk Management section of this annual report.

Executive Director's Message

Dear CFSA Members and Friends,

What did CFSA do in 2009? Whatever was necessary to work efficiently and effectively for our members. In fact, getting things done (and done well) is something we hope you have come to expect from us and a primary reason why you feel confident working with us in the first place – whether your needs involve a program or service we already provide or one you would like us to offer.

Even though our agency's scope has grown considerably in the past 23 years, our flexibility, open mindedness and can-do work ethic have held true throughout. We like to think there's no better agency to call with a question or idea than CFSA. If we can't help you, we'll find the most qualified person or agency that can.

In our 2008 annual report, *Curiosity*, we shared how our quest for knowledge drives our ongoing exploration for new, better ways of doing what we do now and how our experience and industry insight helps us develop the new services our members need going forward. This report's theme, *Done*, continues those thoughts by illustrating how our perseverance – our desire to get things done – turns curiosity into accomplishments. That said, we're excited to share with you a summary of our activities and accomplishments in 2009, along with a look at some of our plans for 2010.

One plan I know you'll be especially interested in is that the base rates for your Workers' Compensation and General Liability pooled programs will stay the same in 2010 as they were in 2009 and 2008. This accomplishment is made possible largely by your increased awareness in fairground safety.

Thank you for trusting CFSA with your business, your questions, your concerns *and* your successes. I, along with everyone at CFSA, look forward to working with you in 2010 and for years to come.



Donna J. Bardaro



OUR HISTORY. Helping member fairs get things done. That's what we've been doing since day one. In the mid-'80s, as our founders prepared to form a joint powers authority (JPA) focused on group purchasing for California's fairs, an insurance crisis was brewing. Not only were fairs finding it increasingly difficult to purchase workers' compensation and general liability coverage, they were having problems renewing existing policies as well. Even the State Office of Risk and Insurance Management (ORIM), the agency managing the District Agricultural Association (DAA) fairs' self-insurance program, was encountering significant instabilities and rate inconsistencies among its insurance companies.

The agency's focus was quickly redirected and in April 1986, the California Fairs Insurance Authority was created by a joint powers agreement to manage and administer two self-insurance risk-sharing pools that could provide California's fairs with affordable, dependable workers' compensation and general liability coverage.

Twenty-four years, three name changes and several joint powers authority amendments later, California Fair Services Authority now manages seven risk pools and five service funds, and provides member fairs with a full complement of claims handling, risk management, loss control (safety), business support and employee benefit services.

CFSA also acts as an intermediary for the California Department of Food and Agriculture's Division of Fairs and Expositions (F&E) administering the Unemployment Insurance Reimbursement Fund, and for the California Department of Personnel Administration (DPA) collecting contributions for the DAA fairs' Part-time, Seasonal, Temporary (PST) Employees Retirement Program. In addition, we provide accounting services for the California Authority of Racing Fairs (CARF) and Cooperative Agricultural Support Services, an agriculture-related joint powers authority.



WORKING FOR YOU. Weather wizards called it the “storm of the century.” Around 4 a.m., lightning lit up the sky, the wind was howling and with a crash, a 100-year-old Ponderosa Pine fell onto the fair’s maintenance shop. At 7:30 a.m., fair staff arrived to find a severely damaged building, an uprooted tree three stories tall and their shop 4 inches deep in water.

In 2009, CFSA’s pooled Property Protection Program protected fair facilities valued at \$816,903,529.

Protection 



Risk Management

As California's only fair-exclusive risk management JPA, there's no agency more qualified or more attuned to your protection needs than CFSA. And because our staff of professionals has an average of 15 years of California fair pool experience with CFSA, not only do we understand insurance inside and out, we understand it from a fair's point of view as well.

Among our accomplishments in 2009 was another positive annual audit of our Workers' Compensation and General Liability departments. The February audit was conducted by an outside auditor who interviewed and evaluated the performances of our risk manager, general liability claims examiner and workers' compensation claims administrator. The audit also included a thorough examination of open and closed claims for compliance with the California Association of Joint Powers Authorities' (CAJPA) standards of excellence, as well as with state laws and requirements.

The auditor concluded that CFSA's staff continues to exceed industry standards by demonstrating a high sense of urgency regarding claimant contact, medical case management, and the initiation and maintenance of workers' compensation benefits to injured workers. The claims team's work, he added, shows an aggressive approach toward the disposition of claims and the defense of nonmeritorious claims and litigation.

Total excess insurance costs for the three primary pools (Workers' Compensation, General Liability and Special Events) decreased 10.34 percent in 2009. This drop is due primarily to the withdrawal of the Los Angeles County Fair from the Workers' Compensation Pool Program, along with individual pool policy savings including a \$5,015 discount for CFSA's Accreditation with Excellence member standing in CAJPA.

Every three years, CFSA's accreditation in CAJPA comes up for renewal. Requiring much more than just paying dues, the process involves an in-depth review of our pool management processes, actuarial soundness, financial strategies and stability by CAJPA's self-insurance pool experts. This review helps us monitor our own efficiency and at the same time provides our members with the assurance that we're continuing to manage their pools to the highest professional standards. For the past 12 years, CFSA has far surpassed CAJPA's minimum requirements and, as a result, has earned CAJPA's coveted "Accreditation with Excellence" level. We applied for a renewal of our CAJPA accreditation in December 2009.

Workers' Compensation Pool Program

A total of 265 workers' compensation claims were filed in 2009 compared to 303 in 2008. At year-end, 166 claims remained open, including one from 1987. Thirty-two of the new claim reports were "information only" compared to 23 information only reports in 2008. CFSA encourages fairs to send in a claim report whenever a fair employee has an accident requiring more than simple first aid. Not every accident develops into a claim; however, and the reports for those that don't are kept for information only. Should a claim be filed down the road, these reports provide CFSA with a quickly accessible and accurate account of the incident.

The severity of injuries, rather than the frequency of claims, continues to drive up workers' compensation claims costs. Unlike general liability claims that typically close quickly, workers' compensation claims tend to remain open for years; some for decades. Add in continually rising medical expenses and one year's claims costs can grow dramatically

over time. An additional year of claims development for 2008, for example, has made it the third worst year for workers' compensation claims losses in CFSA's history.

In January, the Los Angeles County Fair, representing approximately 16.7 percent of the Workers' Compensation Pool's total payroll (and risk exposure) withdrew from the pool. This withdrawal, along with other factors such as pool reserves at a 90 percent confidence margin, previous year claim developments and excess insurance policy savings were taken into consideration when it came time to set the pool's 2009 fees. CFSA staff recommended and CFSA's board unanimously approved to keep the program's base rate the same as it was in 2008 – 5.5 percent of employee and volunteer payroll.

In November, the board approved staff's recommendation that the 5.5 percent rate remain unchanged for 2010.*

General Liability Pool Program

In 2009, 307 claim reports were filed by pool members compared to 373 reports in 2008. Of these, 77 opened into new claims and 230 were filed as information only. This compared to 62 new claims in 2008 with another 311 information only reports. At year-end, 28 claims remained open. As was the case with the Workers' Compensation Pool, it was the severity of claims, rather than the frequency of claims that had the highest impact on pool reserves.

Although still early in the claims development process, 2006 through 2008 appear to be developing into better than average claims years for the General Liability Program. Even with the addition of fees collected from one new pool member fair, pool members realized a collective 1.47 percent *savings* in annual fees due in part to their heightened awareness of fair patron safety and improved loss histories. This added up to \$2,103,300 in fees in '09, compared to \$2,137,750 in 2008.

Claims development, plus pool reserves at a solid 90 percent confidence margin and a \$100,000 savings in 2009's excess insurance policy, prompted CFSA staff to recommend and the board to unanimously approve keeping the General Liability Pool's 2009 fees the same as in 2008.

At the November 2009 board meeting, CFSA staff recommended keeping pool fees the same for another year (2010) – a recommendation the board approved unanimously.*

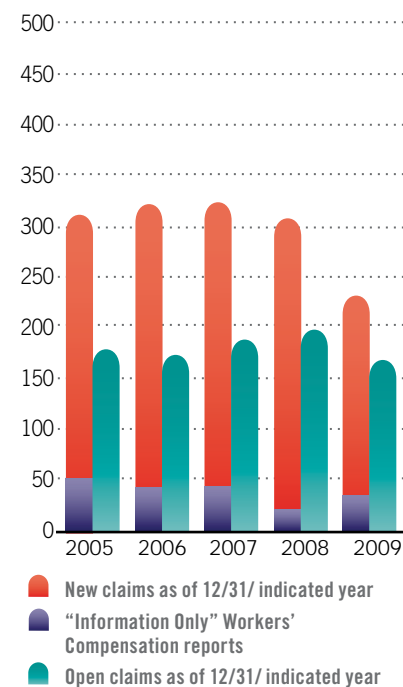
Certificate of Insurance Reviews Up 6 Percent

One of the many ways CFSA works with fairs to control claims costs is by requiring all General Liability Pool members to submit a copy of their service and lease agreements to CFSA's risk analyst for a certificate of insurance review. This value-added service, funded by F&E and provided to fairs at no extra charge, ensures that certificate language and liability limits meet CFSA's requirements. While the majority of certificates are complete and accurate, our risk analyst has intercepted forged and altered certificates. Should an accident happen to the holder of an incomplete certificate it's very possible that the fair and CFSA, not the certificate holder's insurance company, would be liable.

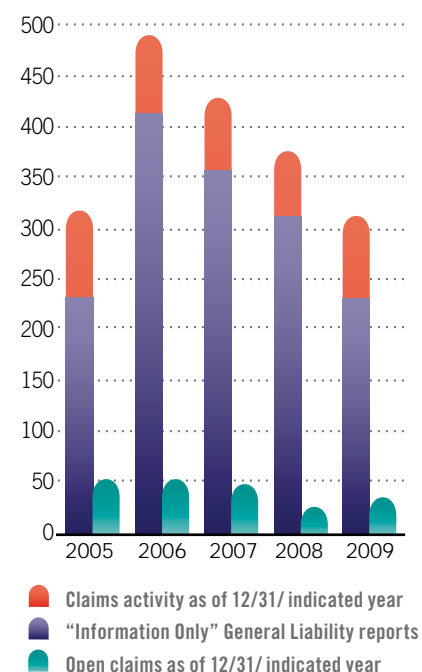
In 2009, CFSA reviewed 2,346 contracts, 147 more than in 2008. As is CFSA's policy, when an incomplete certificate is found, CFSA does the footwork and phone calls necessary to bring the certificate into compliance.

* An individual fair's Workers' Compensation pool fees may increase or decrease from the previous year due to its own loss history and changes in fair payroll. General Liability pool fees may increase or decrease due to each fair's own loss history.

**WORKERS' COMPENSATION CLAIMS
ACTIVITY AND OPEN CLAIMS 2005 – 2009**



**GENERAL LIABILITY CLAIMS ACTIVITY
AND OPEN CLAIMS 2005 – 2009**





Master Insurance List Includes More Than 500 Fair Contractors

Since 1993, CFSA has actively encouraged fair contractors and vendors to send a current master insurance certificate to CFSA for addition to the Master Insurance List used by all California fairs. Inclusion on the list confirms the vendors' proof of liability insurance for all new contracts within a one-year policy period. This list is updated and published monthly, February through October.

In addition to the printed list, CFSA also provides fairs with a reference table of vendor numbers. Should a vendor complete his or her contract using only a Master List number, a fair can do a quick cross-reference to find the vendor's name.

Special Events Program

By year-end, the Special Events Program produced \$714,454 worth of nonfair generated income – income CFSA uses to help offset pool overhead and safety-related costs (*before* calculating pool member annual fees). The program is also a value-added convenience fairs can offer facility renters and/or event participants and, at the same time, be assured that the coverage meets all of CFSA's requirements.

To help cover fair staff costs for time spent on the program, on a quarterly basis, CFSA reimburses each participating fair 5 percent of the fees it collects. In 2009, this processing refund totaled \$38,082. As commercial insurers continue to balk at covering small events such as those traditionally held on fairgrounds, the dependable availability and low cost of CFSA's program has helped it grow in popularity year after year.

There were 22 new Special Events loss reports filed in 2009, five of which were information only. Seven claims remained open at year-end, along with a reserve of \$132,789 (a confidence margin of 90 percent).

2009's top five Special Events Program categories (based on fees collected) were:

1. Concessionaires and Exhibitors (other than animal exhibitors, and food and beverage concessionaires):
Over eight days in length (\$112,750 collected in fees)
2. Liquor Liability: Sales (\$104,955 collected in fees)
3. Concessionaires and Exhibitors (other than animal exhibitors, and food and beverage concessionaires):
Up to eight days in length (\$100,306 collected in fees)
4. Birthday Celebrations (\$52,690 collected in fees)
5. Weddings (\$47,523 collected in fees)

Hazardous Special Events Program

This specialized program was created in response to fairs requiring coverage for fair-promoted horse shows, rodeos, motorized racing events and demolition derbies. Coverage is provided through a partnership between CFSA and two commercial insurance brokers.

Early each year, a letter to confirm the fairs' need and interest in the program is mailed out by CFSA. As in previous years, interested fairs responded promptly. At year-end, 16 fairs used the program to cover 36 horse shows and five rodeos (including bull riding). In addition, 19 fairs covered nine motorized racing events and 21 destruction derbies.

Property Protection Program

Five claims were filed in 2009: One was due to a leaking sprinkler, two cited severe windstorms and two were due to fire. One of the fire claims was the first to exceed the program's self-insured retention of \$200,000.

In mid-2008, historically high excess insurance costs on top of six years of higher than expected losses affected F&E's ability to fully fund the pool program. As a result, participating fairs were asked to contribute toward their own coverage; premiums were based on individual fair property values. To give fairs a chance to add this expenditure into their budgets, participating fairs weren't billed until January 2009.

Program changes that went into effect in 2009 included F&E's requirement that fairs carry a minimum of \$100,000 in personal property coverage (with a \$20,000 deductible, up from \$10,000). In addition, only one deductible "buy down" option – the most popular – is now offered: The opportunity to reduce the program deductible to \$25,000 from the maximum of \$50,000 for an additional fee. A third change prohibits fairs from hiring a public insurance adjuster in connection with any Property Protection Program claim. This change ensures that our experts can always participate in the claim process.

Revenue Protection Program

Sixty-five fairs participated in the Revenue Protection Program, which protects annual fairs and interim events against certain unanticipated revenue interruptions. The only program of its kind within the California fair industry, the Revenue Protection Program is especially valuable in today's challenging economy.

Participating fairs filed eight claims in '09: three for rain, three for extreme heat, another due to civil commotion and one due to a power outage. The Revenue Protection Claims Committee reviewed all but two claims, which are slated for review in 2010 due to committee member changes late in the year. A total of \$612,802.18 was made in claim payments (includes one 2008 claim).

During CFSA's November board meeting, CFSA staff explained that the Revenue Protection Program's higher than average claims activity during the past two years had left pool reserves at their lowest level in the program's history. Posing significant risk to the pool in the year ahead was the high number of fair date changes – 14 – either already made or under consideration.

The program's memorandum of coverage (MOC) addresses event date changes with provisions for: 1) assessing a higher deductible when a fair has a significant date change, 2) increasing that fair's premium, and 3) lowering its maximum coverage limit. After much discussion, the board kept the MOC the same and instead, modified the program's fee structure to better reflect the risks associated with fair date changes. For the first time, the program's fee structure will take into consideration the risks associated with the length of an event. In 2010, the fee structure for events held on the same dates as in previous years and that take place over a single weekend will remain the same. Events with changed dates and/or running through multiple weekends will see a fee increase. The new fee structure was mailed to all fairs in November.

Another MOC change included a definition clarification of "revenue" when referring to revenue streams associated with the wagering side of horse racing. After meeting with racing officials, CFSA recommended that only "on track" revenues be used when calculating revenue protection losses associated with live horse racing. This change, approved by CFSA's board in June, was made retroactive to January 1, 2009.

WORKERS' COMPENSATION, 2005 – 2009

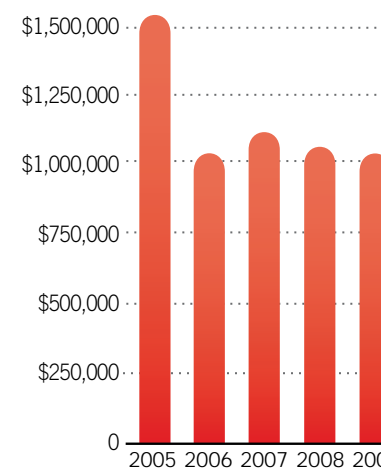
HISTORICAL RESERVES FOR ALL OPEN CLAIMS*



*As of 12/31/2009, CFSA had reserves of \$7,509,480 to cover all 166 open claims occurring between 1/1/1987 and 12/31/2009. (This doesn't include confidence margin reserves or incurred but not reported [IBNR].) During the same period, CFSA also paid out \$36,784,902 in actual claims costs.

GENERAL LIABILITY, 2005 – 2009

HISTORICAL RESERVES FOR ALL OPEN CLAIMS*



*As of 12/31/2009, CFSA had reserves of \$1,106,466 to cover all 28 open claims occurring between 1/1/1987 and 12/31/2009. (This doesn't include confidence margin reserves or IBNR.) During the same period, CFSA also paid out \$18,331,660 in actual claims costs.



WORKING WITH YOU. It was another beautiful afternoon on the California fair horse racing circuit. But before the day's last horse had galloped across the finish line, a fairground employee working behind the scenes would be seriously injured on the job.

In 2010, CFSA will work with horse racing and fair industry officials to help identify and mitigate potential fair racetrack safety hazards.

Safety ✓

Safety Services

CFSA's seven safety specialists spent more than 675 days (approximately 5,475 hours) working directly with CFSA pool members on everything from written safety programs and safety training to facility inspections and personalized Fire and Life Safety Programs.

While other joint powers authorities typically spend an average of 3 to 4 percent of their operating budgets on loss control (safety services), CFSA traditionally invests two to three times that amount in a commitment to helping fairgrounds provide a safe environment for employees and visitors. In 2008, CFSA invested 10.17 percent of its operating budget to its safety program and in 2009, even after much belt tightening throughout the agency we dedicated 11.51 percent of our operating budget to the program.

In addition to discussing the safety training needs of individual fairs with fair management, the safety specialists also met frequently with CFSA's claims team to review all recently received fair claim reports. From these reports, the specialists were able to identify emerging accident trends and to develop specialized training for all fairs addressing the identified areas for enhanced safety awareness.

In 2009, the specialists focused on comprehensive Fire and Life Safety training (created in accordance with California's fire marshal) in addition to general safety training, safety inspections, safety program development and certification testing. A total of 69 fairs received fairtime inspections (including Fire and Life Safety fundamentals); another 58 fairs received individualized training.

Maintenance Mania 2009 and the Fall Training Tour

As in previous years, the safety specialists were actively involved in the development and production of Maintenance Mania, which was held at two fairground locations. CFSA's specialists led training classes as well as the bulk of Bonus Monday's certification testing.

Several specialists also joined representatives from other CFSA departments for the agency's Fall Training tour. This training provided the specialists with an opportunity to talk to senior fair staff and employees they might not have met previously and to discuss topics ranging from calculating fair incidence rates using Cal/OSHA formulas to an overview of the Fire and Life Safety Program.

Training the Trainers

When not providing safety training to the fairs, the specialists were often in training themselves. In 2009, the Safety Department's supervisor became one of the first 10 safety professionals in California to hold his Certified Safety Management Specialist designation. Another specialist added to his Fork Lift, Class 7 All Terrain Fork Lift, and Aerial and Boom Lift certifications with an instructor's certificate for safety training on backhoe/front end loaders.

Planning ahead for 2010, CFSA purchased a compilation of training materials that will be merged with fair industry information to develop 20 new safety training programs addressing the California fair industry's top 10 Cal/OSHA citations and the top 10 causes of fair employee injuries. Other topics to be covered include accident investigation;



back safety; driving safety; fall protection; hazardous material labeling; hazardous material spill cleanup; and slips, trips and falls. Each approximately one-hour program will include a PowerPoint presentation, video, instructor materials and student handbooks.

Safety: On Track

After a serious horse racetrack accident involving a fair employee in June, two safety specialists were granted California Horse Racing Board (CHRB) licenses and access to the restricted “backside” (training areas) of fair horse racing tracks. The specialists visited three tracks to observe racing safety practices and in 2010 will meet with industry representatives to discuss a safety training plan of action.

Purchasing Services

Another way CFSA works with California’s fairs is by helping them save money and time through a group purchasing program available to all fairs – pool members and nonmembers alike – and fair agencies.

In 2009, the economy continued to take its toll on CFSA’s vendors with many companies downsizing, merging and some closing their doors entirely. CFSA’s buyer worked aggressively to maintain a roster of reliable and trustworthy vendors willing to provide discounts to the fairs.

Seventy-four fairs and four JPAs took advantage of Purchasing Services in ‘09, buying everything from the wildly educational and entertaining AI’s Brain 3-D Exhibit to janitorial products, display materials and bilingual “Right to Know” employee posters. By year’s end, CFSA had collected \$61,701.35 in fees after coordinating \$1,471,067.42 in purchases. CFSA’s online Best Buys program, now in its second year, contributed \$13,002 in sales. Online-only sale items included batteries, plywood tables, three-ring binders, a safety vest and baton, and an automated external defibrillator (AED) device.





WORKING INSTEAD OF YOU. The fair manager called to say he was retiring after this year's fair. And, oh, did he mention that their bookkeeper was leaving next week? Was there something CFSA could do to help the fair maintain financial consistency over the next few turbulent months? Or maybe even fill the bookkeeper's shoes permanently?

In 2009, CFSA provided 46 fairs with accounting and payroll services, assisted 28 fairs with their annual Statement of Operations Reports, and handled a long list of essential accounting responsibilities for fairs and fair-related agencies.

Finance ✓

Financial Services

When a fairground needs assistance with the financial side of their business, CFSA's Finance staff has the resources and expertise to step in and help – whether that help is needed weekly, several times a year or involves taking the reins on everything from a fair's payroll to daily and annual bookkeeping duties.

Four More Fairs Join the FlexNet Program in 2009

FlexNet is a series of fee-for-service payroll, accounting and human resources modules fairs can use as needed. The program's nQativ software resides on CFSA's server and CFSA oversees all software updates as well as necessary fair staff training. Because fair needs can change season to season, FlexNet is flexible by design. One option gives fairs the choice of doing the work themselves or of having CFSA's Finance team do the work for them.

A total of 46 fairs participated in FlexNet in 2009 and two additional fairs have already spoken to us about joining in 2010.

CFSA Partners with DPA for the Benefit of DAA Fair Employees

As a pass-through agency for the Department of Personnel Administration (DPA), CFSA collects District Agricultural Association (DAA) fair employee benefit contributions for the employees' 401(k) deferred compensation plan, vision and group legal plans, FlexElect, and their life insurance and long-term disability programs. In 2009, CFSA collected \$20,686 in fees for handling an average of 862 benefit transactions a month – more than 10,343 throughout the year. CFSA's administrative fee is \$2 per employee, per benefit.

PST Retirement Program Saves Fairs Nearly \$1 Million

By serving as a pass-through agency for the DPA's Part-time, Seasonal, Temporary (PST) Employee Retirement Program, CFSA enabled California's 52 DAAs, and the California Exposition and State Fair to save \$983,282.09 in 2009 and their employees (not covered by CalPERS or Social Security) to save for their retirements.

Without the PST Program, these fairs would've been required to pay \$1,089,481.34 in Social Security taxes instead of just \$106,199.25 in administration fees collected by the DPA (\$58,469.25) and CFSA (\$47,730).

Unemployment Insurance Reimbursement Fund Percentages Increased for Fiscal Year 2009 – 2010

On behalf of the Division of Fairs and Expositions, CFSA administers the Unemployment Insurance Reimbursement Fund. Every fiscal year, F&E contributes \$950,000 to the fund from which California's fairs are reimbursed a percentage of their quarterly unemployment insurance costs (based on fair classification). In 2009, 65 fairs received a total of \$927,149.88 in reimbursements. From July 1, 2008 through June 30, 2009, fairs in Classes I and II received a 100 percent reimbursement, Classes III and IV received a 60 percent reimbursement, and Classes V through VII received a 25 percent reimbursement.



For fiscal year July 1, 2009 through June 30, 2010, F&E contributed an additional \$200,000 to the fund. Fairs in Classes I and II are projected to receive a 100 percent reimbursement, Classes III and IV a 65 percent reimbursement, and Classes V through VII a 30 percent reimbursement.

Seven New Loans Go through CFSA's Equipment Financing Program

A lighting upgrade and reroofing project, an ADA compliant restroom trailer, HVAC system, livestock scale, fork lift and an automatic teller machine were purchased in 2009 through CFSA's Equipment Financing Program. This program, funded with risk pool reserves set aside by a CFSA board approved resolution, makes it possible for fairs to purchase needed large ticket items and services through CFSA and then to repay CFSA over time. Pool interest lost on loaned funds is recouped by interest assessed on each new loan. The interest rate for 2009 was 5 percent. At year-end, \$353,542.28 of the program's allotted \$750,000 was out in loans.

Computer Services

Keeping CFSA, other JPAs and all FlexNet fairs up to date and up and running is a full-time job for CFSA's Computer Services. In 2009, in addition to providing computer hardware and software administration, and on-call troubleshooting services, our computer experts also brought several new members into FlexNet's nQativ accounting system, a move that saved the new members time and money over their previous accounting methods. Computer Services also coordinated nQativ payroll module upgrades and related training for several fairs and a JPA.

Looking ahead to 2010, Computer Services has already begun working with our claims experts in anticipation of a substantial change in California's Medicare reporting requirements.





WORKING TO KEEP YOU INFORMED. Almost every day fairs talked to us about cut backs, Furlough Fridays and belt tightening. In response to their challenges, we challenged ourselves: “What more could we do to help our members save time and money when doing business with us?” As the ideas flowed, we realized we had valuable information to share.

In 2009, CFSA invited all pool member fairs to attend CFSA's Fall Training seminars free of charge.

Communication ✓

Communication Services

CFSA's company culture is one of open doors and open minds. Two-way communication with pool member fairs, fair agencies and all others in or interested in the fair industry is actively invited and encouraged. And, when we have news or information about our programs or services to share, we use every resource available to ensure everyone who needs to know, knows.

Reaching Out: Fall Training, Fair Visits, Newsletters, Websites and More

CFSA's Fall Training To provide pool members with new information on ways to save with CFSA's programs and to further reinforce CFSA's commitment to member service, representatives from Finance, Risk Management, Safety, Administration and Communications hit the road with an informative PowerPoint presentation, handouts and personalized binders for each training seminar attendee. The CFSA troupe made one-day presentations at three fairs – in Northern, Central and Southern California – and in Sacramento. Fair managers and their staff learned how loss histories affect annual pool fees, how to fill out claim forms (and why these forms are important), how to calculate and interpret fair accident statistics, and more. Attendees also had many opportunities to ask questions on topics of their choice.

After each presentation, attendees filled out a short survey form evaluating the information covered and what information they would like offered in future seminars. Comments were highly complimentary; suggestions were quickly incorporated into the next presentations. To thank participants for attending and sharing their opinions with us, everyone who turned in a survey received several small gifts (surplus WFA Convention trade show booth gifts from past years) and a chance to win a \$100 gift certificate to Reno's Grand Sierra Hotel generously provided by Western Fairs Association.

Fair Visits Even with 2009's Workers' Compensation and General Liability pool rates remaining the same as they were in 2008, some fairs saw an increase in their annual fees due to changes in their loss histories and other individual factors. CFSA's safety manager and assistant director – finance visited each of these fairs to discuss their annual rates as well as all of the ways CFSA's safety specialists could help the fairs potentially lower their fees in the future.

The *fyi* Newsletter celebrated its 20th anniversary in 2009. Available by email, regular mail and on CFSA's website, the newsletter featured contributions from CFSA, F&E, Maintenance Mania's Planning Committee, WFA and the California Construction Authority (CCA).

In addition to articles about CFSA's programs and services, the newsletter provided more than 250 readers with progress reports on CCA's strategic planning efforts and F&E's work to qualify fair construction and renovation projects for State Economic Stimulus Program Funding. Articles also provided information about upcoming events such as Maintenance Mania 2009, the California Fairs Alliance (CFA) Conference and WFA's annual convention.



CFSA's 2008 Annual Report, *Curious*, was distributed to all California fair managers and board directors, along with all fair industry agencies and JPAs, and interested individuals. Photos for the colorful and informative report were taken at the Dixon May Fair and the Sacramento County Fair.

Websites: CFSA's and More CFSA's website, www.cfsa.org, continues to provide comprehensive, up-to-date information about CFSA's programs and services along with training videos and event information for upcoming seminars and board meetings. The website offers current and back issues of the *fyi* newsletter and CFSA's annual report, too.

We also maintain the Maintenance Mania website, www.maintenancemania.com, posting new information as it's available for each year's Maintenance Mania event. In addition, in 2010, CFSA will assist CCA with the redesign and content development of its new, enhanced website. The first phase is the creation of a temporary page announcing the new site and providing a staff contact list.

Workers' Compensation Pamphlets Updated worker rights pamphlets were distributed to all Workers' Compensation Pool members in 2009. The pamphlets, available in both English and Spanish, were announced in the *fyi* newsletter and through personal contact with each fair.

2010 WFA Convention Plans are already underway for CFSA's participation in WFA's 2010 Convention in Reno, Nevada. An updated version of the All Agency Brochure, originally produced in 1999, will be distributed at the CFSA-hosted New CEO Breakfast along with copies of CFSA's 2008 annual report and flash drives preloaded with staff contact and agency information for all three JPAs, F&E and WFA.

Continuing our educational efforts, CFSA safety specialists will co-lead two informative sessions: one on basic risk control measures for WFA service members and the other on regulatory issues for California's fairs. Safety specialists will also help staff the Maintenance Mania booth during the Convention trade show.



LOOK AHEAD WITH CFSA. While no one can predict with 100 percent certainty what 2010 will bring, our members can feel confident that whatever it does bring, CFSA is well prepared. We'll continue to work closely with our member fairs as well as our resource bank of industry, insurance and investment experts.

We're proud to add that our years of hard work and our long-standing reputation for getting the job done have earned us more responsibility from our colleagues. In addition to the risk pools and service funds we already manage, in 2010 we'll also provide personnel and accounting consulting services to the Capital SouthEast Connector JPA (the Capital SouthEast Connector is a proposed 35-mile roadway spanning from I-5 South in Elk Grove to US 50 in El Dorado County). CFSA was also asked by F&E to serve as the fund administrator for five new funding programs for California's network of fairs.

Thank you for reading our 2009 Annual Report. If you'd like additional copies or if you have any questions about what you've read, please contact us at 916.263.6163. Feel free to pass this report on to others who might be interested in learning more about CFSA.

2010 ✓

FINANCIAL STATEMENTS. The following report reflects the financial condition of California Fair Services Authority (the Authority) for the year ended December 31, 2009. It is provided in order to enhance the information in the financial audit, and should be reviewed in concert with that report.

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INDEPENDENT AUDITOR'S REPORT

BOARD OF DIRECTORS CALIFORNIA FAIR SERVICES AUTHORITY SACRAMENTO, CALIFORNIA

We have audited the accompanying financial statements of the California Fair Services Authority (the Authority) as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, the Authority implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended December 31, 2009.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2010, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were made for the purpose of forming an opinion on the financial statement taken as a whole. The Management's Discussion and Analysis on pages 28 through 37, Reconciliation of Claims Liabilities by Type of Contract and Claims Development Information on pages 50 through 57, and the Schedule of Funding Progress of Other Post Employment Benefits on page 58 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California
March 17, 2010

FINANCIAL HIGHLIGHTS DECEMBER 31, 2009



Total Operating Revenues

\$8,111,686 | - 8.39%

Total operating revenues were \$8,111,686, a decrease of 8.39% or \$742,597. This decrease is due primarily to the withdrawal of a large member from the Workers' Compensation Program.



Total Non-operating Revenues

\$321,559 | - 52.51%

Total non-operating revenues were \$321,559, a decrease of 52.51% or \$355,502. This decrease is due to much lower interest rates on the Authority's investments with the Local Agency Investment Fund (LAIF) and investments held at Madison Investment Advisors.



Total Expenses

\$9,210,116 | + .53%

Total expenses were \$9,210,116, an increase of .53% from \$9,161,234 in the previous year.



Outstanding Claims Liabilities for Workers' Compensation

\$9,520,000 | + 9.95%

Outstanding claims liabilities for the Workers' Compensation risk pool increased from \$8.65 million at December 31, 2008 to \$9.52 million at the close of 2009, an increase of 9.95%.



Outstanding Claims Liabilities for General Liability

\$2,040,000 | - 8.34%

Outstanding claims liabilities for the General Liability risk pool decreased from \$2.23 million at December 31, 2008 to \$2.04 million at the close of 2009, a decrease of 8.34%.

DESCRIPTION OF THE BASIC FINANCIAL STATEMENTS

The Authority's financial statements are prepared in conformity with generally accepted accounting principles and necessarily include amounts based upon reliable estimates and judgments. Balance Sheets, a Statement of Revenues, Expenses & Changes in Net Assets, and the Statement of Cash Flows are included along with Notes to Financial Statements to clarify unique accounting policies and financial information.

The Balance Sheet provides information on all the Authority program assets and liabilities, with the difference reported as Net Assets. Net Assets may be an indicator of the overall pool financial changes across the years. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing total revenues versus total expenses and the resulting effect on Net Assets.

Combined statements are provided with the supplementary information and reflect financial information separated by the specific program to which it relates. The Authority's accounting system is organized so that each program can be accounted for and evaluated independently. Separate governmental enterprise funds are operated for seven individual pools: Workers' Compensation, General Liability, Property, Revenue Protection, Special Events, Unemployment Insurance, and Dental, and five service funds: General and Administrative, Finance, Risk Control, Computer Services, and Purchasing. The assets, liabilities, revenues and expenses for all funds are reported on a full accrual basis. During the 2009 year the Authority implemented GASB 45 accounting for other post employment benefits.

Gilbert Associates, Inc., Certified Public Accountants have performed an independent audit examination of our financial statements in accordance with generally accepted auditing standards. Their opinion is included in the Financial Section of this report. Bickmore Risk Consultants provide an independent actuarial review of the Workers' Compensation, General Liability, and Special Events programs, which confirms the adequacy and reasonableness of the liabilities recorded as outstanding claim reserves for these programs. (Individual line items in the following Balance Sheet may not agree to the audited financial statements due to a difference in the classification of a specific lease agreement; however, total net assets match.)

AGENCY WIDE FINANCIAL ANALYSIS

CFSA'S COMBINED BALANCE SHEET

| | 12/31/2009 | Percentage | 12/31/2008 | Percentage | 12/31/2007 | Percentage |
|-------------------------|---------------|------------|---------------|------------|---------------|------------|
| Other Assets | \$ 26,812,921 | 94.72% | \$ 22,410,642 | 93.11% | \$ 21,875,061 | 92.71% |
| Fixed Assets | 1,493,931 | 5.28% | 1,657,391 | 6.89% | 1,721,305 | 7.29% |
| Total Assets | 28,306,852 | 100.00% | 24,068,032 | 100.00% | 23,596,366 | 100.00% |
| Current Liabilities | 542,964 | 2.63% | 547,123 | 3.51% | 565,590 | 3.65% |
| Misc. Pool Liabilities* | 8,030,092 | 38.95% | 3,859,174 | 24.74% | 4,006,403 | 25.85% |
| Other Post | | | | | | |
| Employment Benefits | 135,243 | 0.66% | – | – | – | – |
| Claims Liabilities – | | | | | | |
| Current | 4,036,180 | 19.58% | 3,861,204 | 24.75% | 3,952,050 | 25.50% |
| Claims Liabilities – | | | | | | |
| Non-Current | 7,870,671 | 38.18% | 7,331,958 | 47.00% | 6,973,860 | 45.00% |
| Total Liabilities | 20,615,150 | 100.00% | 15,599,459 | 100.00% | 15,497,903 | 100.00% |
| Net Assets | 7,691,702 | 100.00% | 8,468,573 | 100.00% | 8,098,463 | 100.00% |
| Total Liabilities and | | | | | | |
| Net Assets | \$ 28,306,852 | 100.00% | \$ 24,068,032 | 100.00% | \$ 23,596,366 | 100.00% |

*Unemployment Insurance Pool, Revenue Protection Pool, Property Insurance Pool

AGENCY AND PROGRAM ASSETS

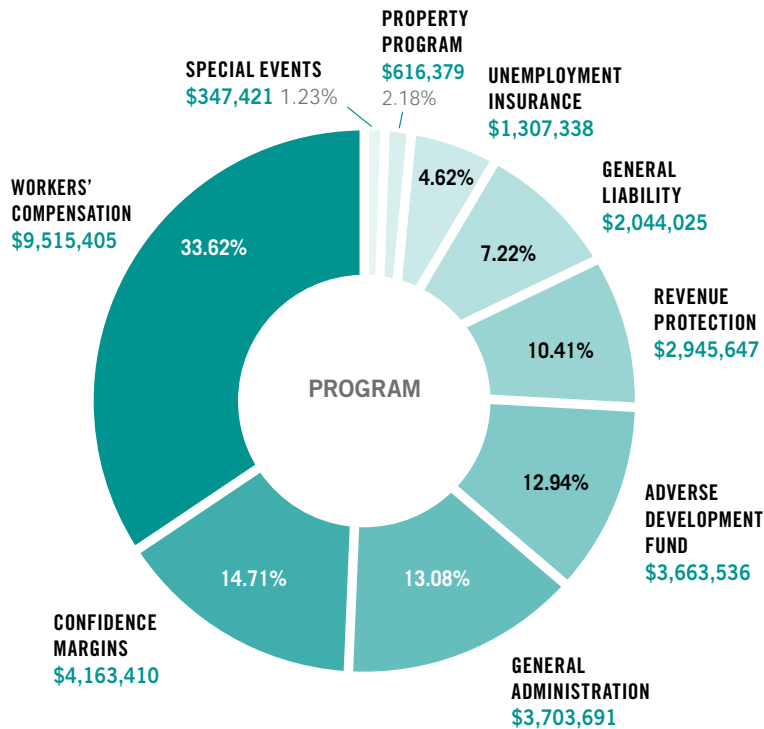
Total agency and program assets, as reflected in the Liabilities and Net Assets sections of the Balance Sheet, increased \$4,238,820 from \$24,068,032 as of December 31, 2008 to \$28,306,852 at December 31, 2009. This increase is due to the rise in Workers' Compensation reserves, Fairs & Expositions (F&E) fully funding the Unemployment Insurance Program, and CFSA administering the new F&E loan programs.

Non-current or fixed assets were reduced by \$163,459 due to depreciation of assets which is recorded as an expense in accordance with generally accepted accounting principles.

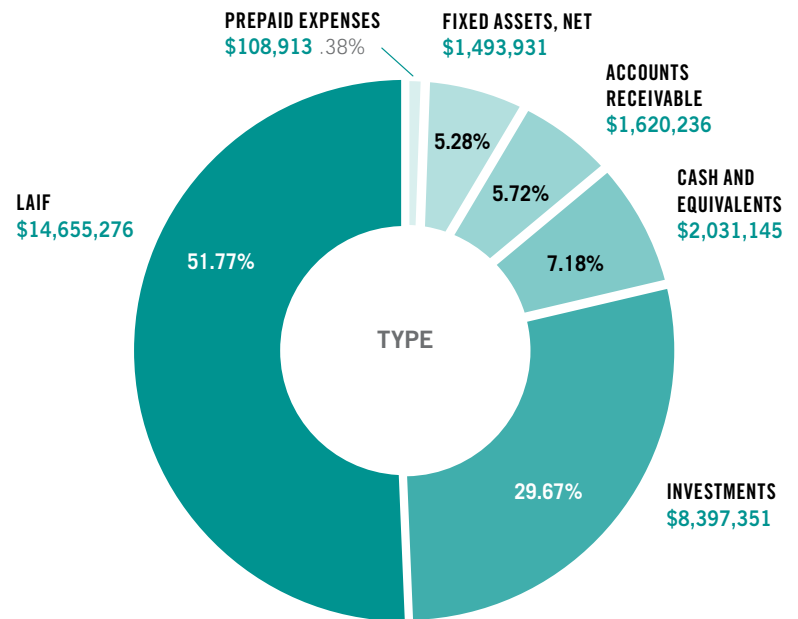
MANAGEMENT'S DISCUSSION AND ANALYSIS

Investment revenues are used to offset program costs wherever possible and reduce required member contributions. The overall cash, cash equivalents and investments of the pools increased in 2009 by \$4,783,581 to \$25,083,771. The Authority invests those funds not immediately necessary for the payment of claims in order to optimize the rate of return. Funds are invested in a manner that will protect principal, allow for cash flow needs and optimize returns, and are in conformity with all federal, state, and local statutes governing such investment of public funds. Funds available for investing are divided between the Local Agency Investment Fund (LAIF) and Madison Investment Advisors. At December 31, 2009 LAIF held approximately 58% of the Authority's total investable cash while Madison Investment Advisors held approximately 34%.

TOTAL ASSETS BY PROGRAM
DECEMBER 31, 2009



TOTAL ASSETS BY TYPE
DECEMBER 31, 2009



The equities investment market in 2009 saw a slight recovery from a historically bad year in 2008. The bond market held its own through the first two quarters of 2009 but ended the year down significantly, as was seen by very low returns from LAIF. The ability of these funds to earn investment income has an indirect effect on program rates as this income is used to offset overhead costs thereby lowering the amount needed in the form of member contributions. However, the Authority does not discount future liabilities based on a percentage of future investment income thereby reducing the impact of investment market trends on the Authority's fee structure.

LIABILITIES

Accrued liabilities decreased from \$547,123 as of December 31, 2008 to \$542,964 as of December 31, 2009. These liabilities are made up primarily of accrued employee vacation and sick leave, along with 2009 operating expenses paid in 2010. All other liabilities on the Balance Sheet are actual assets of the individual pooled programs.

REVENUES AND EXPENSES

Pool operating revenues consist of various types of member contributions and building rental income. These revenues decreased from \$8,854,283 in 2008 to \$8,111,686 in 2009, primarily as a result of one large member withdrawing from the Workers' Compensation Program. Expenses exceeded revenues by \$776,871 in 2009 as compared to revenues exceeding expenses by \$370,110 in 2008, resulting in a 9.17% net decrease in Net Assets, after actuarial adjustments to the confidence margins. Revenues decreased from \$9,522,236 in 2007 to \$8,854,283 in 2008, primarily as a result of a large member withdrawing from the General Liability Program. (Individual line items may not agree to the audited financial statements due to a difference in the classification of certain revenues and expenses; however, total Net Assets match.)

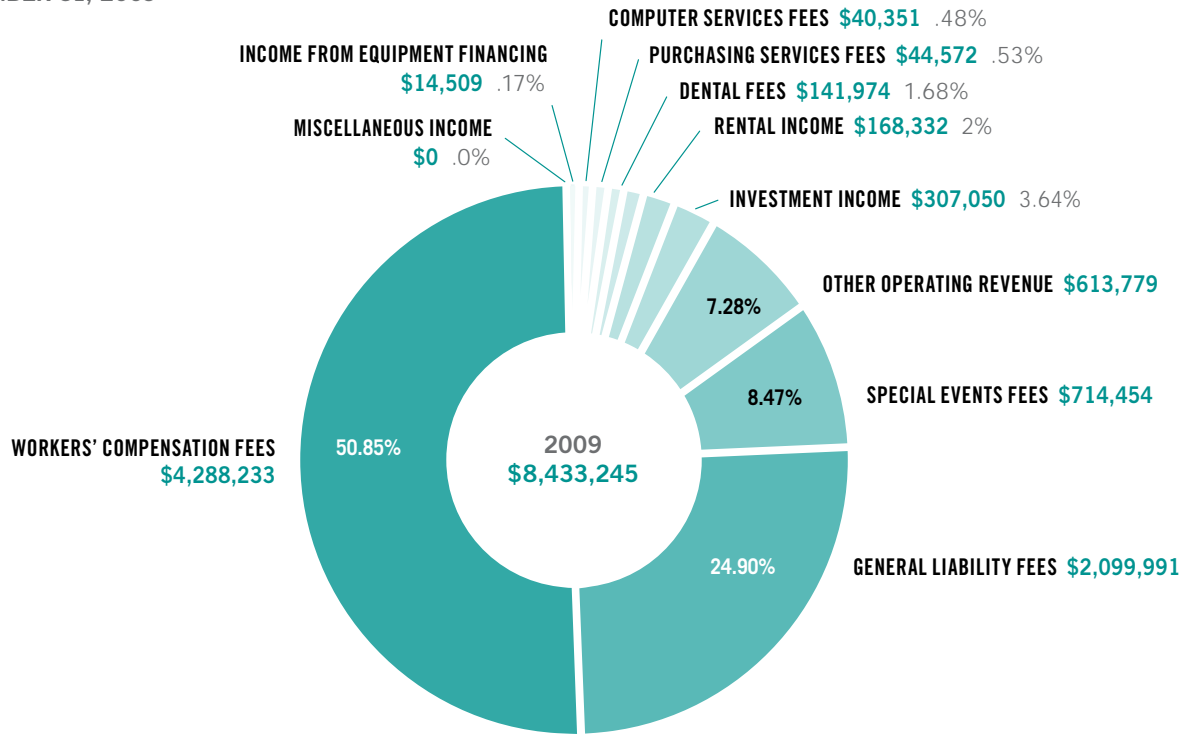
CFSA STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

| | Year Ended 12/31/2009 | Year Ended 12/31/2008 | Percentage Change | Year Ended 12/31/2007 | Percentage Change |
|---------------------------------|--------------------------|--------------------------|----------------------|--------------------------|----------------------|
| OPERATING REVENUES | | | | | |
| General Liability Fees | \$ 2,099,991 | 2,132,007 | (1.50%) | 2,642,904 | (19.33%) |
| Workers' Compensation Fees | 4,288,233 | 4,900,870 | (12.50%) | 5,072,519 | (3.38%) |
| Special Events Fees | 714,454 | 736,708 | (3.02%) | 732,125 | 0.63% |
| Dental Fees | 141,974 | 127,121 | 11.68% | 130,561 | (2.63%) |
| Computer Services Fees | 40,351 | 39,899 | 1.13% | 37,002 | 7.83% |
| Purchasing Services Fees | 44,572 | 41,510 | 7.38% | 47,043 | (11.76%) |
| Other Operating Revenue | 613,779 | 565,574 | 8.52% | 581,083 | (2.67%) |
| Rental Income | 168,332 | 170,093 | (1.04%) | 156,142 | 8.93% |
| Miscellaneous Income | 0 | 140,501 | (100.00%) | 122,858 | 14.36% |
| Total Operating Revenues | 8,111,686 | 8,854,283 | (8.39%) | 9,522,236 | (7.01%) |
| OPERATING EXPENSES | | | | | |
| Losses and Loss Adj. Expenses | 4,030,697 | 4,087,731 | (1.40%) | 3,319,847 | 23.13% |
| Employee Salaries and Benefits | 3,553,001 | 3,206,164 | 10.82% | 3,034,808 | 5.65% |
| Excess Insurance Costs | 806,171 | 899,102 | (10.34%) | 1,062,921 | (15.41%) |
| Computer Services Costs | 37,932 | 33,084 | 14.65% | 32,991 | 0.28% |
| General and Admin. Costs | 613,013 | 759,157 | (19.25%) | 673,211 | 12.77% |
| Depreciation and Amortization | 169,301 | 175,996 | (3.80%) | 184,151 | (4.43%) |
| Total Operating Expenses | 9,210,116 | 9,161,234 | (0.53%) | 8,307,929 | 10.27% |
| Operating Gain/Loss | (1,098,430) | (306,951) | (257.85%) | 1,214,307 | (125.28%) |
| OTHER INCOME | | | | | |
| Investment Income | 307,050 | 662,153 | (53.63%) | 755,832 | (12.39%) |
| Income from Equipment Financing | 14,509 | 14,908 | (2.68%) | 12,103 | 23.18% |
| Total Other Income | 321,559 | 677,061 | (52.51%) | 767,935 | (11.83%) |
| Beginning Net Assets | 8,468,573 | 8,098,463 | | 6,116,221 | |
| Ending Net Assets | \$ 7,691,702 | 8,468,573 | (9.17%) | \$8,098,463 | 4.57% |

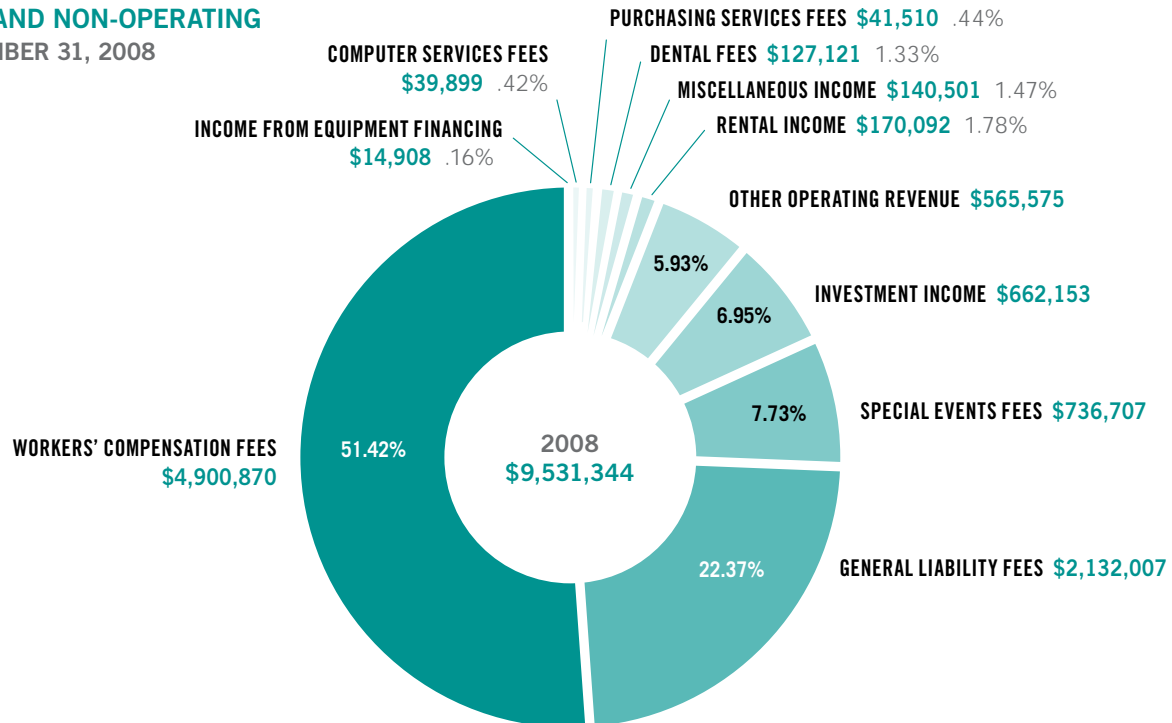
The downward trend since 2007 in Workers' Compensation and General Liability fees is mainly due to the withdrawal of two large members from the programs. The Special Events Program saw another strong year, with gross receipts of \$749,551 and \$38,082 returned back to our Member Fairs. With commercial insurers reluctance to insure small events, the Authority's Special Events Program continues to be very popular.

Loss and loss adjustment expenses decreased in 2009 by 1.4%. Loss and loss adjustment expenses increased in 2008 by 23.13%. This increase is due to 2007's claims activity looking better than average at the time of the actuary study (2007 loss development has increased significantly since the original actuarial study). The 10.82% increase in 2009 and 5.65% increase in 2008 in salaries and benefits is due to CalPERS' increased costs for health and retirement benefits. Excess insurance costs in 2009 are down 10.34% from 2008 due primarily to one large member withdrawing from the Workers' Compensation Program.

2009 OPERATING AND NON-OPERATING REVENUES DECEMBER 31, 2009



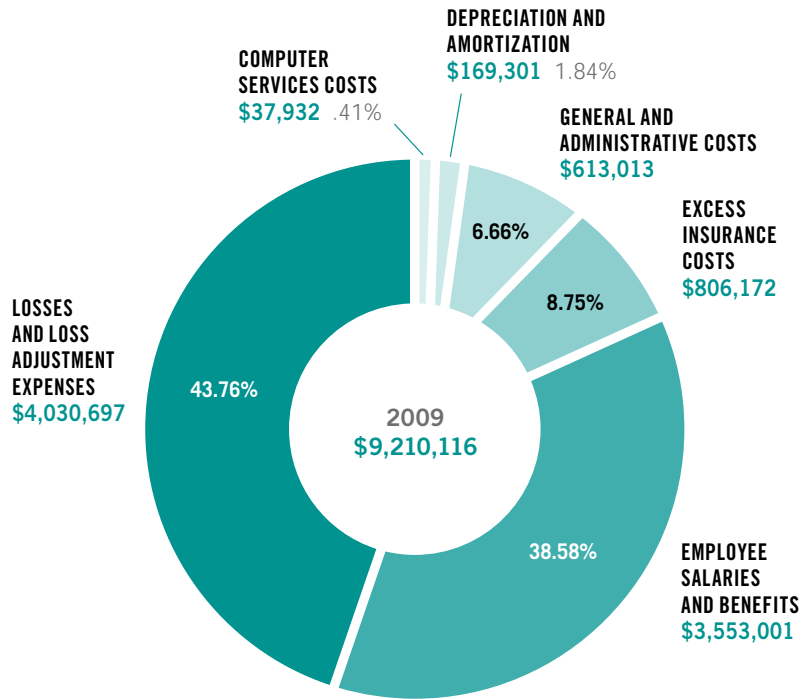
2008 OPERATING AND NON-OPERATING REVENUES DECEMBER 31, 2008



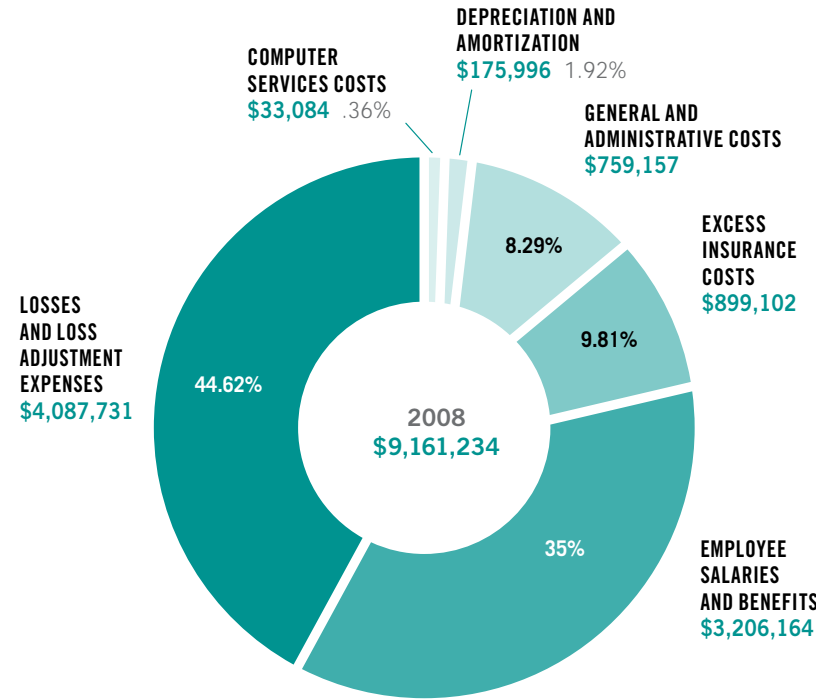
ADVERSE DEVELOPMENT FUND

To augment the stability of the JPA, a capital target fund was defined in 1996 as “The Adverse Development Fund”. This fund, more commonly known as Un-Restricted Net Assets, acts as a cushion to absorb sharp increases in costs, claims activity, or investment shortfalls, and protects against the need to react to events that affect the pool by allowing additional planning and response time. The current target for this fund is \$7.5 million or 50% of total reserves, whichever is greater. As seen by the heavy losses in 2004, this fund has been very crucial to the stability of the Authority’s risk pools.

2009 OPERATING EXPENSES



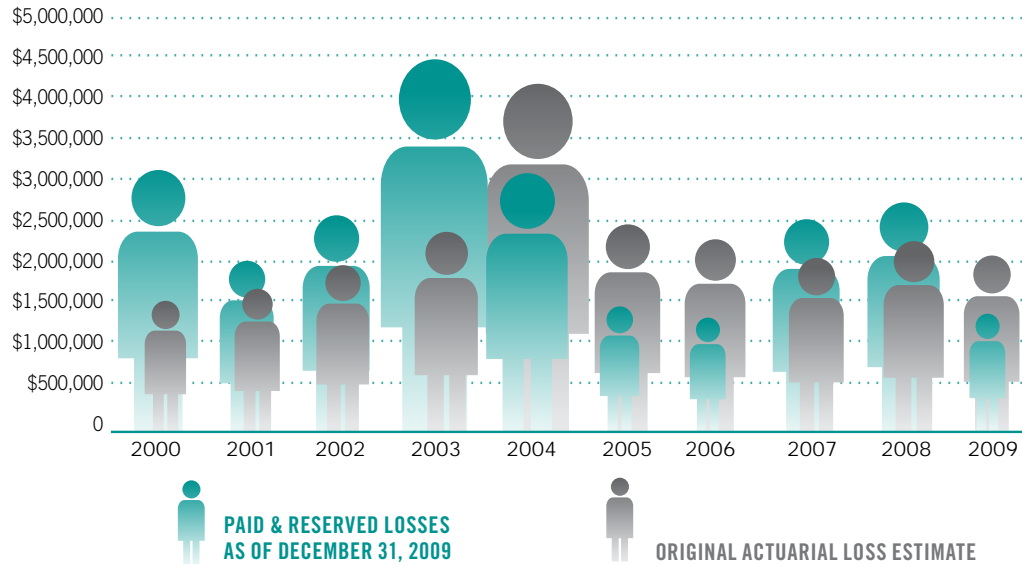
2008 OPERATING EXPENSES



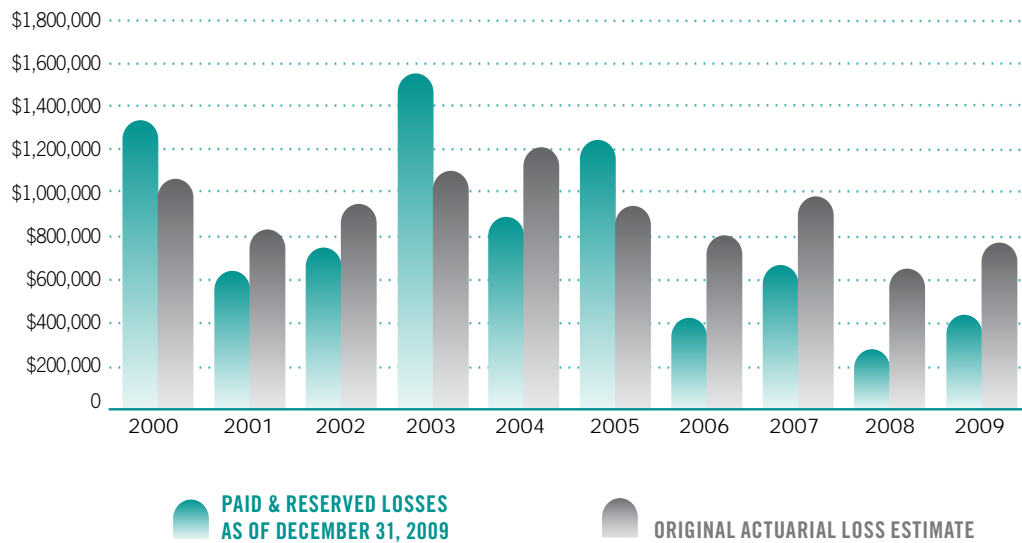
PROVISION FOR INSURED EVENTS

The Authority contracts with Bickmore Risk Services to perform an actuarial evaluation of the Workers' Compensation, General Liability, and Special Events Programs. This evaluation is used to project liabilities for future years, as well as evaluate the adequacy of funding levels for current and prior years. It is the Authority's goal to reserve all three pools at the 90% confidence margin. For 2009 all three Pools were reserved at a 90% confidence margin, the same as in 2008. (The graphs below illustrate the actual claims activity as compared to the original actuarial estimate for each given year.)

WORKERS' COMPENSATION LOSS DEVELOPMENT



LIABILITY LOSS DEVELOPMENT



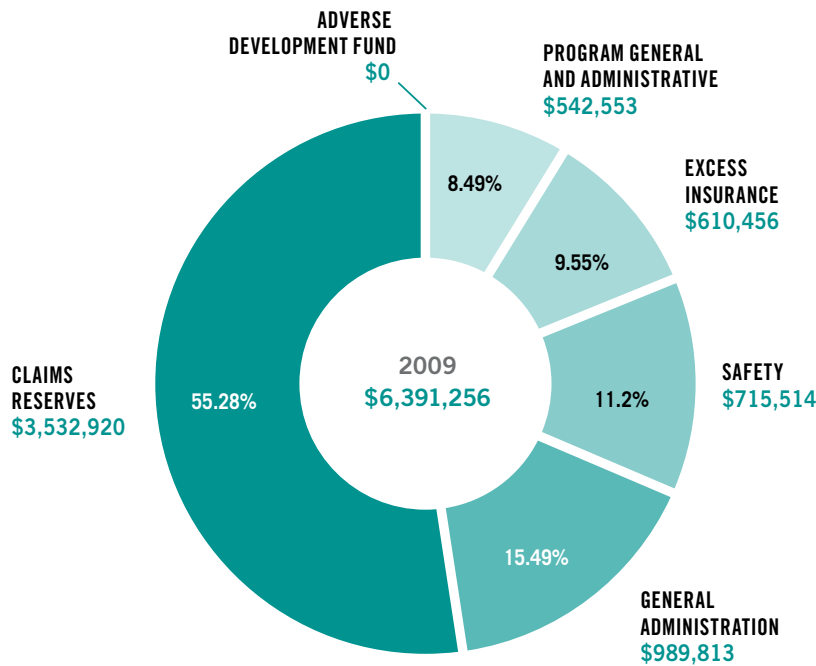
GENERAL ADMINISTRATION & PROGRAM G&A

General administration expenses represent 15.49% of the total risk pool fees assessed members. This figure includes administrative, finance and computer services, staff expenses, support and services, including the expenses associated with the Authority's Board of Directors and Committee meetings. Program General and Administrative (G&A) represents 8.49% of the total risk pool fees assessed members. This figure includes the claims staff and all related office expenses.

RISK CONTROL/SAFETY

The Risk Control Department (Safety) provides training, inspection and other support to members in the Workers' Compensation and General Liability programs with the goal of controlling loss frequency and severity. Risk Control expenses represent 11.2% of the overall pool expenses and are funded 60% by the Workers' Compensation Program, 30% by the General Liability Program, and 10% by the Special Events Program. The department works closely with staff from each of our members to implement programs that help them keep down the cost of coverage.

2009 RISK POOL FEES



BUDGETARY HIGHLIGHTS

Each year the Authority's Board of Directors approves a budget and establishes rates and funding levels for all programs. The budget is brought to the Board in November for their approval, with a budget revision driven by the actuary study approved the following April. The Authority is not required to make mid-year budget adjustments.

Below is a summary of the budget information with a comparison to actual revenues and expenditures. (Individual line items may not agree to the audited financial statements due to a difference in the classification of certain revenues and expenses.) Significant changes between the budget and the actual results includes:

CALIFORNIA FAIR SERVICES AUTHORITY 2009 AGENCY BUDGET

| | 2009 Budget | Actual Results | \$ Variance | % Variance |
|----------------------------|------------------------|---------------------------|---------------------|-------------------|
| REVENUES | | | | |
| Purchasing (Net) | \$ 65,500 | \$ 44,572 | \$ (20,928) | (46.95%) |
| Workers' Compensation Fees | 4,138,000 | 4,291,265 | 153,265 | 3.57% |
| General Liability Fees | 2,130,750 | 2,099,991 | (30,759) | (1.46%) |
| Special Event Fees | 784,750 | 752,319 | (32,431) | (4.31%) |
| Computer Fees | 43,107 | 40,351 | (2,756) | (6.83%) |
| Revenue Protection | 50,000 | 50,000 | 0 | 0% |
| Finance Department Fees | 402,701 | 499,000 | 96,299 | 19.30% |
| Administration Fees | 45,000 | 180,365 | 135,365 | 75.05% |
| Tribute Road Rent | 168,856 | 168,332 | (524) | (0.31%) |
| Investment Income | 500,000 | 307,050 | (192,950) | (62.84%) |
| Total Revenue | <u>8,328,664</u> | <u>8,433,245</u> | <u>104,581</u> | <u>(1.24%)</u> |
| EXPENSES | | | | |
| Losses & Costs | 3,367,000 | 4,030,697 | 538,518 | 16.47% |
| Excess Insurance | 850,775 | 806,172 | (44,603) | (5.53%) |
| Salaries & Benefits | 3,275,363 | 3,553,530 | 143,329 | 7.83% |
| Travel | 113,250 | 111,748 | (1,502) | (1.34%) |
| Tribute Road Costs | 265,013 | 211,300 | (53,713) | (25.42%) |
| Contract Services | 122,250 | 115,144 | (7,106) | (6.17%) |
| Other Direct Costs | 269,635 | 308,610 | 22,893 | 12.63% |
| Depreciation | 0 | 72,915 | 72,915 | 100.00% |
| Total Expenses | <u>8,263,286</u> | <u>9,210,116</u> | <u>946,830</u> | <u>10.28%</u> |
| Net Income/Loss | <u>\$ 65,378</u> | <u>\$ (776,871)</u> | <u>\$ (842,249)</u> | |

MANAGEMENT'S DISCUSSION AND ANALYSIS

- The reduction in Purchasing Services Fees is primarily the result of fair's spending less in 2009.
- The increase in Workers' Compensation fees is due to higher than expected payroll totals for our membership.
- The decrease in General Liability fees is due to better loss histories and lower loss modification ratios applied in 2009.
- The decrease in Special Events fees can be attributed to the economy and fewer events being covered by this program.
- Investment income was down sharply due to historically low returns in the bond market and from LAIF.
- Losses & Costs were up significantly due to higher than expected Workers' Compensation losses.
- Excess insurance costs took a slight drop in all three primary pools.
- The 4.19% increase in salaries and benefits versus the budget is due to the increased costs of health benefits and retirement benefits. This number is difficult to predict in the budget process due to changes made by CalPERS in July of each year.
- Tribute Road (our building) costs are lower than the budget due to several budgeted projects not being completed in 2009.
- Other direct costs exceeded budget due primarily to the four offsite training sessions CFSA held in the Fall.

REQUIRED SUPPLEMENTARY INFORMATION

Following the basic financial statements is required supplementary information, which provides further detail and reconciliation of claims liabilities by program.

CONCLUSION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information should be addressed to the Assistant Director-Finance, 1776 Tribute Road, Suite 100, Sacramento, California 95815.

BALANCE SHEETS DECEMBER 31, 2009 AND 2008

| | 2009 | 2008 |
|---|---------------|---------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 16,686,421 | \$ 12,964,251 |
| Investments | 1,422,606 | 2,040,436 |
| Accounts receivable: | | |
| Risk fees receivable | 587,008 | 561,412 |
| Receivables from fairs and others, net of allowance for doubtful accounts of \$37,740 in 2009 and 2008 | 679,684 | 943,003 |
| Contracts receivable for equipment financing | 96,998 | 73,069 |
| Shade structure sublease | - | 188,195 |
| Prepaid expenses | 108,913 | 164,368 |
| Total current assets | 19,581,630 | 16,934,734 |
| Noncurrent assets: | | |
| Investments | 6,974,745 | 5,295,503 |
| Contracts receivable for equipment financing – net | 256,546 | 180,405 |
| Fixed assets, net | 1,493,931 | 1,657,390 |
| Total noncurrent assets | 8,725,222 | 7,133,298 |
| Total assets | \$ 28,306,852 | \$ 24,068,032 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 542,964 | \$ 547,123 |
| Deferred revenue | - | 8,591 |
| Division of Fairs and Exposition Funds | 4,468,066 | 182,822 |
| Revenue protection program | 2,945,647 | 3,137,049 |
| Property risk pooling program | 616,379 | 342,517 |
| Shade structure lease agreement | - | 188,195 |
| Unpaid losses and loss adjustment expense: | | |
| General liability | 959,597 | 944,306 |
| Workers' compensation | 2,930,818 | 2,805,226 |
| Special events | 145,765 | 111,672 |
| Total current liabilities | 12,609,236 | 8,267,501 |
| Noncurrent liabilities: | | |
| Net OPEB obligation | 135,243 | - |
| Unpaid losses and loss adjustment expense: | | |
| General liability | 1,084,428 | 1,285,810 |
| Workers' Compensation | 6,584,587 | 5,849,436 |
| Special Events | 201,656 | 196,712 |
| Total noncurrent liabilities | 8,005,914 | 7,331,958 |
| Total liabilities | 20,615,150 | 15,599,459 |
| Net assets: | | |
| Invested in capital assets | 1,493,931 | 1,657,390 |
| Unrestricted | 6,197,771 | 6,811,183 |
| Total net assets | 7,691,702 | 8,468,573 |
| Total liabilities and net assets | \$ 28,306,852 | \$ 24,068,032 |

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

| | 2009 | 2008 |
|-------------------------------------|---------------------|---------------------|
| REVENUES | | |
| Workers' compensation fees | \$ 4,288,233 | \$ 4,900,870 |
| General liability fees | 2,099,991 | 2,132,007 |
| Special events fees | 714,454 | 736,708 |
| Other operating revenue | 613,779 | 565,574 |
| Rental income | 168,332 | 170,093 |
| Dental fees | 141,974 | 127,121 |
| Computer service fees | 40,351 | 39,899 |
| Miscellaneous income | - | 140,501 |
| Purchasing service fees | 44,572 | 41,510 |
| Total operating revenues | <u>8,111,686</u> | <u>8,854,283</u> |
| EXPENSES | | |
| Losses and loss adjustment expenses | 4,030,697 | 4,087,731 |
| Employee salaries and benefits | 3,553,001 | 3,206,164 |
| Excess insurance costs | 806,172 | 899,102 |
| General and administrative costs | 613,013 | 759,157 |
| Depreciation | 169,301 | 175,996 |
| Computer service costs | 37,932 | 33,084 |
| Total operating expenses | <u>9,210,116</u> | <u>9,161,234</u> |
| Operating loss | <u>(1,098,430)</u> | <u>(306,951)</u> |
| NONOPERATING REVENUES | | |
| Investment income | 307,050 | 662,153 |
| Income from equipment financing | 14,509 | 14,908 |
| Total other income | <u>321,559</u> | <u>677,061</u> |
| Increase (decrease) in net assets | <u>(776,871)</u> | <u>370,110</u> |
| Net assets, beginning of year | 8,468,573 | 8,098,463 |
| Net assets, end of year | <u>\$ 7,691,702</u> | <u>\$ 8,468,573</u> |

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

| | 2009 | 2008 |
|--|---------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from participant fees | \$ 7,558,707 | \$ 8,184,440 |
| Cash received from other sources | 870,236 | 972,419 |
| Cash received for Division of Fairs and Expositions | 5,255,919 | 961,145 |
| Cash received for revenue protection program | 186,998 | 247,583 |
| Cash received for property program | 1,231,210 | 1,104,166 |
| Payments for Division of Fairs and Expositions | (970,675) | (801,998) |
| Payments for revenue protection program | (378,400) | (702,644) |
| Payments for property program | (957,348) | (762,093) |
| Payments for claims | (3,317,008) | (3,811,888) |
| Payments for excess insurance | (750,717) | (868,440) |
| Payments to vendors | (758,245) | (912,749) |
| Payments to employees | (3,502,812) | (3,104,123) |
| Net cash provided by operating activities | 4,467,865 | 505,818 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchase of property and equipment | (13,842) | (112,081) |
| Proceeds from the sale of property and equipment | 8,000 | - |
| Net cash used by capital and related activities | (5,842) | (112,081) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment income received | 413,294 | 509,984 |
| Proceeds from sale of investments | 2,313,009 | 2,284,121 |
| Purchases of investments | (3,480,665) | (2,555,791) |
| Income from equipment financing program | 14,509 | 14,908 |
| Net cash provided (used) by investing activities | (739,853) | 253,222 |
| Increase in cash and cash equivalents | 3,722,170 | 646,959 |
| Cash and cash equivalents, beginning of year | 12,964,251 | 12,317,292 |
| Cash and cash equivalents, end of year | \$ 16,686,421 | \$ 12,964,251 |
| Non-cash investing activities: | | |
| Net change in fair value of investments | \$ 106,244 | \$ (152,169) |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Operating loss | \$ (1,098,430) | \$ (306,951) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | |
| Depreciation | 169,301 | 175,996 |
| (Increase) decrease in: | | |
| Risk fees receivable | (25,596) | (19,743) |
| Receivables from fairs and others | 263,319 | 226,068 |
| Contracts receivable for equipment financing | (100,070) | 96,251 |
| Prepaid expenses | 55,455 | 30,662 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (4,159) | (18,467) |
| Deferred revenues | (8,591) | 8,591 |
| Division of Fairs and Exposition Funds | 4,285,244 | 159,147 |
| Revenue protection program | (191,402) | (455,061) |
| Property program | 273,862 | 342,073 |
| Net OPEB obligation | 135,243 | - |
| Unpaid losses and loss adjustment expenses | 713,689 | 267,252 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 4,467,865 | \$ 505,818 |

The accompanying notes are an integral part of these financial statements.

1. GENERAL INFORMATION

ORGANIZATION. The California Fair Services Authority (the Authority) operates pursuant to its joint powers agreement, as authorized by the California Government Code, Sections 6500, et. seq. The Government Code authorizes two or more public agencies to jointly exercise common powers by agreement (Section 6502). In addition, the Government Code specifically authorizes public agencies conducting fairs to enter into a joint powers agreement to form pooling arrangements for losses incurred by such agencies (Section 6516). Section 6516 states that the Department of Food and Agriculture may enter into such a joint powers agreement on behalf of district agricultural associations and citrus fruit fairs. The power of a joint powers agency “is subject to the restrictions upon the manner of exercising the power of one of the contracting parties, which party shall be designated by the agreement” (Section 6509).

The Authority was first formed in April 1986 by agreement between the County of Santa Clara and the Department of Food and Agriculture (DFA) on behalf of the 54 district agricultural associations. Since that time, a number of additional counties have joined. DFA has joined on behalf of the two citrus fruit fairs and the California Exposition and State Fair has joined independently of DFA. In addition, the joint powers agreement has been amended a number of times as the Authority’s Board of Directors expanded and the Authority’s programs extended beyond risk pooling.

The Authority is governed by a seven-member board consisting of five elected representatives from member fairs, one appointed public member, and one member appointed by the Secretary of DFA. Operating revenue is derived from fees assessed on the various programs and services offered.

The primary activities of the Authority include:

- Providing joint protection programs for 72 member fairs in California and the California Construction Authority, a joint powers agency providing construction services to the fair industry. The Authority’s joint protection programs include the general liability and workers’ compensation programs. The number of pool participants can vary depending on the addition of new member fairs and/or exit of current member fairs.
- Administration of a special events program, providing pooled liability protection for users of fair facilities.
- Administration of a revenue protection program for participating fairs.
- Administration of a property insurance program for participating fairs.
- Coordinating safety inspections of member fairs’ facilities.
- Providing bulk purchasing and financing services to member fairs for fees.
- Providing computer services to member fairs for fees, including payroll and accounting services.
- Acting as an intermediary for the Division of Fairs and Expositions (DF&E) to reimburse billings from the California Employment Development Department for unemployment claims for the fairs.
- Contracting with service providers for certain fair-time services at member fairs.
- Acting as an intermediary for the California Department of Personnel Administration (DPA) in collecting contributions from the Part-time Seasonal Temporary employees at the District Agricultural Associations and administering the Alternative Retirement Program and other various employee benefits passed onto DPA.

Revenue and expenses of the Revenue Protection Program, Property Insurance Program and California Employment Development Department Unemployment Program are not recorded on the Authority’s financial statements, except for administration fees.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING. As the Authority was established to account for activities that are operated in a manner similar to those of private business enterprises, it is considered an enterprise fund and, as such, the accounting records of the Authority are maintained on the accrual basis of accounting. As allowed by governmental accounting standards, the Authority has elected to apply statements and related interpretations issued by the Financial Accounting Standards Board (FASB) before November 30, 1989, except for those that conflict with or contradict Government Accounting Standards Board (GASB) pronouncements. The Authority has elected not to apply FASB statements issued subsequent to November 30, 1989.

EXCESS INSURANCE. The Authority provides joint protection coverage for its members. The Authority carries excess and reinsurance for coverage of losses in excess of the Authority’s self-insured retention (SIR). Changes in excess or reinsurance depend on market conditions.

NOTES TO FINANCIAL STATEMENTS

The Authority's 2009 program offers the following coverage:

GENERAL LIABILITY COVERAGE

| Effective Date | SIR | Limits | Type of Coverage |
|-----------------|--------------|--------------------------|------------------|
| January 1, 2004 | \$ 1,000,000 | \$ 1,000,001 – 9,000,000 | Excess |
| January 1, 2007 | 1,000,000 | 1,000,001 – 9,000,000 | Reinsurance |
| January 1, 2008 | 750,000 | 750,001 – 10,000,000 | Excess |

SPECIAL EVENTS COVERAGE

| Effective Date | SIR | Limits | Type of Coverage |
|-----------------|------------|------------------------|------------------|
| January 1, 2007 | \$ 250,000 | \$ 250,001 – 1,000,000 | Excess |

REVENUE PROTECTION PROGRAM COVERAGE

| Effective Date | SIR | Limits | Type of Coverage |
|-----------------|------------|------------------------|------------------|
| January 1, 2001 | \$ 600,000 | \$ 600,001 – 1,600,000 | Excess |

WORKERS' COMPENSATION COVERAGE

| Effective Date | SIR | Workers' Comp. Limits | Employers Liability Limit |
|-----------------|------------|------------------------|---------------------------|
| January 1, 1988 | \$ 250,000 | \$ 250,001 – Statutory | \$ 250,001 – 1,000,000 |
| January 1, 1993 | 250,000 | 250,001 – Statutory | 250,001 – 5,000,000 |
| January 1, 1996 | 300,000 | 300,001 – Statutory | 300,001 – 5,000,000 |
| January 1, 2000 | 250,000 | 250,001 – Statutory | 250,001 – 5,000,000 |
| July 1, 2001 | 300,000 | 300,001 – Statutory | 300,001 – 5,000,000 |
| July 1, 2002 | 500,000 | 500,001 – 25,000,000 | 500,001 – 5,000,000 |
| July 1, 2003 | 500,000 | 500,001 – 50,000,000 | 500,001 – 10,000,000 |
| July 1, 2004 | 500,000 | 500,001 – 100,000,000 | 500,001 – 5,000,000 |
| July 1, 2005 | 500,000 | 500,001 – 150,000,000 | 500,001 – 5,000,000 |
| July 1, 2006 | 500,000 | 500,001 – 200,000,000 | 500,001 – 5,000,000 |
| July 1, 2007 | 500,000 | 500,001 – 300,000,000 | 500,001 – 5,000,000 |
| July 1, 2008 | 500,000 | 500,001 – Statutory | 500,001 – 5,000,000 |

FUNDING OF PROGRAMS. Program underwriting and rate setting policies are established after consultation with actuaries.

Risk fees for the general liability program are assessed to the membership on the basis of fair classifications determined by the DF&E and the individual fairs' loss history. Risk fees for the workers' compensation program are assessed to the membership on the basis of gross payroll and the individual fairs' loss history. Coverage for both programs is based on the calendar year. Risk fees for the special events program are assessed to participating fair facility users on the basis of the estimated level of risk and attendance of each special event.

Funding for the Revenue Protection Program is assessed to the membership based on a fee of \$250 per \$25,000 of coverage.

The Authority provides excess reinsurance coverage for a single loss or a series of losses, which would exceed the equity of the Authority. In the event that excess reinsurance is not adequate for a catastrophic loss or series of losses, the Authority has the ability to make supplementary assessments to member fairs. In addition, the Authority or its member fairs could request support from the Fairs and Expositions Fund or from a specific appropriation by the California legislature.

USE OF ESTIMATES. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

CASH AND CASH EQUIVALENTS. The Authority considers all highly liquid debt instruments purchased with a maturity of three months or less and its investment in the Local Agency Investment Fund (LAIF) to be cash equivalents.

INVESTMENTS. The Authority records its investments and cash in the LAIF at fair value. Changes in fair value are reported as revenue in the statement of operations.

The fair value of investments has been determined based on quoted market prices. The Authority's investment in LAIF is valued based on the relative fair value of the entire external pool to the external pool's respective amortized cost.

NOTES TO FINANCIAL STATEMENTS

FIXED ASSETS. Fixed assets are stated at cost. Major additions in excess of \$500 are capitalized and repair and maintenance costs are expensed. Depreciation is computed using the straight-line method over estimated useful lives of three to five years for automobiles and computer equipment, five to ten years for furniture and equipment, ten to fifteen years for improvements, and twenty-five years for buildings. When assets are sold or abandoned, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized in the statement of operations.

RISK FEES RECEIVABLE / RECEIVABLES FROM FAIRS AND OTHERS. Risk fees receivable represent the billed portion of workers' compensation and general liability insurance fees at a specific point in time. Risk fees assessed are recognized as earned on a pro rata basis over the coverage term.

Receivables from fairs and others represent amounts related to letters of understanding and other services performed. Member fairs have two payment plan options for their annual assessments for the workers' compensation and general liability programs. These plans consist of:

1. Lump sum payment by July 31, with a 1% discount;
2. Six monthly payments from July 1 through December 31

The annual assessment covers the policy coverage period January 1 through December 31.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES. The Authority establishes claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. These estimates have not been discounted to their present value. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liabilities is unlikely to result in an exact amount, particularly for coverage such as general liability. Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claim liabilities are charged or credited to expense in the periods in which they become known.

Although the Authority considers its experience and industry data in determining the liabilities, assumptions and projections as to future events are necessary and ultimate losses may differ significantly from amounts projected. Because only limited historical data is available and assumptions and projections as to future events are necessary, ultimate losses may differ significantly from estimates in the near term.

GASB IMPLEMENTATION. In July of 2004, the GASB issued GASB Statement 45 (GASB 45), Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, with required implementation for the Authority during the 2008-09 fiscal year. This new statement significantly changes the way state and local governments report their "other postemployment benefits" (OPEB) to the public. As a result of GASB 45, state and local governments are required to (1) recognize the cost of these benefits in periods when the related services were rendered to the employer, (2) provide information about the actuarial accrued liabilities for promised benefits associated with past services and to what extent those benefits have been funded, (3) and provide information useful in assessing potential demands on employer's cash flow. This statement was implemented by the Authority in 2009. As a result, the Authority has recorded its net OPEB obligation and included financial statement disclosures in Note 11 regarding the OPEB plan. The Authority adopted GASB 45 prospectively.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

| | 2009 | 2008 |
|--|---------------|---------------|
| Cash and cash equivalents | | |
| Deposits with financial institutions | \$ 1,754,315 | \$ 790,930 |
| Money market | 276,558 | 137,206 |
| Petty cash | 271 | 188 |
| Deposits in LAIF | 14,655,277 | 12,035,927 |
| Total cash and cash equivalents | 16,686,421 | 12,964,251 |
| Investments | 8,397,351 | 7,335,939 |
| Total cash, cash equivalents and investments | \$ 25,083,772 | \$ 20,300,190 |

LOCAL AGENCY INVESTMENT FUNDS. The Authority is a voluntary participant in Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Separate complete financial statements are available at P.O. Box 942809, 915 Capital Mall C-15, Sacramento, CA 94209-0001.

NOTES TO FINANCIAL STATEMENTS

INVESTMENTS AUTHORIZED BY THE AUTHORITY'S INVESTMENT POLICY. The table below identifies the investment types that are authorized for the Authority by the California Government Code and the Authority's investment policy. The table also identifies certain provisions of the California Government Code that address interest rate risk and concentration of credit risk.

| Investment Types Authorized by State Law | Authorized by Investment Policy | Maximum Maturity* | Maximum Percentage of Portfolio* | Maximum Investment In One Issuer* |
|---|------------------------------------|----------------------|--|---|
| Local Agency Bonds | Yes | 5 years | None | None |
| U.S. Treasury Obligations | Yes | 5 years | None | None |
| U.S. Agency Securities | Yes | 5 years | None | None |
| Banker's Acceptances | Yes | 180 days | 40% | 20% |
| Commercial Paper | Yes | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | Yes | 5 years | 30% | 20% |
| Repurchase Agreements | Yes | 1 year | 20% | 20% |
| Reverse Repurchase Agreements | Yes | 92 days | 20% | 20% |
| Medium-Term Notes | Yes | 5 years | 30% | 20% |
| Mutual Funds | Yes | 5 years | 20% | 10% |
| Money Market Mutual Funds | Yes | 5 years | 20% | 10% |
| Mortgage Pass-Through Securities | Yes | 5 years | 20% | 20% |
| County Pooled Investment Funds | No | N/A | N/A | N/A |
| Local Agency Investment Fund (LAIF) | Yes | N/A | None | None |
| JPA Pools (other investment pools) | No | N/A | N/A | N/A |

*Based on state law requirements or investment policy requirements, whichever is more restrictive.

DISCLOSURES RELATING TO INTEREST RATE RISK. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair values to changes in market interest rates. As of year-end, the average effective maturity of the investments contained in the Authority's pool is approximately 2.16 years.

Information about the sensitivity of the fair values of investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

| Investment Type | Fair Value | REMAINING MATURITY (IN MONTHS) | | | |
|------------------|--------------|--------------------------------|--------------------|-----------------|------------------------|
| | | 12 Months or Less | 13 to 24 Months | 25-60 Months | More Than 60 Months |
| Corporate Bonds | \$ 3,461,934 | \$ 615,991 | \$ 695,845 | \$ 2,150,098 | \$ - |
| Government Bonds | 4,935,417 | 806,616 | 1,036,928 | 3,091,874 | - |
| Total | \$ 8,397,351 | \$ 1,422,606 | \$ 1,732,773 | \$ 5,241,971 | \$ - |

DISCLOSURES RELATING TO CREDIT RISK. Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented hereafter is the minimum rating required by (where applicable) the California Government Code or the Authority's investment policy, and the actual rating as of year-end for each investment type.

| Investment Type | Fair Value | Exempt from Disclosure | RATING AS OF YEAR END | | |
|------------------|---------------|---------------------------|-----------------------|--------------|---------------|
| | | | AAA to AA | AA- to A- | Not Rated |
| Corporate Bonds | \$ 3,461,934 | | \$ 726,805 | \$ 2,735,129 | |
| Government Bonds | 4,935,417 | \$ 4,935,417 | - | - | |
| LAIF | 14,655,277 | - | - | - | \$ 14,655,277 |
| Money Market | 276,558 | - | - | - | 276,558 |
| Total | \$ 23,329,185 | \$ 4,935,417 | \$ 726,805 | \$ 2,735,129 | \$ 14,931,834 |

NOTES TO FINANCIAL STATEMENTS

CONCENTRATION OF CREDIT RISK. The investment policy of the Authority contains the limitation that the purchase of any single investment shall not exceed 20% of the portfolio's total invested assets, or two million dollars, whichever is greater. Government issued or backed securities are exempt from this restriction. The Authority does not have investments in any one issuer that represents 5% or more of the total investments that would signify a violation of their investment policy.

CUSTODIAL CREDIT RISK. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The Authority maintains deposits with financial institutions in excess of federal depository insurance limits that are held in accounts that are collateralized with securities held by the financial institutions. The amount of such deposits was \$1,807,264 at December 31, 2009.

DERIVATIVE INVESTMENTS. The Authority did not directly enter into any derivative investments. Information regarding the amount invested in derivatives by the LAIF was not available.

FOREIGN CURRENCY RISK. The Authority does not invest in securities denominated in foreign currency; therefore it has no policies or exposure relating to foreign currency risk.

4. CONTRACTS RECEIVABLE FOR EQUIPMENT FINANCING, NET

The Authority has long-term contracts with its member fairs for the financing of equipment. Under this program, the Authority either purchases equipment on behalf of the fairs or makes loans to the fairs for them to purchase equipment. The contracts bear an interest rate of 4.5% to 5.5% and are collateralized by the underlying equipment. All equipment is owned by the fairs in their own name.

Annual minimum payments due on these contracts at December 31, 2009 are as follows:

| Year ending December 31, | |
|--|-------------------|
| 2010 | \$ 112,209 |
| 2011 | 92,583 |
| 2012 | 71,536 |
| 2013 | 37,976 |
| 2014 | 30,109 |
| 2015-2016 | <u>50,181</u> |
| Total minimum payments | 394,594 |
| Less amount representing interest | <u>(41,052)</u> |
| Net contracts receivable for equipment financing | <u>\$ 353,542</u> |

5. FIXED ASSETS

Fixed assets at December 31 consisted of the following:

| Description | Balance at December 31, 2008 | Additions | Disposals | Balance at December 31, 2009 |
|-------------------------------|---------------------------------|--------------|--------------|---------------------------------|
| Building and improvements | \$ 2,156,710 | \$ 2,633 | | \$ 2,159,343 |
| Land | 681,073 | – | | 681,073 |
| Equipment | 679,686 | 7,444 | \$ (182,220) | 504,910 |
| Furniture and fixtures | 153,104 | 2,439 | (122,577) | 32,966 |
| Vehicles | 97,179 | – | (17,437) | 79,742 |
| Total | 3,767,752 | 12,516 | (322,234) | 3,458,034 |
| Less accumulated depreciation | (2,110,362) | (169,301) | 315,560 | (1,964,103) |
| Fixed assets – net | \$ 1,657,390 | \$ (156,785) | \$ (6,674) | \$ 1,493,931 |

6. DIVISION OF FAIRS AND EXPOSITIONS FUNDS

UNEMPLOYMENT INSURANCE PROGRAM. At December 31, 2009 and 2008, the Authority's liabilities included \$1,307,338 and \$176,723, respectively, in funds to be used for the Unemployment Insurance Program. These funds are committed to fair service programs under letters of understanding with DF&E and accounted for as liabilities until spent.

PROPERTY RISK POOLING PROGRAM. At December 31, 2009 and 2008, the Authority's liabilities included \$616,379 and \$342,517, respectively, for the operation of the property risk pooling program. This amount is primarily comprised of \$2,550,000 advanced in January 2002 from the California Fairs Financing Authority, as authorized by DF&E, for the purpose of funding the property insurance risk-pooling program for California fairs beginning January 1, 2002.

REVENUE PROTECTION PROGRAM. At December 31, 2009 and 2008, the Authority's liabilities included \$2,945,647 and \$3,137,049, respectively, for the operation of the revenue protection program. DF&E advanced funds to the Authority in 1995 to fund the program, which provides coverage to the fairs ranging from \$50,000 to \$500,000 per member. In addition, stop-loss insurance provides coverage of \$1,000,000 to the program if aggregate losses exceed \$600,000 in a policy year. The Authority administers the funds received and pays claims under this program on behalf of the member fairs for a fee and does not assume any liability for claims. Premiums are assessed to fairs to maintain the Program resources at the amounts originally funded.

LOAN AND GRANT PROGRAMS. At December 31, 2009, the Authority's liabilities included \$3,150,000 in funds to be used for the loans and grants to the Fair industry as authorized by DF&E. Actual Program policies and procedures are still being developed and should be in place in early 2010.

7. UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

As discussed in Note 2, the Authority establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities during the years ended December 31:

| | 2009 | 2008 |
|--|---------------|---------------|
| Unpaid losses and loss adjustment expenses, beginning of fiscal year | \$ 11,192,430 | \$ 10,925,910 |
| Incurring losses and loss adjustment expenses: | | |
| Provision for covered events of the current year | 3,654,685 | 3,925,766 |
| Increase (decrease) in provision for covered events of prior years | 331,404 | (8,074) |
| Total incurred losses and loss adjustment expenses | 3,986,089 | 3,917,692 |
| Payments: | | |
| Losses and loss adjustment expenses attributable to covered events of the current year | 523,683 | 922,841 |
| Losses and loss adjustment expenses attributable to covered events of prior years | 2,747,985 | 2,728,331 |
| Total payments | 3,271,668 | 3,651,172 |
| Total unpaid losses and loss adjustment expenses, end of fiscal year | \$ 11,906,851 | \$ 11,192,430 |

8. CONFIDENCE MARGIN

The Board has designated a confidence margin for all programs of the Authority for future loss development in order to maintain a 90% confidence level for the special events, general liability, and workers' compensation programs for 2009. The confidence margin represents actuarially estimated losses at a specific confidence level in excess of the actuarially estimated losses at the expected confidence level. Any net assets in excess of the confidence margin are undesignated.

| | Designated for Confidence Margin | Undesignated | Total |
|----------------------------|-------------------------------------|--------------|--------------|
| Balance, January 1, 2008 | \$ 3,542,000 | \$ 4,556,463 | \$ 8,098,463 |
| Increase in Net Assets | – | 370,110 | 370,110 |
| Designation | 386,000 | (386,000) | – |
| Balance, December 31, 2008 | 3,928,000 | 4,540,573 | 8,468,573 |
| Decrease in Net Assets | – | (776,871) | (776,871) |
| Designation | 161,000 | (161,000) | – |
| Balance, December 31, 2009 | \$ 4,089,000 | \$ 3,602,702 | \$ 7,691,702 |

The designated net assets confidence margin for each of the programs at December 31 is as follows:

| | 2009 | 2008 |
|-------------------------|--------------|--------------|
| General liability | \$ 1,165,000 | \$ 1,213,000 |
| Workers' compensation | 2,736,000 | 2,465,000 |
| Special events | 188,000 | 250,000 |
| Total confidence margin | \$ 4,089,000 | \$ 3,928,000 |

9. DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all regular employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The Authority does not make contributions to the plan.

In 1997, the Board authorized revisions to the plan to implement federal legislative changes. These changes clarified that plan assets are held for the benefit of participating employees and are not subject to claims by creditors of the Authority. Therefore, the plan is not included in the Authority's financial statements.

10. EMPLOYEE RETIREMENT SYSTEM

Eligible employees are covered under an agent multi-employer defined benefit pension plan maintained by an agency of the State of California. The Authority's employees are members of the California Public Employees' Retirement System (CalPERS).

PLAN DESCRIPTION. The Authority's defined benefit pension plan (the Plan) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of the Miscellaneous Group of the California Public Employees' Retirement System, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California.

A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The Plan provides optional benefit provisions from the benefit menu selected under contract with CalPERS and adopts those benefits through the Authority's Board approval. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, California 95814.

FUNDING POLICY. Plan members are required to contribute 7% of their annual covered salary. The Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members (12.322% for 2007-08 and 12.174% for 2008-09). The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. There was \$268,402 and \$256,561 required employer contributions for the years ended June 30, 2009 and 2008, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

NOTES TO FINANCIAL STATEMENTS

ANNUAL PENSION COST. For the year ended December 31, 2009, the Authority's annual pension cost and contribution was \$483,222. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method with contributions determined as a percent of pay. The actuarial assumptions included (a) a 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by age, service, and type of employment, ranging from 3.25% to 14.45% annually for miscellaneous members, and (c) a 3.25% per year cost-of-living adjustment. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of the Plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into the CalPERS Risk Pool. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period. Each year, a single amortization base is created, using the net period for the multiple bases. At the time of joining the CalPERS Risk Pool, a side fund was created to account for the difference between the funded status of the pool and the funded status of the Authority's plan. As of the June 20, 2007 actuarial valuation, the Authority's side fund liability was \$569,151. The remaining amortization period at the June 30, 2007 actuarial valuation was 10 years.

THREE-YEAR TREND INFORMATION FOR THE PLAN

| Fiscal Year Ended December 31: | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Obligation (Asset)/Liability |
|--------------------------------|---------------------------|-------------------------------|----------------------------------|
| 2007 | \$ 98,200 | 100% | \$ - |
| 2008 | \$ 145,156 | 100% | \$ - |
| 2009 | \$ 143,423 | 100% | \$ - |

Amounts contributed to CalPERS are based on the actuarially determined annual contribution rates applied as a percentage of payroll costs. The amounts contributed will differ from the projected annual pension cost due to fluctuations between actual and projected payroll costs.

FUNDED STATUS OF THE PLAN*

| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Excess Assets (Liability) | Funded Status | Annual Covered Payroll | Excess Assets as a Percentage of Payroll |
|----------------|------------------------------------|---------------------------|---------------------------|---------------|------------------------|--|
| 2006 | \$ 2,754,396,608 | \$ 2,492,226,176 | \$ 262,170,432 | 90.5% | \$ 699,897,835 | 37.5% |
| 2007 | \$ 2,611,746,790 | \$ 2,391,434,447 | \$ 220,312,343 | 91.6% | \$ 665,522,859 | 33.1% |

*Plan specific data for the Authority's Plan was no longer made available by CalPERS after the June 30, 2007 valuation.

11. POSTRETIREMENT BENEFITS

The Authority sponsors a single-employer postemployment health care benefit plan. The Authority contributes 90-100 percent, depending on the years of service, and their dependents. Benefits are in accordance with the Authority's employment contracts to all employees who retire from the Authority on or after attaining age 50 with at least 5 years of service. During the year ended December 31, 2009, 12 retirees met these eligibility requirements.

The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. During the year ended December 31, 2009, expenditures of \$390,797 were recognized for the OPEB expense.

The Authority elected to participate in an irrevocable trust. The Trust, California Employers' Retiree Trust (CERBT) fund, is administered by CalPERS. The Authority's policy is to prefund their benefits from time to time at the sole discretion of the Board of Directors (the Board) by accumulating assets in CERBT. The Board reserves the authority to review and amend this funding policy from time to time to ensure that the funding policy continues to best suit the circumstances of the Authority. During the year ended December 31, 2009, the Authority contributed \$255,554 to CERBT.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimations are made about the future. Projections of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point, and, if applicable, the disclosure that the projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and

NOTES TO FINANCIAL STATEMENTS

the actuarial value of assets, consistent with the long-term perspective of the calculation. The schedule of funding progress included in the required supplementary information presents information regarding whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

| Actuarial cost method | Entry normal cost method Level % of projected payroll over a rolling 30 years |
|--|--|
| Amortization method | |
| Remaining amortization period at December 31, 2009 | 30 |
| Interest rate assumption | 7.75% |
| Health inflation assumption | 9.5% |
| Annual required contribution | \$ 390,797 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | - |
| Annual OPEB expense | 390,797 |
| Contributions made | (255,554) |
| Increase in OPEB obligation | 135,243 |
| Net OPEB obligation at January 01, 2009 | - |
| Net OPEB obligation at December 31, 2009 | \$ 135,243 |

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net obligation for December 31, 2009 is as follows:

| Fiscal year ended | Annual OPEB expense | % of annual OPEB expense contributed | Net OPEB obligation |
|--------------------------|--------------------------------|---|------------------------------------|
| 12/31/09 | \$ 390,797 | 65.39% | \$ 135,243 |

The Authority's funding progress for other postemployment benefits as of the most recent valuation, January 1, 2008, is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b - a) / c] |
|-------------------------------------|--|--|--|---------------------------------|--------------------------------|--|
| 01/01/08 | \$ - | \$ 3,174,511 | \$ 3,174,511 | 0% | \$ 1,832,776 | 173.21% |

12. SHADE STRUCTURE LEASE AGREEMENT

Commencing June 15, 2002 the Authority entered into a seven-year agreement to lease shade structures and related equipment on behalf of one of its members. The lease called for seven annual payments of \$201,979 and an option to purchase the equipment at \$188,195 plus tax upon expiration of the lease. The Authority made the lease payments and was subsequently reimbursed by the benefiting member as part of a sublease between the Authority and the member. The sublease also assigns to the member the option to purchase the equipment upon expiration of the lease. The Authority was liable for all future payments on the lease and adhering to the lease agreement. Upon expiration of the lease in 2009, the Authority did not choose to exercise the option to purchase.

SUPPLEMENTARY INFORMATION

RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT GENERAL LIABILITY PROGRAM
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

| | 2009 | 2008 |
|--|--------------|--------------|
| Unpaid Losses and Loss Adjustment Expenses, Beginning of Year | \$ 2,229,384 | \$ 2,466,909 |
| Incurring Losses and Loss Adjustment Expenses: | | |
| Provision for Insured Events of the Current Year | 928,347 | 625,068 |
| Increase (decrease) in provision for covered events of prior years | (575,750) | (318,000) |
| Total Incurred Losses and Loss Adjustment Expenses | 352,597 | 307,068 |
| Payments: | | |
| Losses and Loss Adjustment Expenses Attributable to Insured Events of the Current Year | 145,270 | 79,737 |
| Losses and Loss Adjustment Expenses Attributable to Insured Events of the Prior Years | 392,686 | 464,856 |
| Total Payments | 537,956 | 544,593 |
| Total Unpaid Losses and Loss Adjustment Expenses, End of Year | \$ 2,044,025 | \$ 2,229,384 |

RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT WORKERS' COMPENSATION PROGRAM
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

| | 2009 | 2008 |
|--|--------------|--------------|
| Unpaid Losses and Loss Adjustment Expenses, Beginning of Year | \$ 8,654,662 | \$ 7,937,927 |
| Incurring Losses and Loss Adjustment Expenses: | | |
| Provision for Insured Events of the Current Year | 2,439,629 | 3,035,116 |
| Increase in provision for covered events of prior years | 862,713 | 186,398 |
| Total Incurred Losses and Loss Adjustment Expenses | 3,302,342 | 3,221,514 |
| Payments: | | |
| Losses and Loss Adjustment Expenses Attributable to Insured Events of the Current Year | 348,578 | 802,963 |
| Losses and Loss Adjustment Expenses Attributable to Insured Events of Prior Years | 2,093,021 | 1,701,816 |
| Total Payments | 2,441,599 | 2,504,779 |
| Total Unpaid Losses and Loss Adjustment Expenses, End of Year | \$ 9,515,405 | \$ 8,654,662 |

SUPPLEMENTARY INFORMATION

RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT SPECIAL EVENTS PROGRAM
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

| | 2009 | 2008 |
|--|-------------|-------------|
| Unpaid Losses and Loss Adjustment Expenses, Beginning of Year | \$ 308,384 | \$ 521,074 |
| Incurring Losses and Loss Adjustment Expenses: | | |
| Provision for Insured Events of the Current Year | 286,709 | 265,582 |
| Increase in provision for covered events of prior years | 44,441 | 123,528 |
| Total Incurred Losses and Loss Adjustment Expenses | 331,150 | 389,110 |
| Payments: | | |
| Losses and Loss Adjustment Expenses Attributable to Insured Events of the Current Year | 29,835 | 40,141 |
| Losses and Loss Adjustment Expenses Attributable to Insured Events of Prior Years | 262,278 | 561,659 |
| Total Payments | 292,113 | 601,800 |
| Total Unpaid Losses and Loss Adjustment Expenses, End of Year | \$ 347,421 | \$ 308,384 |

CLAIMS DEVELOPMENT INFORMATION: GENERAL LIABILITY PROGRAM DECEMBER 31, 2009

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|--------------|--------------|--------------|--------------|--------------|
| 1. Premium Revenue: | | | | | |
| Earned | \$ 1,528,290 | \$ 1,691,999 | \$ 1,744,634 | \$ 2,125,542 | \$ 2,125,542 |
| Ceded | (275,000) | (286,275) | (308,534) | (541,192) | (541,192) |
| Net Earned | 1,253,290 | 1,405,724 | 1,436,100 | 1,584,350 | 1,584,350 |
| 2. Unallocated Expenses: | | | | | |
| Direct and Indirect Costs | 527,585 | 640,809 | 671,188 | 226,711 | 228,232 |
| ULAE Reserve Adjustment | (88,273) | 20,000 | 86,000 | (106,000) | 57,000 |
| Net Expenses | 439,312 | 660,809 | 757,188 | 120,711 | 285,232 |
| 3. Estimated Losses and Expenses, End of Policy Year: | | | | | |
| Incurred | 1,060,000 | 825,000 | 935,000 | 1,097,000 | 1,196,000 |
| Ceded | – | – | – | – | – |
| Net Incurred | 1,060,000 | 825,000 | 935,000 | 1,097,000 | 1,196,000 |
| 4. Net Paid (Cumulative) as of: | | | | | |
| End of Policy Year | 114,724 | 82,021 | 106,701 | 181,020 | 135,876 |
| One Year Later | 228,825 | 324,722 | 340,038 | 529,417 | 334,332 |
| Two Years Later | 491,656 | 514,307 | 605,231 | 853,823 | 691,154 |
| Three Years Later | 576,384 | 540,280 | 708,572 | 919,914 | 646,767 |
| Four Years Later | 633,081 | 547,692 | 700,387 | 919,914 | 848,531 |
| Five Years Later | 719,370 | 547,773 | 700,909 | 1,537,385 | 848,531 |
| Six Years Later | 684,370 | 547,773 | 745,006 | 1,537,385 | |
| Seven Years Later | 684,370 | 635,273 | 745,006 | | |
| Eight Years Later | 1,338,501 | 635,273 | | | |
| Nine Years Later | 1,338,501 | | | | |
| 5. Reestimated Ceded Losses and Expenses: | 863,405 | – | 33,041 | 1,158,732 | 72,602 |
| 6. Reestimated Net Incurred Losses and Expenses as of: | | | | | |
| End of Policy Year | 1,060,000 | 825,000 | 935,000 | 1,097,000 | 1,196,000 |
| One Year Later | 1,297,000 | 839,000 | 1,010,000 | 1,397,000 | 797,000 |
| Two Years Later | 986,000 | 896,000 | 996,000 | 1,505,000 | 1,068,000 |
| Three Years Later | 828,000 | 722,000 | 909,000 | 1,427,000 | 810,000 |
| Four Years Later | 1,067,000 | 639,000 | 797,000 | 1,537,385 | 850,000 |
| Five Years Later | 1,210,000 | 635,273 | 745,006 | 1,537,385 | 848,531 |
| Six Years Later | 1,344,000 | 635,273 | 745,006 | 1,537,385 | |
| Seven Years Later | 1,338,501 | 635,273 | 745,006 | | |
| Eight Years Later | 1,338,501 | 635,273 | | | |
| Nine Years Later | 1,338,501 | | | | |
| 7. Increase (Decrease) in Estimated Net Incurred | | | | | |
| Losses and Expenses from End of Policy Year | \$ 278,501 | \$ (189,727) | \$ (189,994) | \$ 440,385 | \$ (346,000) |

SUPPLEMENTARY INFORMATION

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|--------------|--------------|--------------|--------------|--------------|
| 1. Premium Revenue: | | | | | |
| Earned | \$ 2,631,685 | \$ 2,684,761 | \$ 2,869,653 | \$ 2,330,653 | \$ 2,192,106 |
| Ceded | (448,159) | (536,470) | (551,150) | (421,028) | (375,751) |
| Net Earned | 2,183,526 | 2,148,291 | 2,318,503 | 1,909,625 | 1,816,355 |
| 2. Unallocated Expenses: | | | | | |
| Direct and Indirect Costs | 249,191 | 280,193 | 273,714 | 299,599 | 299,684 |
| ULAE Reserve Adjustment | 43,157 | 46,150 | 27,774 | (109,932) | 2,347 |
| Net Expenses | 292,348 | 326,343 | 301,488 | 189,667 | 302,031 |
| 3. Estimated Losses and Expenses, End of Policy Year: | | | | | |
| Incurred | 940,000 | 918,000 | 1,098,000 | 735,000 | 926,000 |
| Ceded | — | — | — | — | — |
| Net Incurred | 940,000 | 918,000 | 1,098,000 | 735,000 | 926,000 |
| 4. Net Paid (Cumulative) as of: | | | | | |
| End of Policy Year | 75,577 | 118,388 | 127,243 | 79,737 | 145,270 |
| One Year Later | 319,816 | 260,096 | 303,800 | 233,079 | |
| Two Years Later | 491,041 | 364,891 | 501,667 | | |
| Three Years Later | 633,806 | 422,719 | | | |
| Four Years Later | 617,455 | | | | |
| Five Years Later | | | | | |
| Six Years Later | | | | | |
| Seven Years Later | | | | | |
| Eight Years Later | | | | | |
| Nine Years Later | | | | | |
| 5. Reestimated Ceded Losses and Expenses: | 217,074 | 15 | 800 | 3,000 | — |
| 6. Reestimated Net Incurred Losses and Expenses as of: | | | | | |
| End of Policy Year | 940,000 | 918,000 | 1,098,000 | 735,000 | 926,000 |
| One Year Later | 886,000 | 707,000 | 768,000 | 484,000 | |
| Two Years Later | 1,274,000 | 523,000 | 748,000 | | |
| Three Years Later | 1,430,000 | 422,719 | | | |
| Four Years Later | 1,227,000 | | | | |
| Five Years Later | | | | | |
| Six Years Later | | | | | |
| Seven Years Later | | | | | |
| Eight Years Later | | | | | |
| Nine Years Later | | | | | |
| 7. Increase (Decrease) in Estimated Net Incurred Losses and Expenses from End of Policy Year | \$ 490,000 | \$ (395,000) | \$ (350,000) | \$ (251,000) | \$ — |

CLAIMS DEVELOPMENT INFORMATION: WORKERS' COMPENSATION PROGRAM DECEMBER 31, 2009

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|--------------|-------------|--------------|--------------|--------------|
| 1. Premium Revenue: | | | | | |
| Earned | \$ 2,325,968 | \$2,569,992 | \$ 2,704,262 | \$ 4,705,853 | \$ 4,694,857 |
| Ceded | (29,370) | (40,122) | (71,262) | (176,073) | (341,407) |
| Net Earned | 2,296,598 | 2,529,870 | 2,633,000 | 4,529,780 | 4,353,450 |
| 2. Unallocated Expenses: | | | | | |
| Direct and Indirect Costs | 790,154 | 812,421 | 895,135 | 159,764 | 180,866 |
| ULAE Reserve Adjustment | (145,000) | 31,000 | 17,000 | 2,000 | 7,000 |
| Net Expenses | 645,154 | 843,421 | 912,135 | 161,764 | 187,866 |
| 3. Estimated Losses and Expenses, End of Policy Year: | | | | | |
| Incurred | 1,480,000 | 1,653,000 | 1,942,000 | 2,383,000 | 4,311,328 |
| Ceded | — | — | — | — | (155,328) |
| Net Incurred | 1,480,000 | 1,653,000 | 1,942,000 | 2,383,000 | 4,156,000 |
| 4. Net Paid (Cumulative) as of: | | | | | |
| End of Policy Year | 438,517 | 354,363 | 438,618 | 623,522 | 603,550 |
| One Year Later | 1,094,032 | 752,517 | 1,045,708 | 1,430,587 | 1,319,254 |
| Two Years Later | 1,691,688 | 1,060,506 | 1,396,898 | 1,971,253 | 1,709,250 |
| Three Years Later | 1,913,041 | 1,225,343 | 1,634,566 | 2,209,890 | 1,894,197 |
| Four Years Later | 2,024,938 | 1,296,072 | 1,751,270 | 2,336,599 | 2,523,255 |
| Five Years Later | 2,043,294 | 1,342,967 | 1,804,682 | 3,136,270 | 2,710,564 |
| Six Years Later | 2,079,247 | 1,405,351 | 2,185,094 | 3,464,381 | |
| Seven Years Later | 2,069,672 | 1,838,062 | 2,248,709 | | |
| Eight Years Later | 3,053,427 | 1,920,764 | | | |
| Nine Years Later | 3,242,397 | | | | |
| 5. Reestimated Ceded Losses and Expenses: | | | | | |
| | 70,059 | 58,854 | 14,000 | 31,179 | 85,000 |
| 6. Reestimated Net Incurred Losses and Expenses as of: | | | | | |
| End of Policy Year | 1,480,000 | 1,653,000 | 1,942,000 | 2,383,000 | 4,156,000 |
| One Year Later | 2,134,000 | 1,794,000 | 2,113,000 | 3,531,000 | 3,679,000 |
| Two Years Later | 2,670,000 | 1,810,000 | 2,352,000 | 3,363,000 | 3,361,000 |
| Three Years Later | 2,882,000 | 1,939,000 | 2,357,000 | 3,681,000 | 3,393,000 |
| Four Years Later | 3,115,000 | 1,889,000 | 2,510,000 | 3,905,000 | 3,284,000 |
| Five Years Later | 3,122,000 | 2,024,000 | 2,514,000 | 4,277,000 | 3,203,000 |
| Six Years Later | 3,163,485 | 1,974,905 | 2,459,000 | 4,545,000 | |
| Seven Years Later | 3,197,415 | 2,040,182 | 2,556,000 | | |
| Eight Years Later | 3,314,693 | 2,061,963 | | | |
| Nine Years Later | 3,465,076 | | | | |
| 7. Increase (Decrease) in Estimated Net Incurred Losses and Expenses from End of Policy Year | | | | | |
| | \$ 1,834,693 | \$ 387,182 | \$ 517,000 | \$ 1,894,000 | \$ (872,000) |

SUPPLEMENTARY INFORMATION

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|--------------|--------------|--------------|--------------|--------------|
| 1. Premium Revenue: | | | | | |
| Earned | \$5,992,069 | \$ 5,783,415 | \$ 5,530,226 | \$ 5,299,517 | \$ 4,475,495 |
| Ceded | (369,301) | (303,363) | (316,055) | (282,357) | (234,705) |
| Net Earned | 5,622,768 | 5,480,052 | 5,214,171 | 5,017,160 | 4,240,790 |
| 2. Unallocated Expenses: | | | | | |
| Direct and Indirect Costs | 190,606 | 215,355 | 214,890 | 242,158 | 239,231 |
| ULAE Reserve Adjustment | 67,101 | (1,872) | 15,455 | 55,116 | 60,629 |
| Net Expenses | 257,707 | 213,483 | 230,345 | 297,274 | 299,860 |
| 3. Estimated Losses and Expenses, End of Policy Year: | | | | | |
| Incurred | 2,467,000 | 2,592,000 | 2,581,000 | 2,980,000 | 2,379,000 |
| Ceded | — | — | — | — | — |
| Net Incurred | 2,467,000 | 2,592,000 | 2,581,000 | 2,980,000 | 2,379,000 |
| 4. Net Paid (Cumulative) as of: | | | | | |
| End of Policy Year | 322,305 | 369,994 | 532,942 | 802,963 | 348,578 |
| One Year Later | 629,256 | 695,855 | 1,044,843 | 1,452,539 | |
| Two Years Later | 902,922 | 1,015,117 | 1,387,696 | | |
| Three Years Later | 1,058,996 | 1,136,453 | | | |
| Four Years Later | 1,136,865 | | | | |
| Five Years Later | | | | | |
| Six Years Later | | | | | |
| Seven Years Later | | | | | |
| Eight Years Later | | | | | |
| Nine Years Later | | | | | |
| 5. Reestimated Ceded Losses and Expenses: | | | | | |
| | 20,492 | 452 | — | — | — |
| 6. Reestimated Net Incurred Losses and Expenses as of: | | | | | |
| End of Policy Year | 2,467,000 | 2,592,000 | 2,581,000 | 2,980,000 | 2,379,000 |
| One Year Later | 2,100,000 | 1,859,000 | 2,632,000 | 3,524,248 | |
| Two Years Later | 1,802,000 | 1,819,000 | 2,866,000 | | |
| Three Years Later | 1,614,000 | 1,537,000 | | | |
| Four Years Later | 1,491,000 | | | | |
| Five Years Later | | | | | |
| Six Years Later | | | | | |
| Seven Years Later | | | | | |
| Eight Years Later | | | | | |
| Nine Years Later | | | | | |
| 7. Increase (Decrease) in Estimated Net Incurred Losses and Expenses from End of Policy Year | | | | | |
| | \$ (853,000) | \$ (773,000) | \$ 51,000 | \$ 544,248 | \$ — |

CLAIMS DEVELOPMENT INFORMATION: SPECIAL EVENTS PROGRAM DECEMBER 31, 2009

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|------------|------------|-------------|------------|------------|
| 1. Premium Revenue: | | | | | |
| Earned | \$ 385,841 | \$ 440,586 | \$ 498,426 | \$ 697,897 | \$ 694,676 |
| Ceded | (65,000) | (65,000) | (84,500) | (187,633) | (223,425) |
| Unallocated Expenses: | 320,841 | 375,586 | 413,926 | 510,264 | 471,251 |
| 2. Unallocated Expenses: | | | | | |
| Direct and Indirect Costs | 190,607 | 184,338 | 203,586 | 74,433 | 80,430 |
| ULAE Reserve Adjustment | 13,000 | (4,000) | (13,000) | 48,000 | (10,000) |
| Net Expenses | 203,607 | 180,338 | 190,586 | 122,433 | 70,430 |
| 3. Estimated Losses and Expenses, End of Policy Year: | | | | | |
| Incurred | 80,000 | 127,000 | 88,000 | 106,000 | 101,000 |
| Ceded | — | — | — | — | — |
| Net Incurred | 80,000 | 127,000 | 88,000 | 106,000 | 101,000 |
| 4. Net Paid (Cumulative) as of: | | | | | |
| End of Policy Year | 1,364 | 18,350 | 6,500 | 9,129 | 4,825 |
| One Year Later | 59,900 | 36,307 | 15,763 | 30,395 | 31,505 |
| Two Years Later | 70,246 | 144,973 | 29,283 | 136,449 | 107,668 |
| Three Years Later | 87,150 | 145,200 | 43,765 | 136,449 | 176,699 |
| Four Years Later | 87,056 | 145,739 | 43,765 | 136,449 | 195,356 |
| Five Years Later | 87,056 | 146,316 | 45,311 | 192,645 | 195,356 |
| Six Years Later | 87,056 | 146,316 | 43,765 | 192,645 | |
| Seven Years Later | 87,056 | 198,280 | 43,765 | | |
| Eight Years Later | 87,056 | 198,280 | | | |
| Nine Years Later | 87,056 | | | | |
| 5. Reestimated Ceded Losses and Expenses: | — | — | — | — | — |
| 6. Reestimated Net Incurred Losses and Expenses as of: | | | | | |
| End of Policy Year | 80,000 | 127,000 | 88,000 | 106,000 | 101,000 |
| One Year Later | 96,000 | 102,000 | 56,000 | 114,000 | 100,000 |
| Two Years Later | 108,000 | 216,000 | 38,000 | 192,645 | 158,000 |
| Three Years Later | 87,150 | 209,000 | 45,311 | 192,645 | 214,000 |
| Four Years Later | 87,150 | 203,000 | 45,000 | 192,645 | 195,356 |
| Five Years Later | 87,056 | 198,280 | 45,311 | 192,645 | 195,356 |
| Six Years Later | 87,056 | 198,280 | 43,765 | 192,645 | |
| Seven Years Later | 87,056 | 198,280 | 43,765 | | |
| Eight Years Later | 87,056 | 198,280 | | | |
| Nine Years Later | 87,056 | | | | |
| 7. Increase (Decrease) in Estimated Net Incurred Losses and Expenses from End of Policy Year | \$ 7,056 | \$ 71,280 | \$ (44,235) | \$ 86,645 | \$ 94,356 |

SUPPLEMENTARY INFORMATION

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|------------|------------|--------------|-------------|------------|
| 1. Premium Revenue: | | | | | |
| Earned | \$ 732,882 | \$ 775,384 | \$ 842,138 | \$ 839,098 | \$ 783,024 |
| Ceded | (224,092) | (195,624) | (195,716) | (195,717) | (195,716) |
| Unallocated Expenses: | 508,790 | 579,760 | 646,422 | 643,381 | 587,308 |
| 2. Unallocated Expenses: | | | | | |
| Direct and Indirect Costs | 76,558 | 79,500 | 88,232 | 94,278 | 91,441 |
| ULAE Reserve Adjustment | (29,760) | 14,425 | 7,448 | (14,418) | 1,733 |
| Net Expenses | 46,798 | 93,925 | 95,680 | 79,860 | 93,174 |
| 3. Estimated Losses and Expenses, End of Policy Year: | | | | | |
| Incurred | 82,000 | 82,000 | 126,000 | 280,000 | 272,000 |
| Ceded | – | – | – | – | – |
| Net Incurred | 82,000 | 82,000 | 126,000 | 280,000 | 272,000 |
| 4. Net Paid (Cumulative) as of: | | | | | |
| End of Policy Year | 10,284 | 26,039 | 7,268 | 40,141 | 29,835 |
| One Year Later | 11,770 | 60,868 | 10,426 | 259,739 | |
| Two Years Later | 64,281 | 493,125 | 13,147 | | |
| Three Years Later | 190,337 | 533,084 | | | |
| Four Years Later | 190,337 | | | | |
| Five Years Later | | | | | |
| Six Years Later | | | | | |
| Seven Years Later | | | | | |
| Eight Years Later | | | | | |
| Nine Years Later | | | | | |
| 5. Reestimated Ceded Losses and Expenses: | – | – | – | – | – |
| 6. Reestimated Net Incurred Losses and Expenses as of: | | | | | |
| End of Policy Year | 82,000 | 385,000 | 126,000 | 280,000 | 272,000 |
| One Year Later | 60,000 | 288,000 | 10,426 | 259,739 | |
| Two Years Later | 166,000 | 513,986 | 65,000 | | |
| Three Years Later | 190,337 | 533,084 | | | |
| Four Years Later | 190,337 | | | | |
| Five Years Later | | | | | |
| Six Years Later | | | | | |
| Seven Years Later | | | | | |
| Eight Years Later | | | | | |
| Nine Years Later | | | | | |
| 7. Increase (Decrease) in Estimated Net Incurred Losses and Expenses from End of Policy Year | \$ 108,337 | \$ 431,986 | \$ (115,574) | \$ (20,261) | \$ – |

SCHEDULE OF FUNDING PROGRESS OF OTHER POST EMPLOYMENT BENEFITS DECEMBER 31, 2009

| Actuarial Valuation Date | Actuarial Asset Value (a) | Entry Age Actuarial Accrued Liability (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a) / c) |
|--------------------------|---------------------------|---|-----------------------------|----------------------|---------------------|---|
| 01/01/2008 | – | \$ 3,174,511 | \$ (3,174,511) | 0% | \$ 1,832,776 | 173% |

NOTES TO SUPPLEMENTARY INFORMATION

1. CLAIMS DEVELOPMENT INFORMATION

The tables illustrate how the Authority’s earned revenues (net of reinsurance) and investment income compared to related costs of loss and other expenses assumed by the Authority as of the end of each of the previous ten years for the general liability program, workers’ compensation program, and special events program. The rows of the tables are defined as follows:

1. Total of each year’s gross earned premiums, amounts of premiums ceded to reinsurers, and reported premiums (net of reinsurance).
2. Each year’s other operating costs of the program, including overhead and loss adjustment expenses not allocable to individual claims. This line also includes investment revenues through the allocation of overhead from administration.
3. Program’s gross incurred losses and allocated loss adjustment expense, losses assumed by reinsurers, and net incurred losses and loss adjustment expense (both paid and accrued) as originally reported at the end of the year in which the event that triggered coverage occurred (called the policy year).
4. Cumulative net amounts paid as of the end of successive years for each policy year.
5. Latest re-estimated amount of losses assumed by reinsurers for each policy year.
6. Each policy year’s net incurred losses as of the end of successive years. This annual reestimation results from new information received on known losses, reevaluation of existing information on known losses, and emergence of new losses not previously known.
7. Comparison of the latest re-estimated net incurred losses to the amount originally established (line 3). This line shows whether the latest estimate of losses is greater or less than originally thought. As data or individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature policy years.

The columns of the tables show data for successive policy years.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**BOARD OF DIRECTORS
CALIFORNIA FAIR SERVICES AUTHORITY
SACRAMENTO, CALIFORNIA**

We have audited the financial statements of the business-type activities of the California Fair Services Authority (the Authority), as of and for the year ended December 31, 2009, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

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

This report is intended solely for the information and use of the Authority's Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California
March 17, 2010

“ THE SHORTEST ANSWER IS DOING. ”

– George Herbert (17th Century poet)



Photographs for the 2009 annual report were collected from previous year photo shoots at the Dixon May Fair and the Sacramento County Fair.



CALIFORNIA FAIR SERVICES AUTHORITY

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