

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, 2003 and 2002, 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.

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, 2003 and 2002, 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 February 25, 2004, 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 27 through 37 and Reconciliation of Claims Liabilities by Type of Contract and Claims Development Information on pages 51 through 55 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.
February 25, 2004

THE FOLLOWING REPORT REFLECTS THE FINANCIAL CONDITION OF CALIFORNIA FAIR SERVICES AUTHORITY (CFSA) FOR THE YEAR ENDED DECEMBER 31, 2003. IT IS PROVIDED IN ORDER TO ENHANCE THE INFORMATION IN THE FINANCIAL AUDIT, AND SHOULD BE REVIEWED IN CONCERT WITH THAT REPORT.

FINANCIAL HIGHLIGHTS, DECEMBER 31, 2003

- Total operating revenues were \$7,319,006, an increase of 21.24% or \$1,281,983. This increase is due to several factors including the addition of three new members to the Workers' Compensation pool, and a 6% increase in the Workers' Compensation and General Liability base rates. Increases in the base rates were necessary because of the significant increases in commercial excess insurance market.
- Total non-operating revenues were \$237,302 a decrease of 35.56% or \$130,938. This reduction is due to recorded decreases in investment income from the Local Agency Investment Fund (LAIF) and investments held at SmithBarney and Madison Investment Advisors.
- Total expenses were \$7,100,529, decreased 5.12% from \$7,483,834 in the previous year. This is due primarily to the recognition of a large recovery from the General Liability Program, which reduces claims costs.
- Outstanding claims liabilities for the Workers' Compensation risk pool increased from \$4.1 million at December 31, 2002 to \$4.65 million at the close of 2003, an increase of 13.38%. Outstanding claims liabilities for the General Liability risk pool decreased from \$2.99 million at December 31, 2002 to \$2.22 million at the close of 2003, a decrease of 25.73%.

DESCRIPTION OF THE BASIC FINANCIAL STATEMENTS

CFSA financial statements are prepared in conformity with generally accepted accounting principles and necessarily include amounts based upon reliable estimates and judgments. Balance Sheets, a Statements of Revenues, Expenses & Changes in Net Assets, and the Statements 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 CFSA 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. CFSA'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. There were no significant accounting changes during the year.

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.

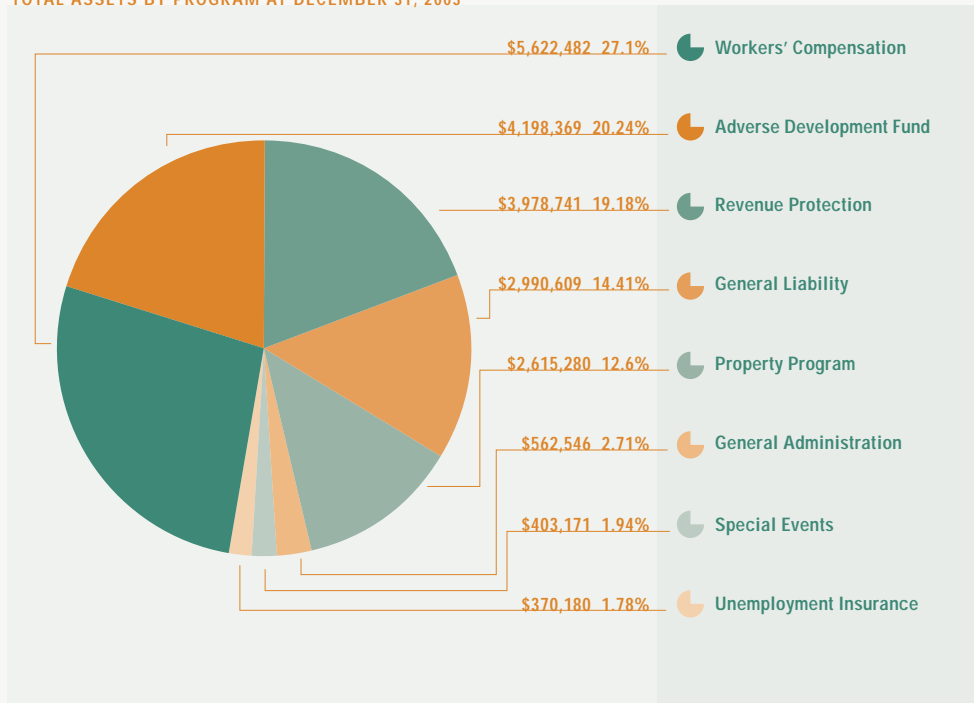
AGENCY WIDE FINANCIAL ANALYSIS, CFSA'S COMBINED BALANCE SHEET

	12/31/2003	Percentage	12/31/2002	Percentage
Current Assets	\$ 18,531,493	89.35%	\$ 19,421,542	90.44%
Noncurrent Assets	2,209,886	10.65%	2,053,437	9.56%
Total Assets	\$ 20,741,379	100.00%	\$ 21,474,979	100.00%
Current Liabilities	\$ 562,546	3.85%	\$ 337,576	2.13%
Misc. Pool Liabilities*	6,964,201	47.61%	8,174,059	51.68%
Claims Liabilities – Current	2,634,825	18.01%	3,000,367	18.97%
Claims Liabilities – Non Current	4,466,436	30.53%	4,305,385	27.22%
Total Liabilities	14,628,008	100.00%	15,817,387	100.00%
Retained Earnings	6,113,371	100.00%	5,657,592	100.00%
Total Liabilities and Retained Earnings	\$ 20,741,379	100.00%	\$ 21,474,979	100.00%

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

CFSA AGENCY AND PROGRAM ASSETS

TOTAL ASSETS BY PROGRAM AT DECEMBER 31, 2003



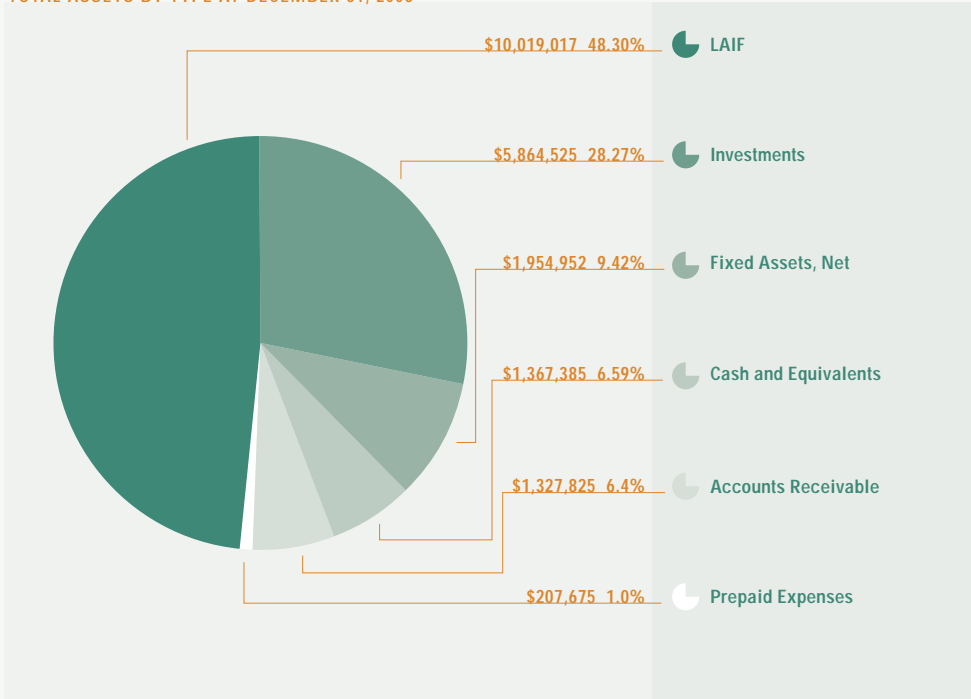
Total agency and program assets, as reflected in the Liabilities and Net Assets section of the Balance Sheet, decreased \$733,600 from \$21,474,979 as of December 31, 2002 to \$20,741,379 at December 31, 2003.

Non-current or fixed assets were reduced by \$97,534 due to depreciation of assets which is recorded as an expense in accordance with generally accepted accounting principles.

Investment revenues are used to offset program costs wherever possible and reduce the required member contributions. The overall investments of the pool decreased in 2003 by \$690,101 to \$17,250,927. CFSA 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), SmithBarney and Madison Investment Advisors. At December 31, 2003 LAIF held approximately 65% of CFSA's total investable cash while SmithBarney and Madison Investment Advisors held approximately 35%.

TOTAL ASSETS BY TYPE AT DECEMBER 31, 2003



The investment market has suffered serious losses over the past few years. For example, in calendar year 2002 the interest rate payable for funds invested in LAIF dropped from a high of 2.96% in the first quarter to a low of 2.31% in the last quarter. This downward trend continued through 2003 with a high of 1.98% in the first quarter to 1.56% in the fourth quarter. During the same time period CFSA's SmithBarney and Madison Investment Advisors portfolios averaged a rate of return of 5.65% in 2002 and 1.55% in 2003. 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, CFSA does not discount future liabilities based on a percentage of future investment income thereby reducing the impact of investment market trends on CFSA's fee structure.

CFSA POOL LIABILITIES

Accrued liabilities increased from \$337,576 as of December 31, 2002 to \$562,546 as of December 31, 2003. This increase is due in part to the increased liability in accrued employee vacation time and sick leave, a 12/31/03 deferred compensation payment of \$75,000 made in January, and several miscellaneous 2003 billings received in January 2004. All other liabilities on the Balance Sheet are actual assets of the individual pooled programs.

CFSA REVENUES AND EXPENSES

Pool operating revenues consist of various types of member contributions and building rental income. These revenues increased from \$6,037,023 in 2002 to \$7,319,006 in 2003, primarily as a result of increased participation in the Workers' Compensation pool, and a 6% increase in the Workers' Compensation and General Liability base rates. Revenues exceeded expenses by \$455,779 in 2003 as compared to expenses exceeding revenues by \$1,078,571 in 2002, resulting in a net increase in Net Assets, after actuarial adjustments to the confidence margins, of 8.06%. (Individual line items may not agree to the audited financial statements due to a difference in the classification of certain revenues, however, all totals match.)

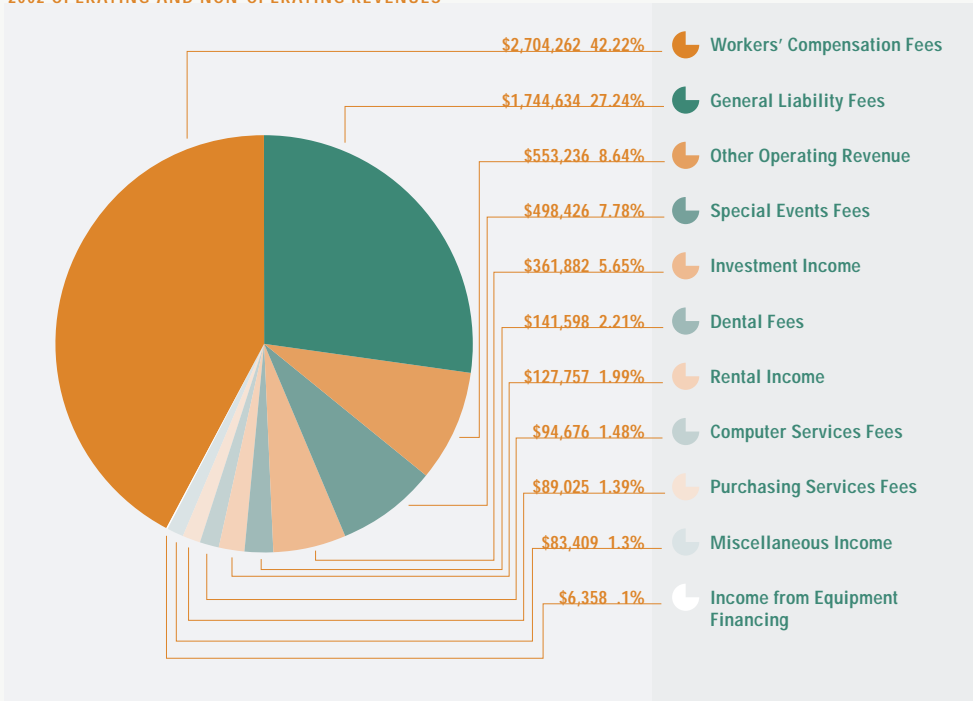
CFSA STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

	Year Ended 12/31/2003	Year Ended 12/31/2002	Percentage Change
Operating Revenues			
General Liability Fees	\$ 1,882,053	\$ 1,744,634	7.88%
Workers' Compensation Fees	3,758,297	2,704,262	38.98%
Special Events Fees	619,677	498,426	24.33%
Dental Fees	123,619	141,598	(12.70%)
Computer Services Fees	96,213	94,676	1.62%
Purchasing Services Fees	81,937	89,025	(7.96%)
Other Operating Revenue	540,057	553,236	(2.38%)
Rental Income	129,734	127,757	1.55%
Miscellaneous Income	87,420	83,409	4.81%
Total Operating Revenues	7,319,006	6,037,023	21.24%
Operating Expenses			
Losses and Loss Adj. Expenses	3,000,133	4,108,813	(26.98%)
Employee Salaries and Benefits	2,283,035	2,046,966	11.53%
Excess Insurance Costs	926,706	464,296	99.59%
Computer Services Costs	43,662	41,162	6.07%
General and Admin. Costs	693,504	658,995	5.24%
Depreciation and Amortization	153,489	163,602	(6.18%)
Total Operating Expenses	7,100,529	7,483,834	(5.12%)
Operating Gain/Loss	218,477	(1,446,811)	(115.10%)
Other Income			
Investment Income	228,000	361,882	(37.00%)
Income from Equipment Financing	9,302	6,358	46.31%
Total Other Income	237,302	368,240	(35.56%)
Beginning Net Assets	5,657,592	6,736,163	
Ending Net Assets	\$ 6,113,371	\$ 5,657,592	8.06%

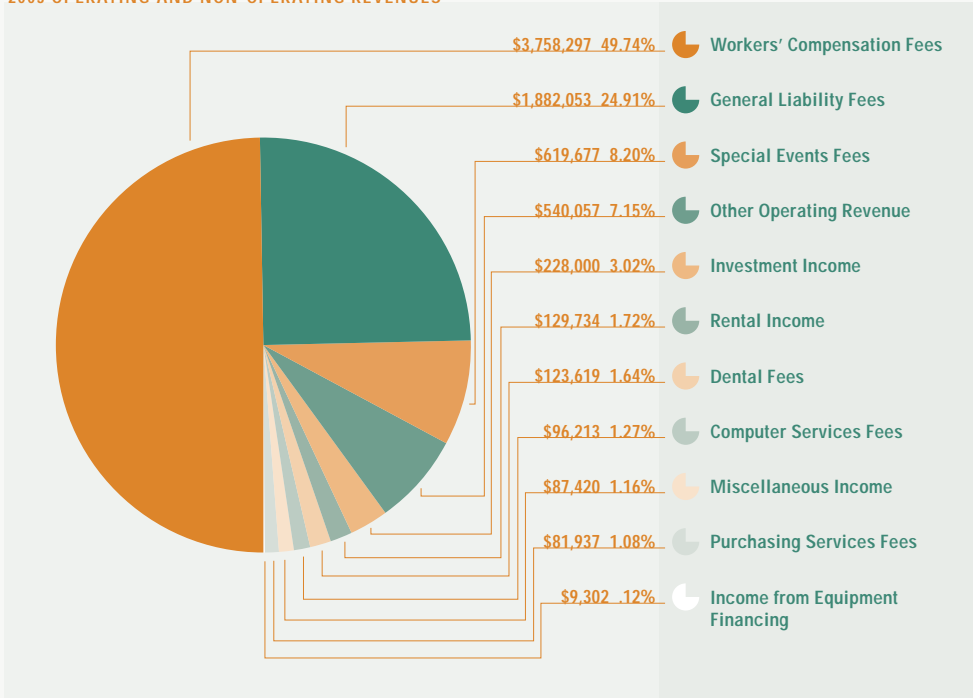
The increase in General Liability fees is due to a 6% increase in the base fee. The 38.98% increase in Workers' Compensation fees is mainly due to the addition of three new members to the program, and a 6% increase to the base fee. The Special Events program also saw a significant increase over the previous year, nearly 25%. This increase can be attributed to new members using the program as well as existing members increased usage. With commercial insurers reluctance to insure small events, CFSA's Special Events Program has become very popular. All other revenue sources for 2003 were very similar to their 2002 totals.

Loss and loss adjustment expenses decreased in 2003 by 26.98%, this decrease is due to the actuarial evaluation of outstanding claims as of 12/31/03, and the recognition of a one-time large recovery in the General Liability Program. The 11.53% increase in salaries and benefits is due to the addition of staff to handle the new workload and a short term marketing effort to recruit new members. The 99.59% increase in excess insurance costs is driven entirely by the increases in the commercial market. The 5.24% increase in General and Administrative costs is also tied to expenses associated with the increased membership.

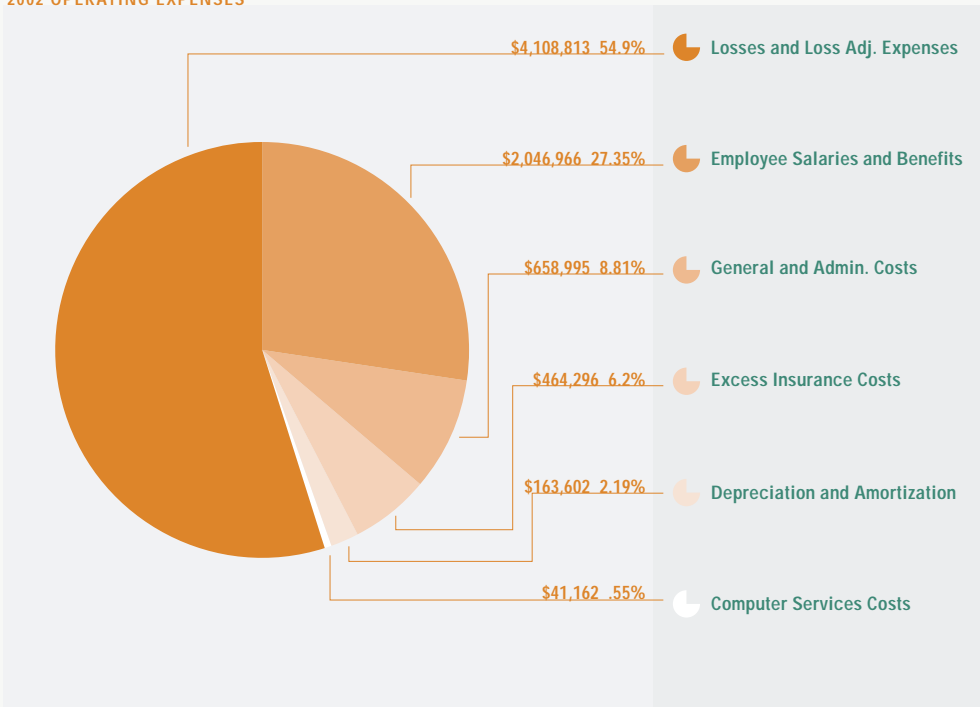
2002 OPERATING AND NON-OPERATING REVENUES



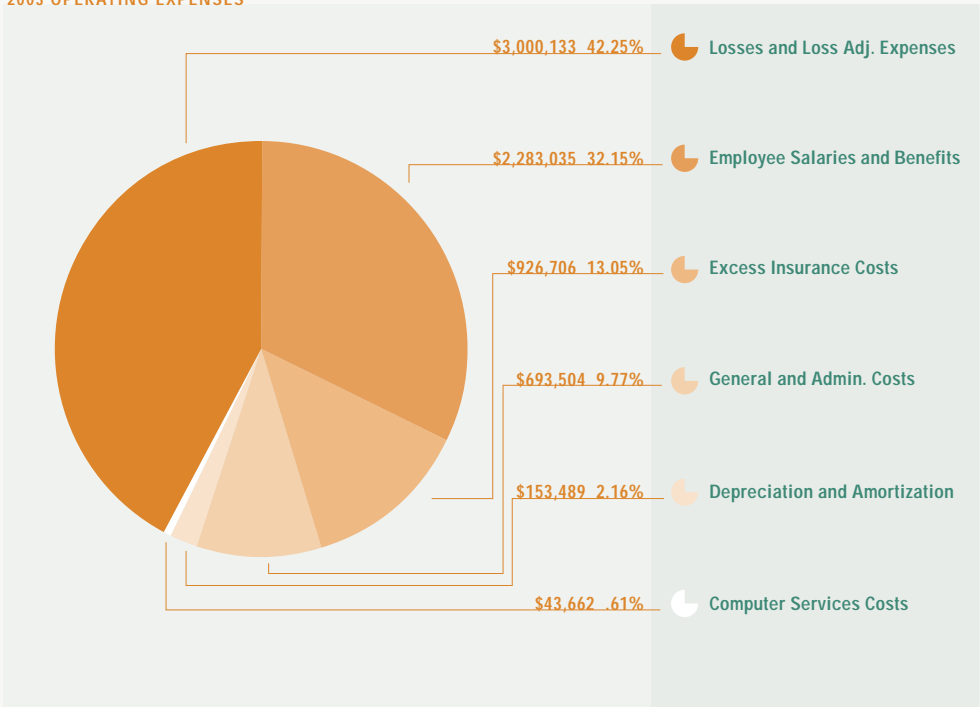
2003 OPERATING AND NON-OPERATING REVENUES



2002 OPERATING EXPENSES



2003 OPERATING EXPENSES



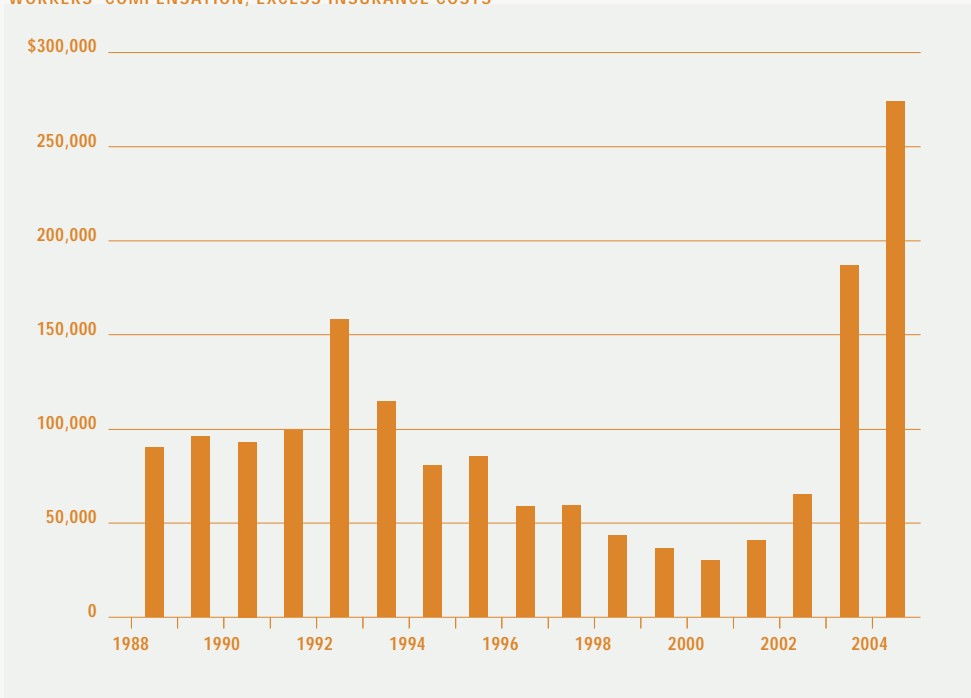
CURRENT INSURANCE EXPENSE AND HISTORICAL EXCESS INSURANCE COSTS

CFSA operates in an environment that is partially dependent on the commercial insurance market. Historically, the insurance market has operated in 3-7 year cycles in which rates will swing from the very high to the very low and back again. In recent years preceding the events of September 11, 2001 we were in a very favorable commercial insurance market with rates being very low. Since 9/11 renewals have increased significantly and many limitations in coverage have been put in place. Due to decreased capacity, increased

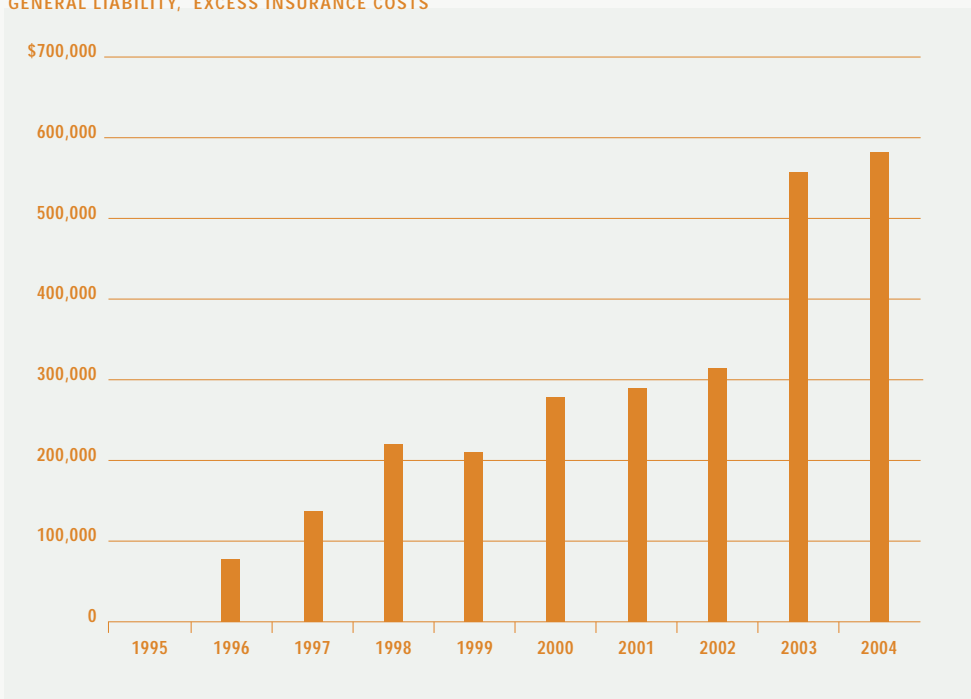
exposure to terrorism, poor investment results, and the general wariness on the part of insurers, excess insurance placements have been difficult to accomplish and very costly. This market is expected to continue in this difficult phase for the near future, particularly if further terrorist incidents occur and the investment market remains stagnant.

In an attempt to try to stabilize the cost of excess insurance, CFSA joined the CSAC EIA California Public Entity Insurance Authority in July 2003, to participate in their excess workers' compensation insurance program. This program was only recently made available for CFSA to join.

WORKERS' COMPENSATION, EXCESS INSURANCE COSTS



GENERAL LIABILITY, EXCESS INSURANCE COSTS



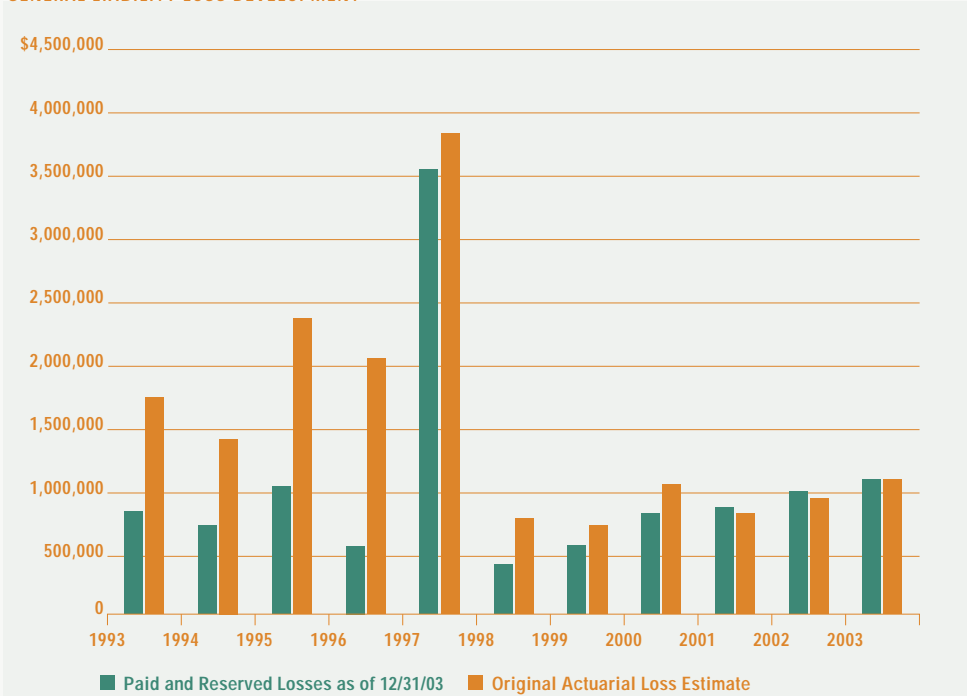
To further augment the stability of the JPA, a capital target fund was defined in 1996 as, “The Adverse Development Fund”. This fund, more commonly known as Net Assets, acts as a cushion to absorb sharp increases in costs, claims activity, or investment shortfalls, and protects against the need to react to events that affect the pool by allowing additional planning and response time. The target for this fund is \$5 million or 50% of total reserves, whichever is greater.

PROVISION FOR INSURED EVENTS

CFSA contracts with Bickmore Risk Services to perform an actuarial evaluation of the Workers’ Compensation, General Liability, and Special Events Programs. This report 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 Agency’s goal to reserve all three pools at the 90% confidence margin. For 2003 the pools were reserved at an 85% confidence margin.

The graphs below illustrate the actual claims activity as compared to the original actuarial estimate for each given year.

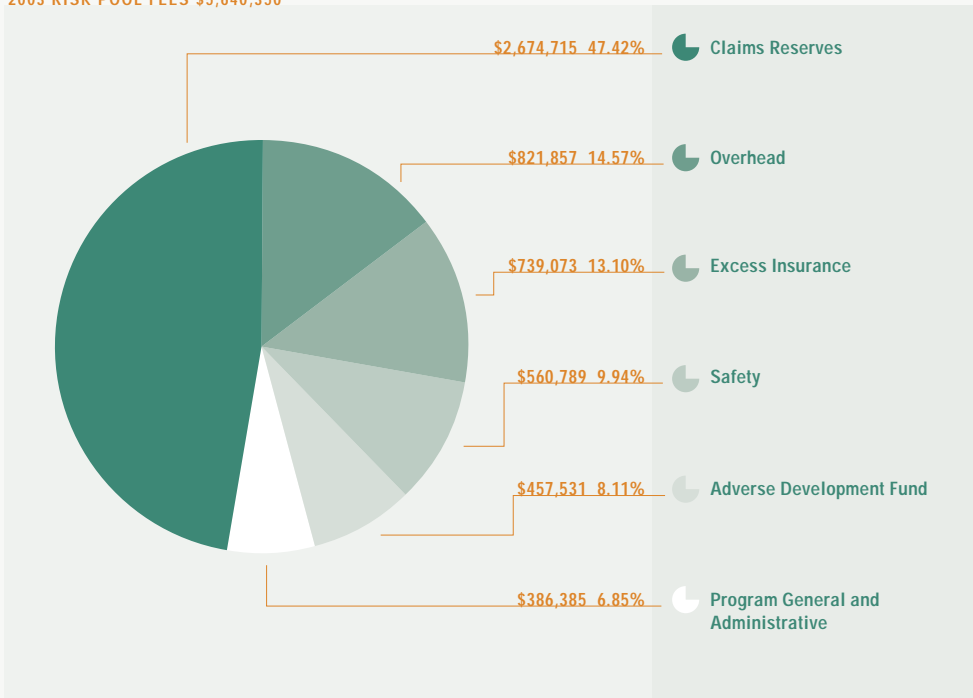
GENERAL LIABILITY LOSS DEVELOPMENT



WORKERS' COMPENSATION LOSS DEVELOPMENT



2003 RISK POOL FEES \$5,640,350



GENERAL ADMINISTRATION & PROGRAM G&A

General administration expenses represent 14.57% 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 CFSA Board of Directors and Committee meetings. Program “General and Administrative” (G&A) represents 6.85% 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 9.94% 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.

BUDGETARY HIGHLIGHTS

Each year the CFSA 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 revised budget incorporates any changes in assumptions or projections that have been made subsequent to the approval of the original budget. CFSA 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.)

2003 AGENCY BUDGET

	Original Budget	Final Budget	Actual Results	Variance
Revenues				
Purchasing (Net)	120,000	120,000	81,937	(38,063)
Workers' Comp. Fees	2,806,429	3,211,000	3,758,297	547,297
General Liability Fees	1,852,500	1,890,522	1,882,053	(8,469)
Special Event Fees	482,500	541,500	619,677	78,177
Computer Fees	50,126	50,126	47,923	(2,203)
Revenue Protection	50,000	50,000	50,000	0
Finance Dept. Fees	329,019	329,019	393,787	64,768
Administration Fees	65,000	65,000	88,673	23,673
Tribute Road Rent	127,757	127,757	129,734	1,977
Investment Income	500,000	500,000	228,000	(272,000)
Total Revenue	6,383,331	6,884,924	7,280,081	395,157
Expenses				
Losses & Costs	3,070,000	3,167,000	2,887,812	(279,188)
Excess Insurance	744,878	889,878	926,706	36,828
Salaries & Benefits	2,124,080	2,136,864	2,283,035	146,171
Travel	79,750	98,750	99,117	367
Tribute Road Costs	198,398	198,398	205,356	6,958
Contract Services	143,550	143,550	117,582	(25,968)
Other Direct Costs	313,719	313,719	304,695	(9,024)
Total Expenses	6,674,375	6,948,159	6,824,303	(123,856)
Net Income	(291,044)	(63,235)	455,779	519,013

Significant changes between the original and final budgets include:

- The actuarial estimate of the provision for insured events increased by over \$400,000 for Workers' Compensation and just under \$40,000 for General Liability.
- Special Events rates were increased after the original budget was adopted, therefore necessitating a budget revision. Budgeted Special Events revenues were projected conservatively to increase by approximately \$60,000.
- The Special Events excess insurance renewal came in \$145,000 higher than anticipated, therefore necessitating a budget revision and was the catalyst for the rate increase.
- Other minor changes were made in anticipation of increased membership in the Workers' Compensation program.

Significant variances between the final budget and the actual results include:

- Purchasing revenues were down due to the reduced number of project related purchases from the California Construction Authority that usually flow through CFSA.
- Workers' Compensation fees exceeded the final budget by over \$540,000 due to the addition of the Alameda County Fair, the Los Angeles County Fair, and the Sonoma County Fair.
- Special Events revenues exceeded the final budget due to the rate increase and the increased usage by existing members as well as the three new members.
- Finance and Administration fees exceeded the budget due to increased usage of the payroll, accounting, and contract services programs.
- Investment income was down sharply from the budgeted amount due to the sluggish investment market and historically low interest rates.
- The one significant variance in expenses was in salaries and benefits. This difference was due to the addition of staff to handle the new workload and a short term marketing effort to recruit new members.

REQUIRED SUPPLEMENTARY INFORMATION

Following the basic financial statements is required supplementary information that 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 CFSA'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, 2003 AND 2002

	2003	2002
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 11,386,402	\$ 12,233,893
Investments	5,864,525	5,707,135
Accounts receivable:		
Risk fees receivable	230,327	219,917
Receivables from fairs and others, net of allowance for doubtful accounts of \$37,740 in 2003 and \$39,349 in 2002	778,339	1,125,531
Contracts receivable for equipment financing, net	64,225	15,659
Prepaid expenses	207,675	89,855
Inventory		951
Total Current Assets	<u>18,531,493</u>	<u>19,392,941</u>
Noncurrent Assets:		
Contracts receivable for equipment financing, net	254,934	29,552
Fixed assets, net	1,954,952	2,052,486
Total Noncurrent Assets	<u>2,209,886</u>	<u>2,082,038</u>
 Total Assets	 <u>\$20,741,379</u>	 <u>\$ 21,474,979</u>

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

BALANCE SHEETS DECEMBER 31, 2003 AND 2002

	2003	2002
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accrued liabilities	\$ 562,546	\$ 337,576
Division of Fairs and Exposition Funds	370,180	1,093,269
Revenue protection program	3,978,741	3,986,669
Property program	2,615,280	3,094,121
Unpaid Losses and Loss Adjustment Expense (current):		
General liability	826,716	1,211,843
Workers' compensation	1,686,123	1,634,207
Special events	121,986	154,317
Total Current Liabilities	<u>10,161,572</u>	<u>11,512,002</u>
Noncurrent Liabilities:		
Unpaid Losses and Loss Adjustment Expense:		
General liability	1,396,892	1,782,157
Workers' compensation	2,964,359	2,467,545
Special events	105,185	55,683
Total Noncurrent Liabilities	<u>4,466,436</u>	<u>4,305,385</u>
Total Liabilities	<u>14,628,008</u>	<u>15,817,387</u>
Net Assets:		
Confidence margin	1,915,000	1,644,000
Undesignated	4,198,371	3,817,864
Designated		195,728
Total Net Assets	<u>6,113,371</u>	<u>5,657,592</u>
Total Liabilities and Net Assets	<u>\$20,741,379</u>	<u>\$ 21,474,979</u>

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

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Operating Revenues:		
Workers' compensation fees	\$ 3,754,231	\$ 2,704,262
General liability fees	1,882,053	1,744,634
Special events fees	594,787	498,426
Other operating revenue	569,012	553,236
Rental income	129,734	127,757
Dental fees	123,619	141,598
Computer service fees	96,213	94,676
Miscellaneous income	87,420	83,409
Purchasing service fees	81,937	89,025
Total Operating Revenues	7,319,006	6,037,023
Operating Expenses:		
Losses and loss adjustment expenses	3,000,133	4,108,813
Employee salaries and benefits	2,283,035	2,046,966
Excess insurance costs	926,706	464,296
General and administrative costs	693,504	658,995
Depreciation and amortization	153,489	163,602
Computer service costs	43,662	41,162
Total Operating Expenses	7,100,529	7,483,834
Operating Gain (Loss)	218,477	(1,446,811)
Non Operating Income:		
Investment income	228,000	361,882
Income from equipment financing	9,302	6,358
Total Other Income	237,302	368,240
Increase (Decrease) in Net Assets	\$ 455,779	\$ (1,078,571)

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Confidence			Total
	Margin	Undesignated	Designated	
Balance, January 1, 2002	\$ 2,515,000	\$ 4,221,163		\$ 6,736,163
Decrease in Net Assets		(1,078,571)		(1,078,571)
Designation	(871,000)	675,272		\$ 195,728
Balance, December 31, 2002	1,644,000	3,817,864	195,728	5,657,592
Increase in Net Assets		455,779		455,779
Designation	271,000	(75,272)	(195,728)	
Balance, December 31, 2003	\$ 1,915,000	\$ 4,198,371	-	\$ 6,113,371

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

2003 FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Cash Flows from Operating Activities:		
Cash Received from Participant Fees	\$ 6,869,622	\$ 5,969,068
Cash Received from Other Sources	921,724	2,067,001
Cash Received for Division of Fairs and Expositions	700,000	950,000
Cash Received for Revenue Protection Program	169,088	246,280
Cash Received for Property Program	527,386	1,063,036
Payments for Division of Fairs and Expositions	(1,007,297)	(942,427)
Payments for Revenue Protection Program	(177,016)	(155,596)
Payments for Property Program	(1,423,089)	(518,632)
Payments for Claims	(3,614,130)	(2,750,061)
Payments for Excess Insurance	(1,044,526)	(514,396)
Payments to Vendors	(499,022)	(686,575)
Payments to Employees	(2,283,035)	(2,046,966)
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Net Cash Provided (Used) by Operating Activities	(860,295)	2,680,732
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Cash Flows from Capital and Related Financing Activities:		
Purchase of Property and Equipment	(67,108)	(156,970)
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Net Cash Used by Capital and Related Activities	(67,108)	(156,970)
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Cash Flows from Investing Activities:		
Investment Income Received	391,472	322,094
Proceeds from Sale of Marketable Securities	4,273,182	4,177,897
Purchases of Marketable Securities	(4,594,044)	(4,583,926)
Income from Equipment Financing Program	9,302	6,358
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Net Cash Provided (Used) by Investing Activities	79,912	(77,577)
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Increase (Decrease) in Cash and Cash Equivalents	(847,491)	2,446,185
Cash and Cash Equivalents, Beginning of Year	12,233,893	9,787,708
	<hr/>	<hr/>
Cash and Cash Equivalents, End of Year	\$ 11,386,402	\$ 12,233,893
	<hr/>	<hr/>
Supplemental schedule of non-cash investing activities:		
Net change in fair value of investments	\$ (163,472)	\$ 39,788
	<hr/>	<hr/>

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

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Cash Flows from Operating Activities:		
Operating Gain (Loss)	\$ 218,477	\$ (1,446,811)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization	163,976	163,602
Loss on disposal of property and equipment	665	12,764
(Increase) decrease in:		
Risk fees receivable	(10,409)	1,471,108
Receivables from fairs and others	347,192	(774,661)
Settlement note receivable		1,023,000
Legal settlement receivable		222,927
Contracts receivable for equipment financing, net	(273,948)	56,672
Prepaid expenses	(117,820)	(50,100)
Inventory	951	
Increase (decrease) in:		
Accrued liabilities	224,969	818
Division of Fairs and Exposition Funds	(723,089)	7,573
Revenue protection program	(7,928)	90,684
Property program	(478,841)	544,404
Unpaid losses and loss adjustment expenses	(204,489)	1,358,752
Net cash provided (used) by operating activities:	\$ (860,294)	\$2,680,732

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

NOTES TO 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 all California fairs.
- Coordinating health and 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 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 in collecting contributions from the Part-time Seasonal Temporary employees at the District Agricultural Associations.
- Administering the Equipment Exchange Program in conjunction with the California Construction Authority and various fair service programs under letters of understanding with the Division of Fairs and Expositions and member fairs.

Revenue and expenses of the Revenue Protection Program, Property Insurance Program, California Employment Development Department Unemployment Program and Equipment Exchange 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 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). The Authority's 2003 program offers the following coverage:

- Prior to June 1, 1997, the Authority's general liability coverage consisted of an aggregate per year limit of \$10,000,000 for all members. The Authority's SIR for general liability was \$5,000,000 aggregate per year for all members and the Authority obtained excess insurance coverage of \$5,000,000 per year.

Effective June 1, 1997, the Authority changed its SIR from \$5,000,000 per occurrence and in the aggregate per year to \$1,000,000 per occurrence and \$5,000,000 in the aggregate per year. In addition, the Authority had excess insurance coverage of \$9,000,000 per occurrence and in the aggregate per year for all members.

Effective January 1, 2000, the Authority changed its SIR from \$1,000,000 per occurrence to \$500,000 per occurrence. Also, the Authority obtained reinsurance to increase its excess insurance coverage from \$9,000,000 per occurrence and in the aggregate to \$9,500,000 per occurrence and in the annual aggregate per fair for specified coverages.

- The Authority's SIR for workers' compensation was \$250,000 per accident or disease from 1988 through 1995, \$300,000 from 1996 through 1999 and \$250,000 from 2000 through June 2001. The Authority had excess insurance coverage up to the statutory limits for workers' compensation and up to \$5,000,000 (in the aggregate for all fairs) for Employer's Liability.

Effective July 1, 2001, the Authority increased its SIR from \$250,000 per accident or disease to \$300,000 per accident or disease. Effective July 1, 2002, the Authority increased its SIR from \$300,000 per accident or disease to \$500,000 per accident for each employee or disease. The Authority has excess insurance coverage up to \$25,000,000 for workers' compensation and up to \$5,000,000 (in the aggregate for all fairs) for Employer's Liability.

Effective July 1, 2003, the Authority has excess insurance coverage through California Public Entity Insurance Authority, a Joint Powers Agency, up to \$50,000,000 each occurrence for workers' compensation and \$10,000,000 per occurrence for Employer's Liability.

- Beginning in 1990, the Authority provided special events coverage of \$1,000,000 per occurrence and in the aggregate per year. The Authority's SIR for special events was \$500,000 per occurrence with excess insurance coverage of \$500,000 in the aggregate per year.

Effective January 1, 2000, the Authority changed its SIR from \$500,000 per occurrence to \$250,000 per occurrence. In addition, the Authority obtained reinsurance to increase excess coverage to \$1,000,000 per occurrence and \$1,000,000 in the aggregate for all self-insured losses in a year.

Effective April 1, 2003, the Authority changed its coverage from reinsurance to excess liability while maintaining its SIR of \$250,000 per occurrence and its coverage of \$1,000,000 per occurrence.

- Beginning in 1997, the Authority purchased employment practices liability coverage up to \$3,000,000 in the aggregate per year for member fairs. Effective January 1, 2000, this coverage was provided in the Authority's general liability program.
- Beginning in 1998, the Authority purchased \$1,000,000 in excess insurance for the Revenue Protection Program above the Program's stop-loss limit of \$500,000.

Effective January 1, 2001, the Authority purchased excess insurance to increase the Program's stop-loss limit to \$600,000 from \$500,000.

FUNDING OF PROGRAMS

Program underwriting and rate setting policies have been 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 Division of Fairs and Expositions 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 unlikely 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.

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.

FIXED ASSETS

Fixed assets are stated at cost. Major additions are capitalized and repair and maintenance costs are expensed. Depreciation is computed using the straight-line method over estimated useful lives of three years for automobiles and computer equipment, five years for furniture and equipment, 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 and unbilled portion of workers' compensation and general liability insurance fees at a specific point in time. Receivables from fairs and others represent amounts related to letters of understanding and other services performed. Risk fees assessed are recognized as earned on a pro rata basis over the coverage term.

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 2% 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 unlikely 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.

3. IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

For the year ended December 31, 2003, the Authority was required to adopt GASB Statement No. 34 (GASB 34), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and GASB Statement No. 37 (GASB 37) *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*. GASB 34 significantly changes the way state and local governments report their financial information to the public. For the Authority's financial statements, GASB 34 requires the reporting of assets and liabilities in a classified format on the balance sheet. The preparation of a Management Discussion and Analysis section to clarify the Authority's financial activities is also required by GASB 34.

4. CASH AND CASH EQUIVALENTS

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

	2003		2002	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Cash in banks	\$ 1,158,490	\$ 1,379,298	\$ 178,776	\$ 565,460
Money Market Fund	208,895	208,895	276,216	276,216
LAIF	10,019,017	9,979,826	11,778,901	11,778,901
Total cash and cash equivalents	\$ 11,386,402	\$ 11,568,019	\$ 12,233,893	\$ 12,620,577

Cash balances held in banks and money market funds are insured up to \$100,000 by the Federal Depository Insurance Corporation (FDIC). Balances above the insured limit are collateralized.

The cash in LAIF is considered highly liquid. California's state pool representatives have indicated that LAIF has not invested in derivatives, but does invest in structured notes and asset-backed securities. These investments represent approximately 2.1% of the pool assets at December 31, 2003. These pooled funds are carried at fair value, which was approximated by cost. Any investment losses are shared proportionately by all participants in the pool. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute.

5. INVESTMENTS

Under provisions of California Government Code Sections 6509.5 and 53601 (the Code), the Authority is authorized to invest in:

- A variety of federal and state treasury obligations (including local California agencies).
- Obligations or other instruments of or issued by federal agencies or government-sponsored enterprises.
- Bankers' acceptances which are eligible for purchase by the federal reserve system (subject to certain limitations).
- Prime quality commercial paper (subject to certain limitations).
- Negotiable certificates of deposit issued by nationally or state chartered banks, savings and loan associations, and credit unions.
- Repurchase agreements or reverse repurchase agreements of any securities authorized by the Code.
- Medium-term notes of a maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

The Authority's investments are categorized according to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, as follows:

- Category 1 — Insured or registered, or securities held by the entity or its agent in the entity's name.
- Category 2 — Uninsured and unregistered, with securities held by the counter party's trust department or agent in the entity's name.
- Category 3 — Uninsured and unregistered with securities held by the counter party or its trust department or agent but not in the entity's name.

Investments held by the Authority at December 31, 2003 and 2002 consisted of the following:

DECEMBER 31, 2003

	Category			Fair Value	Amortized Cost
	1	2	3		
U.S. Treasury Notes	\$			\$	\$
International Bonds		104,367		104,367	100,337
U.S. Government Agencies		2,843,992		2,843,992	2,807,493
Corporate Bonds		2,916,166		2,916,166	2,866,342
Total	\$	5,864,525		\$ 5,864,525	\$ 5,774,172

DECEMBER 31, 2002

U.S. Treasury Notes	\$	783,270		\$ 783,270	\$ 946,364
International Bonds		106,131		106,131	100,568
U.S. Government Agencies		2,063,197		2,063,197	1,812,189
Corporate Bonds		2,754,537		2,754,537	1,454,939
Total	\$	5,707,135		\$ 5,707,135	\$ 4,314,060

6. 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 5% to 8.5% 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, 2003 are as follows:

<u>Year ending December 31,</u>	
2004	\$ 79,116
2005	79,115
2006	79,823
2007	65,375
2008	53,825
Total minimum payments	357,254
Less amount representing interest	(38,095)
Net contracts receivable for equipment financing	\$ 319,159

7. FIXED ASSETS

Fixed assets as of December 31, 2003 and 2002 consisted of the following:

Description	Balance at December 31,			Balance at December 31,
	2002	Additions	Disposals	
Building and improvements	\$ 1,889,063	\$ 50,000		\$ 1,939,063
Land	681,073			681,073
Equipment	581,773	17,108	\$ (10,573)	588,308
Furniture and leasehold improvements	149,901		(475)	149,426
Vehicles	83,142			83,142
Total	3,384,952	67,108	(11,048)	3,441,012
Less Accumulated Depreciation and Amortization	(1,332,466)	(163,976)	10,383	(1,486,060)
Net Fixed Assets	\$ 2,052,486	\$ (96,868)	\$ 665	\$ 1,954,952

Description	Balance at December 31,			Balance at December 31,
	2001	Additions	Disposals	
Building and improvements	\$ 1,862,804	\$ 26,259		\$ 1,889,063
Land	681,073			681,073
Equipment	552,920	61,241	\$ (32,388)	581,773
Furniture and leasehold improvements	129,188	24,790	(4,077)	149,901
Vehicles	57,213	44,680	(18,751)	83,142
Total	3,283,198	156,970	(55,216)	3,384,952
Less Accumulated Depreciation and Amortization	(1,211,316)	(173,091)	51,941	(1,332,466)
Net Fixed Assets	\$ 2,071,882	\$ (16,121)	\$ (3,275)	\$ 2,052,486

8. DIVISION OF FAIRS AND EXPOSITIONS FUNDS

During 2003 and 2002, the Authority received from the Division of Fairs and Expositions (Division) approximately \$700,000 and \$950,000 respectively in funds to be used for the Unemployment Insurance Program. In addition, the Authority received \$1,000,000 from the Division in 1997 to act as an intermediary for the Equipment Exchange Program. Of the total funds received, \$370,180 and \$1,093,269 were unexpended at December 31, 2003 and 2002, respectively. These funds are committed to fair service programs under letters of understanding with the Division and accounted for as liabilities until spent. Receipts and expenditures of Division funds are not recorded as Authority revenues and expenses, except for administration fees.

At December 31, 2003 and 2002, the Authority's liabilities also included \$2,615,280 and \$3,094,121 respectively, for the operation of a property risk pooling program. This amount is primarily comprised of \$2,550,000 in funds advanced in January 2002 from the California Fairs Financing Authority, as authorized by the Division, for the purpose of funding the property insurance risk pooling program for California fairs beginning January 1, 2002. In addition, deposits of \$900,000 and \$450,000 were received from the Division in 2003 and 2002, respectively.

9. REVENUE PROTECTION PROGRAM

The Division of Fairs and Expositions advanced funds to the Authority in 1995 to fund the Revenue Protection 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.

The transactions recorded during the years ended December 31, 2003 and 2002 include the following:

	2003	2002
Unexpended funds at January 1	\$ 3,986,669	\$ 3,895,985
Fees assessed to fairs	134,000	129,250
Investment income	35,088	117,029
Claims paid or accrued	(89,516)	(68,095)
Administration fee	(50,000)	(50,000)
Excess policy premium	(37,500)	(37,500)
	<hr/>	<hr/>
Unexpended funds at December 31	\$ 3,978,741	\$ 3,986,669

10. UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

As discussed in Note 1, 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, 2003 and 2002:

	2003	2002
Unpaid losses and loss adjustment expenses, beginning of fiscal year	\$ 7,305,752	\$ 5,947,000
Incurring losses and loss adjustment expenses:		
Provision for covered events of the current year	3,432,000	3,072,335
Increase (decrease) in provision for covered events of prior years	(204,089)	353,880
Total incurred losses and loss adjustment expenses	<hr/> 3,227,911	<hr/> 3,426,215
Payments:		
Losses and loss adjustment expenses attributable to covered events of the current year	813,671	551,819
Losses and loss adjustment expenses attributable to covered events of prior years	<hr/> 2,618,731	<hr/> 1,515,644
Total payments	<hr/> 3,432,402	<hr/> 2,067,463
Total unpaid losses and loss adjustment expenses, end of fiscal year	<hr/> \$ 7,101,261	<hr/> \$ 7,305,752

11. CONFIDENCE MARGIN

The Board has designated a confidence margin for all programs of the Authority for future loss development in order to maintain a 85% confidence level for the special events, general liability and workers' compensation programs for 2003. At year-end 2002 the confidence levels were set at 90% for the special events program and 80% for the general liability and workers' compensation program. The confidence margin represents actuarially estimated losses at a specific confidence level in excess of the actuarially estimated losses at the expected (55%) confidence level. Any net assets in excess of the confidence margin are undesignated. The designated net assets confidence margin for each of the programs at December 31 is as follows:

	2003	2002
General liability	\$767,000	\$705,000
Workers' compensation	972,000	682,000
Special events	<hr/> 176,000	<hr/> 257,000
Total confidence margin	<hr/> \$1,915,000	<hr/> \$1,644,000

12. DESIGNATED NET ASSETS

As of December 31, 2002, the Authority had designated \$195,727 for future legal expenses to pursue alleged attorney misrepresentation in a specific legal case and broker misrepresentation regarding related insurance coverage.

13. 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.

14. 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

Active Authority employees are required to contribute 7.0% of their annual covered salary. The Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its employees. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the year ended December 31, 2003 was 2.483%. The contribution requirements of the employees are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

ANNUAL PENSION COST

For the year ended December 31, 2003, the Authority's employee's contribution amount was \$78,896. The required contribution for the year ended December 31, 2003 was determined as part of the June 30, 2000 and June 30, 2001 actuarial valuations using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included an 8.25% investment rate of return (net of administrative expenses) and a 3.5% cost-of-living adjustment. The actuarial value of the Plan's assets was determined using a technique that smooths the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. The Authority's excess assets are being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2003 was 19 years.

THREE-YEAR TREND INFORMATION FOR THE PLAN

Fiscal Year Ended June 30:	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Obligation (Asset) / Liability
2001	\$98,241	100%	\$ 0
2002	\$74,796	100%	\$ 0
2003	\$78,896	100%	\$ 0

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. The net pension assets as of December 31, 2003 and December 31, 2002 are not significant and have not been accrued in the financial statements.

FUNDED STATUS OF THE PLAN

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Excess Assets	Funded Status	Annual Covered Payroll	Excess Assets as a Percentage of Payroll
2000	\$3,660,609	\$5,109,206	\$1,448,597	139.6%	\$1,304,708	111.0%
2001	\$4,108,501	\$5,418,455	\$1,309,954	131.9%	\$1,519,379	86.2%
2002	\$4,586,641	\$5,200,170	\$ 613,529	113.4%	\$1,655,651	37.1%

15. POSTRETIREMENT BENEFITS

The Authority provides postretirement health care benefits in accordance with Government Code Section 22754 to all employees who retire from the Authority on or after attaining a certain age and meeting length of service requirements. The postretirement health care benefits are funded on a pay-as-you-go basis. The Authority had seven retirees as of December 31, 2003 and seven retirees as of December 31, 2002, on whose behalf it paid \$42,898 and \$42,192 in postretirement health care benefits during the years ended December 31, 2003 and 2002, respectively.

16. LEASE INCOME

The Authority leases a portion of its office building to other joint powers authorities and one other tenant under operating leases, which expire in December 2005. Total rental income for the years ended December 31, 2003 and 2002, including sublease income, amounted to \$129,734 and \$127,757, respectively.

Minimum future rental payments to be received under the noncancellable leases for each of the next five years is as follows at December 31, 2003:

Year ending December 31,	
2004	\$132,612
2005	93,934
Total	<u>\$226,546</u>

17. 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 calls for seven annual payments of \$189,360 and an option to purchase the equipment at \$175,000 plus tax upon expiration of the lease. The Authority makes the lease payments and is 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 is liable for all future payments on this lease and adhering to this lease agreement.

Annual minimum payments due on this operating lease at December 31, 2003 are as follows:

Year ending December 31,	
2004	\$ 189,360
2005	189,360
2006	189,360
2007	189,360
2008	189,360
Total lease payments due	<u>\$ 946,800</u>

S U P P L E M E N T A R Y I N F O R M A T I O N

RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT

GENERAL LIABILITY PROGRAM FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Unpaid Losses and Loss Adjustment Expenses, Beginning of Year	\$ 2,994,000	\$ 2,350,000
Incurred Losses and Loss Adjustment Expenses:		
Provision for Insured Events of the Current Year	991,000	1,021,000
Decrease in Provision for Insured Events of Prior Years:	(799,352)	(412,572)
Total Incurred Losses and Loss Adjustment Expenses	<u>191,648</u>	<u>608,428</u>
Payments:		
Losses and Loss Adjustment Expenses Attributable to Insured Events of the Current Year	181,020	106,701
Losses and Loss Adjustment Expenses Attributable to Insured Events of Prior Years	781,019	(142,273)
Total Payments	<u>962,039</u>	<u>(35,572)</u>
Total Unpaid Losses and Loss Adjustment Expenses, End of Year	<u>\$ 2,223,609</u>	<u>\$ 2,994,000</u>

WORKERS' COMPENSATION PROGRAM FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Unpaid Losses and Loss Adjustment Expenses, Beginning of Year	\$ 4,101,752	\$ 3,416,000
Incurred Losses and Loss Adjustment Expenses:		
Provision for Insured Events of the Current Year	2,383,000	1,950,335
Increase in Provision for Insured Events of Prior Years:	440,167	803,649
Total Incurred Losses and Loss Adjustment Expenses	<u>2,823,167</u>	<u>2,753,984</u>
Payments:		
Losses and Loss Adjustment Expenses Attributable to Insured Events of the Current Year	623,522	438,618
Losses and Loss Adjustment Expenses Attributable to Insured Events of Prior Years	1,650,915	1,629,614
Total Payments	<u>2,274,437</u>	<u>2,068,232</u>
Total Unpaid Losses and Loss Adjustment Expenses, End of Year	<u>\$ 4,650,482</u>	<u>\$ 4,101,752</u>

SPECIAL EVENTS PROGRAM FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Unpaid Losses and Loss Adjustment Expenses, Beginning of Year	\$ 210,000	\$ 181,000
Incurring Losses and Loss Adjustment Expenses:		
Provision for Insured Events of the Current Year	58,000	101,000
Increase (decrease) in Provision for Insured Events of Prior Years:	155,097	(37,197)
Total Incurred Losses and Loss Adjustment Expenses	213,097	63,803
Payments:		
Losses and Loss Adjustment Expenses Attributable to Insured Events of the Current Year	9,129	6,500
Losses and Loss Adjustment Expenses Attributable to Insured Events of Prior Years	186,797	28,303
Total Payments	195,926	34,803
Total Unpaid Losses and Loss Adjustment Expenses, End of Year	\$ 227,171	\$ 210,000

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 matures, the correlation between original estimates and reestimated 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.

**CLAIMS DEVELOPMENT INFORMATION
GENERAL LIABILITY PROGRAM
DECEMBER 31, 2003**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
(1) Premium Revenue:										
Earned	\$ 2,144,903	\$ 2,308,217	\$ 2,322,560	\$ 1,520,640	\$ 1,798,886	\$ 1,575,962	\$ 1,528,290	\$ 1,691,999	\$ 1,744,634	\$ 1,882,053
Ceded	0	0	(67,241)	(149,247)	(221,415)	(218,360)	(275,000)	(286,275)	(308,534)	(563,000)
Net Earned	2,144,903	2,308,217	2,255,319	1,371,393	1,577,471	1,357,602	1,253,290	1,405,724	1,436,100	1,319,053
(2) Unallocated Expenses:**										
Direct and Indirect Costs	852,667	751,077	643,933	718,567	538,189	448,163	527,585	640,809	671,188	736,851
ULAE Reserve Adjustment	0	0	0	0	(396,087)	(18,114)	(88,273)	20,000	86,000	(106,000)
Net Expenses	852,667	751,077	643,933	718,567	142,102	430,049	439,312	660,809	757,188	630,851
(3) Estimated Losses and Expenses, End of Policy Year:										
Incurred**	1,432,855	2,322,830	2,078,420	4,499,615	800,000	730,000	1,060,000	825,000	935,000	1,097,000
Ceded	0	0	0	(652,869)	0	0	0	0	0	0
Net Incurred	1,432,855	2,322,830	2,078,420	3,846,746	800,000	730,000	1,060,000	825,000	935,000	1,097,000
(4) Net Paid (Cumulative) as of:										
End of Policy Year	69,089	67,214	49,916	70,954	29,112	41,142	114,724	82,021	106,701	181,020
One Year Later	210,680	279,430	143,183	1,153,797	80,343	169,784	228,825	396,993	340,038	
Two Years Later	471,180	959,139	336,581	1,591,012	155,479	562,459	491,656	599,949		
Three Years Later	614,412	1,027,067	599,882	3,621,314	180,752	604,452	576,384			
Four Years Later	691,360	1,068,584	600,581	4,641,218	194,738	612,371				
Five Years Later	737,981	1,051,959	600,581	3,864,312	446,817					
Six Years Later	760,132	1,051,959	602,797	3,577,956						
Seven Years Later	760,132	1,051,959	602,797							
Eight Years Later	760,132	1,051,959								
Nine Years Later	760,132									
(5) Reestimated Ceded Losses and Expenses:	0	0	0	0	652,869	0	0	0	0	0
(6) Reestimated Net Incurred Losses and Expenses as of:										
End of Policy Year	1,432,855	2,322,830	2,078,420	3,846,746	800,000	730,000	1,060,000	825,000	935,000	1,097,000
One Year Later	2,022,286	2,062,921	1,397,087	2,200,000	600,000	930,000	1,297,000	839,000	1,010,000	
Two Years Later	1,397,328	1,671,684	730,000	2,340,000	440,000	778,000	986,000	896,000		
Three Years Later	1,080,111	1,200,000	810,000	4,717,000	339,000	756,000	828,000			
Four Years Later	870,000	1,150,000	660,000	4,642,000	963,000	612,371				
Five Years Later	820,000	1,051,959	656,000	3,973,000	446,817					
Six Years Later	760,132	1,051,959	602,797	3,577,956						
Seven Years Later	760,132	1,051,959	602,797							
Eight Years Later	760,132	1,051,959								
Nine Years Later	760,132									
(7) Increase (Decrease) in Estimated Net Incurred Losses and Expenses from End of Policy Year	\$ 672,723	\$ 1,270,871	\$ 1,475,623	\$ 268,790	\$ 353,183	\$ 117,629	\$ 232,000	\$ (71,000)	\$ (75,000)	\$ 0

* Beginning in 1998, unallocated loss adjustment expenses (ULAE) are included in Line 2 in accordance with CASB 10. In prior years, ULAE was included in Line 3.
** Beginning in 1998, the estimated incurred losses in Line 3 are presented at the expected (55%) confidence level. Prior years' estimated incurred losses were presented at an 80% confidence level, which increased the estimated incurred losses.

CLAIMS DEVELOPMENT INFORMATION
WORKERS' COMPENSATION PROGRAM
DECEMBER 31, 2003

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
(1) Premium Revenue:										
Earned	\$ 3,191,767	\$ 3,040,938	\$ 3,243,352	\$ 2,141,088	\$ 2,524,431	\$ 2,120,786	\$ 2,325,968	\$ 2,569,992	\$ 2,704,262	\$ 3,754,231
Ceded	(81,794)	(80,960)	(59,258)	(58,650)	(43,552)	(39,191)	(29,370)	(40,122)	(71,262)	(176,073)
Net Earned	3,109,973	2,959,978	3,184,094	2,082,438	2,480,879	2,081,595	2,296,598	2,529,870	2,633,000	3,578,158
(2) Unallocated Expenses:**										
Direct and Indirect Costs	789,274	816,225	819,559	900,406	938,620	706,406	790,154	812,421	895,135	1,177,277
ULAE Reserve Adjustment	0	0	0	0	107,267	(15,000)	(145,000)	31,000	17,000	2,000
Net Expenses	789,274	816,225	819,559	900,406	1,045,887	691,406	645,154	843,421	912,135	1,179,277
(3) Estimated Losses and Expenses, End of Policy Year:										
Incurred**	2,334,151	1,811,805	2,226,692	1,671,336	1,430,000	1,600,000	1,480,000	1,653,000	1,942,000	2,383,000
Ceded	0	0	0	0	0	0	0	0	0	0
Net Incurred	2,334,151	1,811,805	2,226,692	1,671,336	1,430,000	1,600,000	1,480,000	1,653,000	1,942,000	2,383,000
(4) Net Paid (Cumulative) as of:										
End of Policy Year	412,287	236,129	402,881	306,799	255,547	352,759	438,517	354,363	438,618	623,522
One Year Later	689,334	561,340	908,207	702,814	585,683	811,315	1,094,032	803,175	1,082,836	
Two Years Later	959,607	746,076	1,330,716	885,468	717,831	1,091,017	1,855,783	1,133,626		
Three Years Later	1,047,579	862,417	1,550,110	1,174,981	731,970	1,306,875	2,298,033			
Four Years Later	1,077,716	904,817	1,674,202	1,169,909	756,195	1,411,381				
Five Years Later	1,076,355	917,050	1,785,278	1,264,208	791,391					
Six Years Later	1,089,368	940,271	1,868,285	1,249,199						
Seven Years Later	1,063,969	949,893	1,915,004							
Eight Years Later	1,097,169	967,180								
Nine Years Later	1,084,469									
(5) Reestimated Ceded Losses and Expenses:	12,700	5,304	7,761	47,383	0	8,500	1,533	2,449	0	1,179
(6) Reestimated Net Incurred Losses and Expenses as of:										
End of Policy Year	2,334,151	1,811,805	2,226,692	1,671,336	1,430,000	1,600,000	1,480,000	1,653,000	1,942,000	2,383,000
One Year Later	1,605,132	1,277,603	1,964,052	1,360,000	1,190,000	1,340,000	2,134,000	1,794,000	2,113,000	
Two Years Later	1,387,159	1,139,219	1,810,000	1,350,000	1,040,000	1,514,000	2,670,000	1,810,000		
Three Years Later	1,183,123	1,110,000	1,870,000	1,340,000	842,000	1,550,000	2,882,000			
Four Years Later	1,180,000	1,010,000	1,860,000	1,257,000	857,000	1,510,000				
Five Years Later	1,150,000	980,000	1,952,000	1,288,000	895,000					
Six Years Later	1,130,000	962,000	1,961,000	1,261,000						
Seven Years Later	1,076,668	965,000	2,010,000							
Eight Years Later	1,077,000	976,000								
Nine Years Later	1,077,000									
(7) Decrease in Estimated Net Incurred Losses and Expenses from End of Policy Year	\$ 1,257,151	\$ 835,805	\$ 216,692	\$ 410,336	\$ 535,000	\$ 90,000	\$ (1,402,000)	\$ (157,000)	\$ (171,000)	\$ 0

* Beginning in 1998, unallocated loss adjustment expenses (ULAE) are included in Line 2 in accordance with GASB 10. In prior years, ULAE was included in Line 3.
 ** Beginning in 1998, the estimated incurred losses in Line 3 are presented at the expected (55%) confidence level. Prior years' estimated incurred losses were presented at an 80% confidence level, which increased the estimated incurred losses.

**CLAIMS DEVELOPMENT INFORMATION
SPECIAL EVENTS PROGRAM
DECEMBER 31, 2003**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
(1) Premium Revenue:										
Earned	\$ 492,584	\$ 467,155	\$ 492,227	\$ 473,464	\$423,099	\$ 414,599	\$ 385,841	\$ 440,586	\$ 498,426	\$ 624,027
Ceded	(93,578)	(96,526)	(96,526)	(53,754)	(53,916)	(56,843)	(65,000)	(65,000)	(84,500)	(187,633)
Net Earned	395,358	370,629	395,701	419,710	369,183	357,756	320,841	375,586	413,926	436,394
(2) Unallocated Expenses:**										
Direct and Indirect Costs	246,722	273,859	258,250	198,007	196,712	187,747	190,607	184,338	203,586	243,587
ULAE Reserve Adjustment	0	0	0	0	(103,279)	(3,000)	13,000	(4,000)	(13,000)	(48,000)
Net Expenses	246,722	273,859	258,250	198,007	93,433	184,747	203,607	180,338	190,586	195,587
(3) Estimated Losses and Expenses, End of Policy Year:										
Incurred**	184,882	337,867	228,197	229,272	400,000	130,000	80,000	127,000	88,000	106,000
Ceded	0	0	0	0	0	0	0	0	0	0
Net Incurred	184,882	337,867	228,197	229,272	400,000	130,000	80,000	127,000	88,000	106,000
(4) Net Paid (Cumulative) as of:										
End of Policy Year	12,200	11,738	8,982	6,885	14,824	6,321	1,364	18,350	6,500	9,129
One Year Later	25,513	105,981	40,524	7,022	198,855	32,911	59,900	36,307	15,763	
Two Years Later	56,507	142,775	90,069	7,022	583,542	32,911	70,246	196,937		
Three Years Later	90,801	95,717	90,069	7,022	586,649	32,911	87,150			
Four Years Later	91,373	95,717	90,069	7,022	586,649	32,911				
Five Years Later	91,373	95,717	90,069	7,022	586,649					
Six Years Later	91,283	95,717	90,069	7,022						
Seven Years Later	91,283	95,717	90,069							
Eight Years Later	91,283	95,717								
Nine Years Later	91,283									
(5) Reestimated Ceded Losses and Expenses:	0	0	0	0	0	0	0	0	0	0
(6) Reestimated Net Incurred Losses and Expenses as of:										
End of Policy Year	184,882	337,867	228,197	229,272	400,000	130,000	80,000	127,000	88,000	106,000
One Year Later	131,958	317,161	234,489	57,022	580,000	80,000	96,000	102,000	56,000	
Two Years Later	151,767	316,447	90,069	7,022	680,000	32,911	108,000	216,000		
Three Years Later	132,751	95,717	90,069	7,022	586,649	32,911	87,150			
Four Years Later	91,373	95,717	90,069	7,022	586,649					
Five Years Later	91,373	95,717	90,069	7,022						
Six Years Later	91,283	95,717	90,069	7,022						
Seven Years Later	91,283	95,717	90,069							
Eight Years Later	91,283	95,717								
Nine Years Later	91,283									
(7) Increase (Decrease) in Estimated Net Incurred Losses and Expenses from End of Policy Year	\$ 93,599	\$ 242,150	\$ 138,128	\$ 222,250	\$ (186,649)	\$ 97,089	\$ (7,150)	\$ (89,000)	\$ 32,000	\$ 0

* Beginning in 1998, unallocated loss adjustment expenses (ULAE) are included in Line 2 in accordance with CASB 10. In prior years, ULAE was included in Line 3.

** Beginning in 1998, the estimated incurred losses in Line 3 are presented at the expected (55%) confidence level. Prior years' estimated incurred losses were presented at an 80% confidence level, which increased the estimated incurred losses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
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 California Fair Services Authority (the Authority) as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated February 25, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses as defined above. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Authority, in a separate letter dated February 25, 2004.

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.
February 25, 2004



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