

**WE'RE READY...**

**2004 FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORT**



**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, 2004 and 2003, 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, 2004 and 2003, 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, 2005, 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 52 through 57 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, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### DECEMBER 31, 2004

The following report reflects the financial condition of California Fair Services Authority (CFSA) for the year ended December 31, 2004. 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, 2004

- Total operating revenues were \$8,572,858, an increase of 17.13% or \$1,253,852. This increase is due to several factors including the addition of one new member to the Workers' Compensation pool, and a 10% increase in the Workers' Compensation and General Liability base rates. Increases in the base rates were necessary because of the significant increases in the commercial excess insurance market.
- Total non-operating revenues were \$182,886, a decrease of 22.93% or \$54,416. 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 \$12,913,417, an increase of 81.87% from \$7,100,529 in the previous year. This is due primarily to the historically high cost of claims.
- Outstanding claims liabilities for the Workers' Compensation risk pool increased from \$4.65 million at December 31, 2003 to \$8.63 million at the close of 2004, an increase of 85.59%. Outstanding claims liabilities for the General Liability risk pool increased from \$2.22 million at December 31, 2003 to \$2.64 million at the close of 2003, an increase of 18.92%.

### 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 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 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

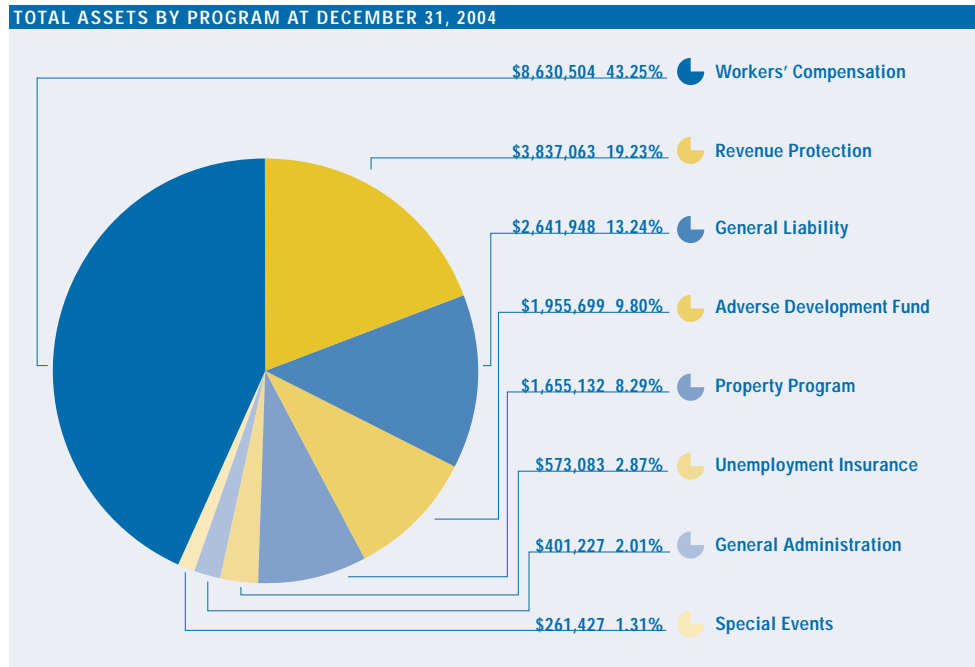
|                                  | 12/31/2004          | Percentage     | 12/31/2003          | Percentage     |
|----------------------------------|---------------------|----------------|---------------------|----------------|
| Current Assets                   | \$17,594,392        | 88.17%         | \$18,531,493        | 89.35%         |
| Noncurrent Assets                | 2,361,688           | 11.83%         | 2,209,886           | 10.65%         |
| Total Assets**                   | <u>\$19,956,080</u> | <u>100.00%</u> | <u>\$20,741,379</u> | <u>100.00%</u> |
| Current Liabilities              | \$ 401,226          | 2.23%          | \$ 562,546          | 3.85%          |
| Misc. Pool Liabilities*          | 6,065,278           | 33.70%         | 6,964,201           | 47.61%         |
| Claims Liabilities – Current     | 3,523,051           | 19.57%         | 2,634,825           | 18.01%         |
| Claims Liabilities – Non Current | 8,010,827           | 44.50%         | 4,466,436           | 30.53%         |
| Total Liabilities**              | <u>18,000,382</u>   | <u>100.00%</u> | <u>14,628,008</u>   | <u>100.00%</u> |
| Net Assets                       | 1,955,698           | 100.00%        | 6,113,371           | 100.00%        |
| Total Liabilities and Net Assets | <u>\$19,956,080</u> | <u>100.00%</u> | <u>\$20,741,379</u> | <u>100.00%</u> |

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

\*\* The receivable/payable for the shade structure is not included for presentation purposes.

#### CFSA AGENCY AND PROGRAM ASSETS

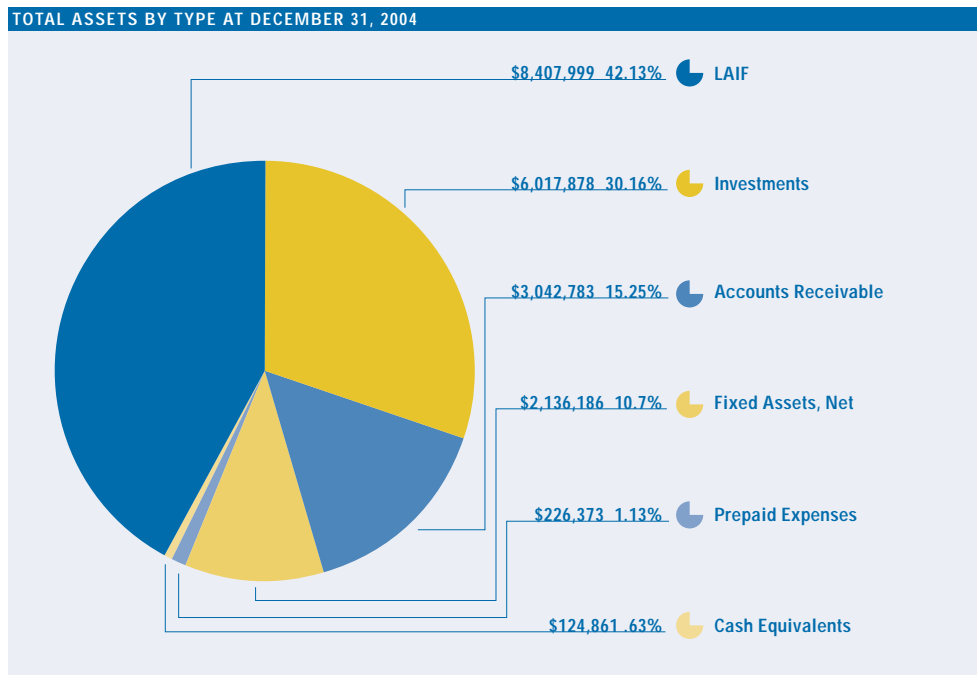
##### TOTAL ASSETS BY PROGRAM AT DECEMBER 31, 2004



Total agency and program assets, as reflected in the Liabilities and Net Assets section of the Balance Sheet, decreased \$785,299 from \$20,741,379 as of December 31, 2003 to \$19,956,080 at December 31, 2004.

Non-current or fixed assets were reduced by \$73,700 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 2004 by \$2,700,189 to \$14,550,738. 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, 2004 LAIF held approximately 59% of CFSA's total investable cash while SmithBarney and Madison Investment Advisors held approximately 41%.



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. While still very much in the dismal range, in 2004 LAIF went from a low in the first quarter of 1.47% to 2% in the fourth quarter. During the same time period CFSA's SmithBarney and Madison Investment Advisors portfolios averaged a rate of return of 1.64%. 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 decreased from \$562,246 as of December 31, 2003 to \$401,226 as of December 31, 2004. This decrease is due in part to the decreased liability in accrued employee vacation time, and the timing of a 12/31/04 Part Time & Seasonal employee retirement payment. All other liabilities on the Balance Sheet are actual assets of the individual pooled programs.

**CFSA REVENUES AND EXPENSES**

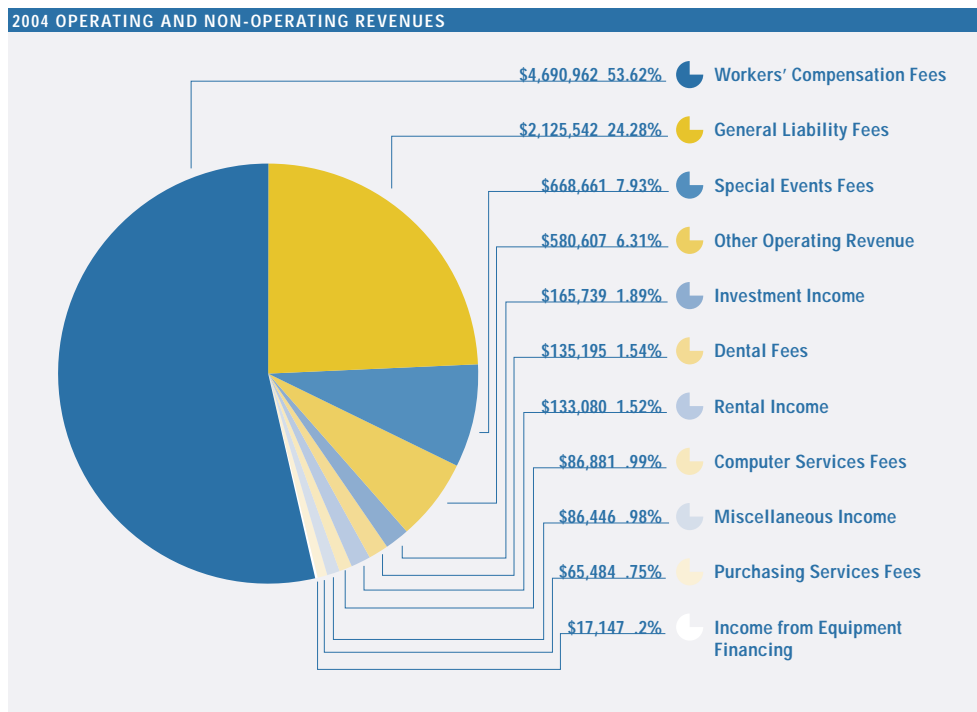
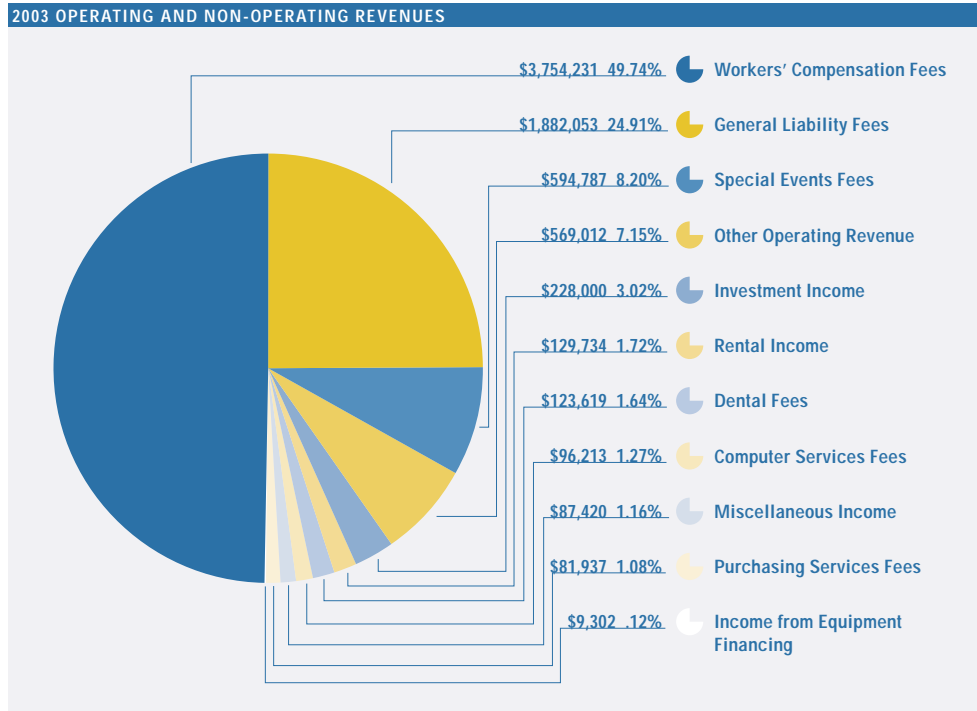
Pool operating revenues consist of various types of member contributions and building rental income. These revenues increased from \$7,319,006 in 2003 to \$8,572,858 in 2004, primarily as a result of increased participation in the Workers' Compensation pool, and a 10% increase in the Workers' Compensation and General Liability base rates. Expenses exceeded revenues by \$4,157,673 in 2004 as compared to revenues exceeding expenses by \$455,779 in 2003, resulting in a net decrease in Net Assets, after actuarial adjustments to the confidence margins, of 68.01%. (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**

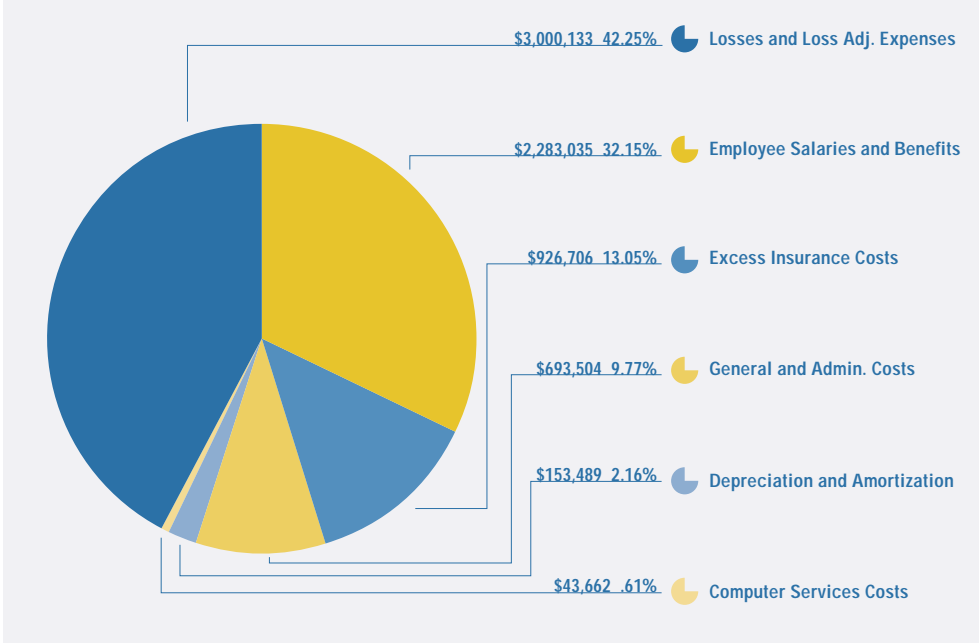
|                                 | <b>Year Ended<br/>12/31/2004</b> | <b>Year Ended<br/>12/31/2003</b> | <b>Percentage<br/>Change</b> |
|---------------------------------|----------------------------------|----------------------------------|------------------------------|
| <b>Operating Revenues</b>       |                                  |                                  |                              |
| General Liability Fees          | \$ 2,125,542                     | \$1,882,053                      | 12.94%                       |
| Workers' Compensation Fees      | 4,694,857                        | 3,758,294                        | 24.92%                       |
| Special Events Fees             | 694,676                          | 619,677                          | 12.10%                       |
| Dental Fees                     | 135,195                          | 123,620                          | 9.36%                        |
| Computer Services Fees          | 85,381                           | 96,213                           | (11.26%)                     |
| Purchasing Services Fees        | 65,484                           | 81,938                           | (20.08%)                     |
| Other Operating Revenue         | 552,197                          | 540,057                          | 2.25%                        |
| Rental Income                   | 133,080                          | 129,734                          | 2.58%                        |
| Miscellaneous Income            | 86,446                           | 87,420                           | (1.11%)                      |
| <b>Total Operating Revenues</b> | <u>8,572,858</u>                 | <u>7,319,006</u>                 | <u>17.13%</u>                |
| <b>Operating Expenses</b>       |                                  |                                  |                              |
| Losses and Loss Adj. Expenses   | 8,194,687                        | 3,000,133                        | 173.14%                      |
| Employee Salaries and Benefits  | 2,515,663                        | 2,283,035                        | 10.19%                       |
| Excess Insurance Costs          | 1,106,024                        | 926,706                          | 19.35%                       |
| Computer Services Costs         | 40,624                           | 43,662                           | (6.96%)                      |
| General and Admin. Costs        | 885,557                          | 693,504                          | 27.69%                       |
| Depreciation and Amortization   | 170,861                          | 153,489                          | 11.32%                       |
| <b>Total Operating Expenses</b> | <u>12,913,416</u>                | <u>7,100,529</u>                 | <u>81.87%</u>                |
| <b>Operating Gain/Loss</b>      | <u>(4,340,557)</u>               | <u>218,479</u>                   | <u>(2,086.72%)</u>           |
| <b>Other Income</b>             |                                  |                                  |                              |
| Investment Income               | 165,739                          | 228,000                          | (27.31%)                     |
| Income from Equipment Financing | 17,147                           | 9,302                            | 84.33%                       |
| <b>Total Other Income</b>       | <u>182,886</u>                   | <u>237,302</u>                   | <u>(22.93%)</u>              |
| <b>Beginning Net Assets</b>     | <u>6,113,370</u>                 | <u>5,657,589</u>                 |                              |
| <b>Ending Net Assets</b>        | <u>\$ 1,955,698</u>              | <u>\$6,113,370</u>               | <u>(68.01%)</u>              |

The increase in General Liability fees is due to a 10% increase in the base fee. The increase in Workers' Compensation fees is mainly due to the addition of three new members to the program mid-year 2003 that participated for the full year of 2004, and a 10% increase to the base fee. The Special Events program also saw a significant increase over the previous year, just over 12%. With commercial insurers' reluctance to insure small events, CFSA's Special Events Program has become very popular. Purchasing saw a decrease in net revenues of 20%, this is due mainly to fewer construction purchases. All other revenue sources for 2004 were very similar to their 2003 totals.

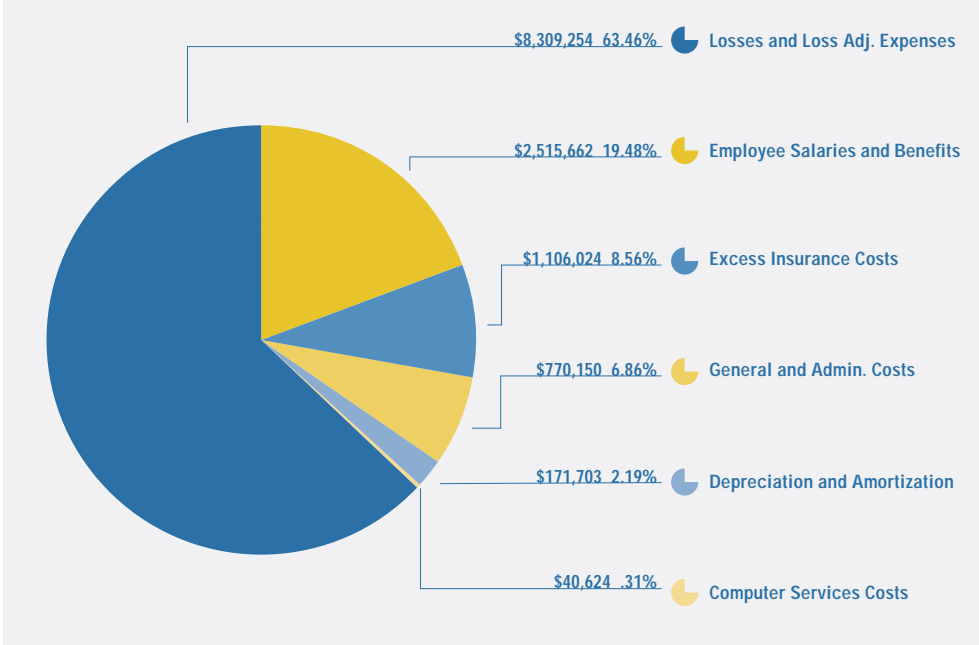
Loss and loss adjustment expenses increased in 2004 by 173.14%, this increase is due to the single worst year of adverse loss development in the Agency's history. The 10.19% increase in salaries and benefits is due to the increased costs of health benefits and retirement benefits. The 19.35% increase in excess insurance costs is driven entirely by the increases in the commercial market. The 27.69% increase in General and Administrative costs is tied to the reduction in investment income, which is used to directly offset overhead costs.



**2003 OPERATING EXPENSES**



**2004 OPERATING EXPENSES**



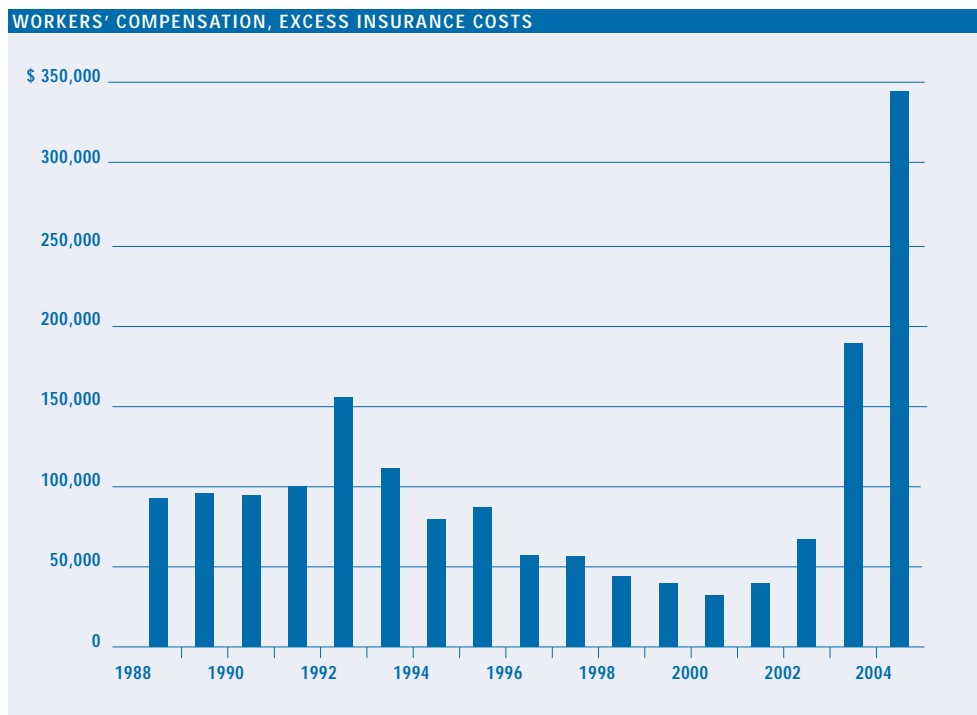
**CURRENT INSURANCE EXPENSE AND HISTORICAL EXCESS INSURANCE COSTS**

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

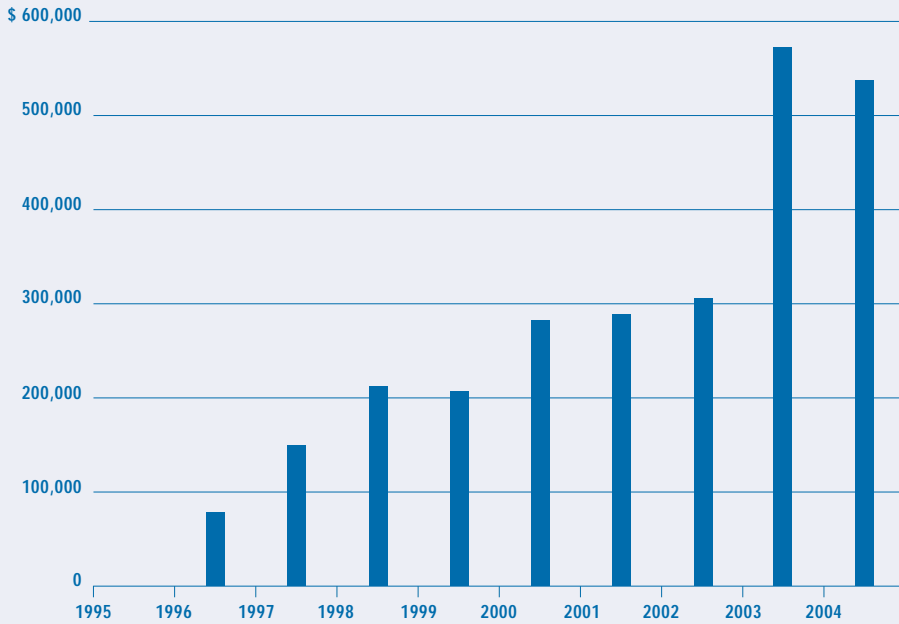
events of September 11, 2001 we were in a very favorable commercial insurance market with rates being very low. Since 9/11 renewals have increased significantly and many limitations in coverage have been put in place. Due to decreased capacity, increased exposure to terrorism, poor investment results, 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.

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. As seen by the heavy loss in 2004, this fund has been very crucial to the stability of CFSA's risk pools.



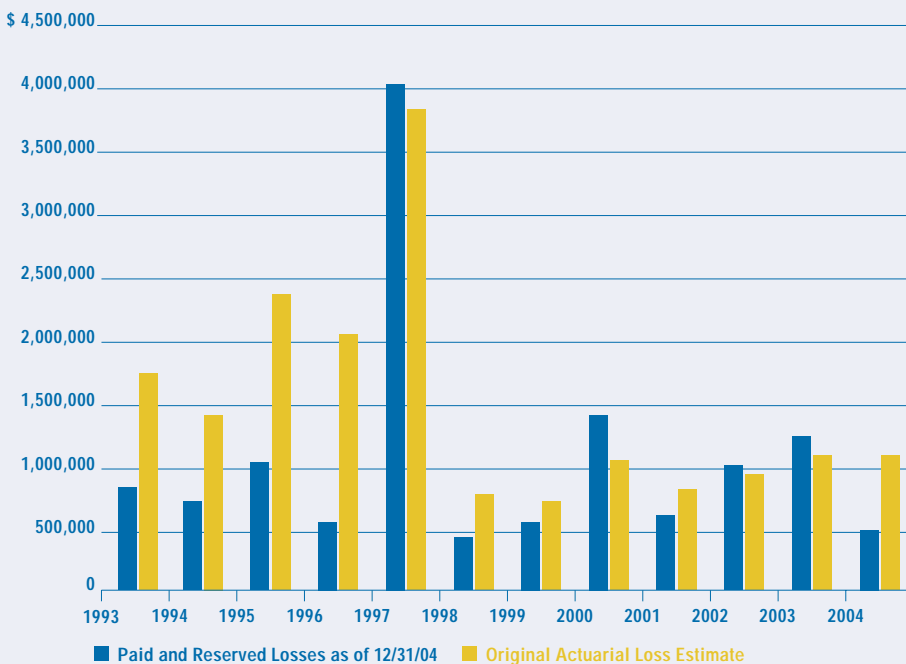
**GENERAL LIABILITY, EXCESS INSURANCE COSTS**

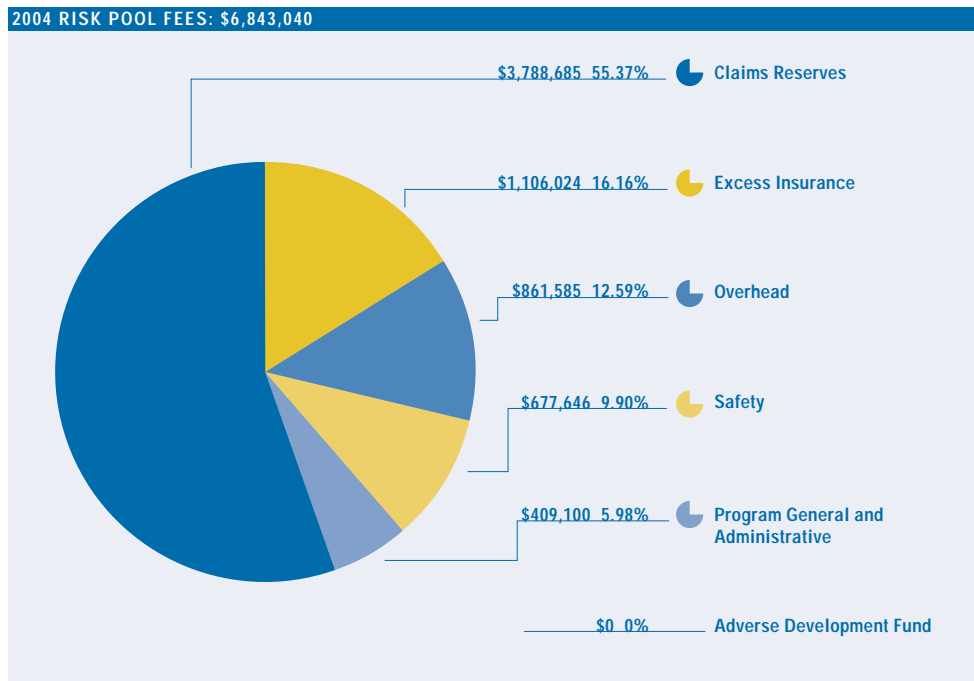
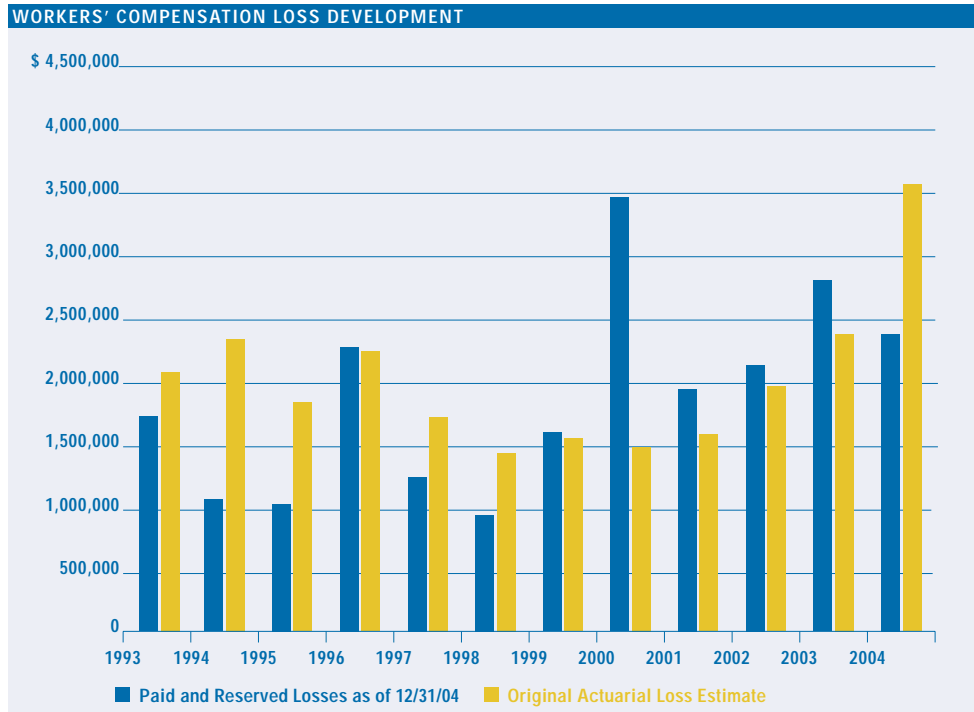


**PROVISION FOR INSURED EVENTS**

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 2004 the pools were reserved at a 70% confidence margin, down from 85% in 2003. (The graphs below illustrate the actual claims activity as compared to the original actuarial estimate for each given year.)

**GENERAL LIABILITY LOSS DEVELOPMENT**





**GENERAL ADMINISTRATION & PROGRAM G&A**

General administration expenses represent 12.59% 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 5.98% 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 9.90% 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.)

**2004 AGENCY BUDGET**

|                        | <b>Original<br/>Budget</b> | <b>Final<br/>Budget</b> | <b>Actual<br/>Results</b> | <b>Variance</b>       |
|------------------------|----------------------------|-------------------------|---------------------------|-----------------------|
| <b>Revenues</b>        |                            |                         |                           |                       |
| Purchasing (Net)       | \$ 111,500                 | \$ 111,500              | \$ 65,484                 | \$ (46,016)           |
| Workers' Comp. Fees    | 4,535,000                  | 4,641,000               | 4,694,857                 | 53,857                |
| General Liability Fees | 2,111,000                  | 2,134,000               | 2,125,542                 | (8,458)               |
| Special Event Fees     | 671,000                    | 671,000                 | 694,676                   | 23,676                |
| Computer Fees          | 44,839                     | 44,839                  | 42,661                    | (2,178)               |
| Revenue Protection     | 50,000                     | 50,000                  | 50,000                    | 0                     |
| Finance Dept. Fees     | 396,683                    | 396,683                 | 389,538                   | (7,145)               |
| Administration Fees    | 65,000                     | 65,000                  | 111,207                   | 46,207                |
| Tribute Road Rent      | 133,080                    | 133,080                 | 133,080                   | 0                     |
| Investment Income      | 450,000                    | 450,000                 | 165,739                   | (284,261)             |
| Total Revenue          | <u>8,568,102</u>           | <u>8,697,102</u>        | <u>8,472,784</u>          | <u>(224,318)</u>      |
| <b>Expenses</b>        |                            |                         |                           |                       |
| Losses & Costs         | 4,242,000                  | 4,898,000               | 8,194,687                 | 3,296,687             |
| Excess Insurance       | 1,085,000                  | 1,174,000               | 1,106,024                 | (67,976)              |
| Salaries & Benefits    | 2,424,544                  | 2,399,551               | 2,515,663                 | 116,112               |
| Travel                 | 115,700                    | 115,700                 | 97,636                    | (18,064)              |
| Tribute Road Costs     | 209,910                    | 253,410                 | 263,223                   | 9,813                 |
| Contract Services      | 133,300                    | 133,300                 | 155,936                   | 22,636                |
| Other Direct Costs     | 341,145                    | 341,145                 | 297,286                   | (43,859)              |
| Total Expenses         | <u>8,551,599</u>           | <u>9,315,106</u>        | <u>12,630,455</u>         | <u>3,315,348</u>      |
| <b>Net Income</b>      | <u>\$ 16,503</u>           | <u>\$ (618,004)</u>     | <u>\$ (4,157,671)</u>     | <u>\$ (3,539,666)</u> |

Significant changes between the original and final budgets include:

- Actual Fair payroll information came in higher than estimated, increasing projected 2004 Workers' Compensation fees. Also, the Napa County Fair joined the Liability Program after the original budget was prepared.
- The actuarial estimate of the provision for insured events increased by over \$400,000 for Workers' Compensation and just under \$250,000 for General Liability.

- The excess Workers' Compensation renewal was placed July 1, 2004 and was projected to be higher than the original estimate.
- Other minor changes were made in anticipation of repair work on the building and changes in proposed staffing.

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 \$50,000 due to the addition of the Solano County Fair in July of 2004.
- Special Events revenues exceeded the final budget due to increased usage by most existing members.
- Administration fees exceeded the budget due to increased usage of contract services program.
- Investment income was down sharply from the budgeted amount due to the sluggish investment market and historically low interest rates.
- The biggest difference in expenses is the increase in "Losses & Costs". This variance is due to the historically high adverse development of outstanding claims, and the higher than normal severity of new claims.
- Excess insurance renewals came in a little lower than anticipated.
- The increase in salaries and benefits is due to the costs of higher health insurance and the employer's portion of employee retirement costs.
- Other variances include the unanticipated costs of building repairs, and higher than expected legal expenses associated with member Fair issues.

#### **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 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, 2004 AND 2003

|  | 2004                    | 2003                    |
|--|-------------------------|-------------------------|
| <b>ASSETS</b>  |                         |                         |
| Current Assets:  |                         |                         |
| Cash and cash equivalents  | \$ 8,532,860            | \$11,386,402            |
| Investments  | 648,745                 | 5,864,525               |
| Accounts receivable:   |                         |                         |
| Risk fees receivable   | 589,725                 | 230,327                 |
| Receivables from fairs and others, net of allowance<br>for doubtful accounts of \$37,740 in 2004 and<br>\$37,740 in 2003 | 2,124,219               | 778,339                 |
| Contracts receivable for equipment financing, net  | 103,337                 | 64,225                  |
| Shade structure sublease   | 189,360                 | 189,360                 |
| Prepaid expenses   | 226,373                 | 207,675                 |
| Total Current Assets   | <u>12,414,619</u>       | <u>18,720,853</u>       |
| Noncurrent Assets:   |                         |                         |
| Investments  | 5,369,133               |                         |
| Contracts receivable for equipment financing, net  | 225,502                 | 254,934                 |
| Shade structure sublease, net  | 757,440                 | 946,800                 |
| Fixed assets, net  | 2,136,186               | 1,954,952               |
| Total Noncurrent Assets  | <u>8,488,261</u>        | <u>3,156,686</u>        |
| <br>Total Assets   | <br><u>\$20,902,880</u> | <br><u>\$21,877,539</u> |
| <br><b>LIABILITIES AND NET ASSETS</b>  |                         |                         |
| Current Liabilities:   |                         |                         |
| Accrued liabilities  | \$ 401,226              | \$ 562,546              |
| Division of Fairs and Exposition Funds   | 573,083                 | 370,180                 |
| Revenue protection program   | 3,837,063               | 3,978,741               |
| Property program   | 1,655,132               | 2,615,280               |
| Shade structure lease agreement  | 189,360                 | 189,360                 |
| Unpaid Losses and Loss Adjustment Expense (current):   |                         |                         |
| General liability  | 1,266,889               | 826,716                 |
| Workers' compensation  | 2,136,943               | 1,686,123               |
| Special events   | 119,219                 | 121,986                 |
| Total Current Liabilities  | <u>10,178,915</u>       | <u>10,350,932</u>       |
| Noncurrent Liabilities:  |                         |                         |
| Shade structure lease agreement – net  | 757,440                 | 946,800                 |
| Unpaid Losses and Loss Adjustment Expense:   |                         |                         |
| General liability  | 1,375,058               | 1,396,892               |
| Workers' compensation  | 6,493,561               | 2,964,359               |
| Special events   | 142,208                 | 105,185                 |
| Total Noncurrent Liabilities   | <u>8,768,267</u>        | <u>5,413,236</u>        |
| Total Liabilities  | <u>18,947,182</u>       | <u>15,764,168</u>       |
| Net Assets:  |                         |                         |
| Confidence margin  | 1,165,000               | 1,915,000               |
| Undesignated   | 790,698                 | 4,198,371               |
| <br>Total Net Assets   | <br><u>1,955,698</u>    | <br><u>6,113,371</u>    |
| Total Liabilities and Net Assets   | <u>\$20,902,880</u>     | <u>\$21,877,539</u>     |

**STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

|                                     | 2004                  | 2003              |
|-------------------------------------|-----------------------|-------------------|
| Operating Revenues:                 |                       |                   |
| Workers' compensation fees          | \$ 4,690,962          | \$3,754,231       |
| General liability fees              | 2,125,542             | 1,882,053         |
| Special events fees                 | 668,661               | 594,787           |
| Other operating revenue             | 580,607               | 569,012           |
| Rental income                       | 133,080               | 129,734           |
| Dental fees                         | 135,195               | 123,619           |
| Computer service fees               | 86,881                | 96,213            |
| Miscellaneous income                | 86,446                | 87,420            |
| Purchasing service fees             | 65,484                | 81,937            |
|                                     | <hr/>                 | <hr/>             |
| Total Operating Revenues            | 8,572,858             | 7,319,006         |
|                                     | <hr/>                 | <hr/>             |
| Operating Expenses:                 |                       |                   |
| Losses and loss adjustment expenses | 8,309,254             | 3,000,133         |
| Employee salaries and benefits      | 2,515,662             | 2,283,035         |
| Excess insurance costs              | 1,106,024             | 926,706           |
| General and administrative costs    | 770,150               | 693,504           |
| Depreciation and amortization       | 171,703               | 153,489           |
| Computer service costs              | 40,624                | 43,662            |
|                                     | <hr/>                 | <hr/>             |
| Total Operating Expenses            | 12,913,417            | 7,100,529         |
|                                     | <hr/>                 | <hr/>             |
| Operating Gain (Loss)               | (4,340,559)           | 218,477           |
|                                     | <hr/>                 | <hr/>             |
| Non Operating Income:               |                       |                   |
| Investment income                   | 165,739               | 228,000           |
| Income from equipment financing     | 17,147                | 9,302             |
|                                     | <hr/>                 | <hr/>             |
| Total Other Income                  | 182,886               | 237,302           |
|                                     | <hr/>                 | <hr/>             |
| Increase (Decrease) in Net Assets   | <u>\$ (4,157,673)</u> | <u>\$ 455,779</u> |

**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

|                            | Confidence                |                         |              | Total                     |
|----------------------------|---------------------------|-------------------------|--------------|---------------------------|
|                            | Margin                    | Undesignated            | Designated   |                           |
| Balance, January 1, 2003   | \$ 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 | <hr/> 1,915,000           | <hr/> 4,198,371         |              | <hr/> 6,113,371           |
| Decrease in Net Assets     |                           | (4,157,673)             |              | (4,157,673)               |
| Designation                | (750,000)                 | 750,000                 |              |                           |
| Balance, December 31, 2004 | <hr/> <u>\$ 1,165,000</u> | <hr/> <u>\$ 790,698</u> | <hr/> -      | <hr/> <u>\$ 1,955,698</u> |

**STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

|   | 2004                | 2003                 |
|---|---------------------|----------------------|
| Cash Flows from Operating Activities:                     |                     |                      |
| Cash Received from Participant Fees                       | \$ 6,067,447        | \$ 6,869,622         |
| Cash Received from Other Sources                          | 790,453             | 921,724              |
| Cash Received for Division of Fairs and Expositions       | 1,425,000           | 700,000              |
| Cash Received for Revenue Protection Program              | 124,250             | 169,088              |
| Cash Received for Property Program                        | 552,416             | 527,386              |
| Payments for Division of Fairs and Expositions            | (1,222,097)         | (1,007,297)          |
| Payments for Revenue Protection Program                   | (281,318)           | (177,016)            |
| Payments for Property Program                             | (1,512,564)         | (1,423,089)          |
| Payments for Claims                                       | (3,876,636)         | (3,614,130)          |
| Payments for Excess Insurance                             | (1,124,722)         | (1,044,526)          |
| Payments to Vendors                                       | (963,158)           | (499,022)            |
| Payments to Employees                                     | (2,515,662)         | (2,283,035)          |
|   | <u>(2,536,591)</u>  | <u>(860,295)</u>     |
| Cash Flows from Capital and Related Financing Activities: |                     |                      |
| Purchase of Property and Equipment                        | (361,873)           | (67,108)             |
| Cash Flows from Investing Activities:                     |                     |                      |
| Investment Income Received                                | 379,697             | 391,472              |
| Proceeds from Sale of Marketable Securities               | 3,950,498           | 4,273,182            |
| Purchases of Marketable Securities                        | (4,302,420)         | (4,594,044)          |
| Income from Equipment Financing Program                   | 17,147              | 9,302                |
|   | <u>44,922</u>       | <u>79,912</u>        |
| Decrease in Cash and Cash Equivalents                     | (2,853,542)         | (847,491)            |
| Cash and Cash Equivalents, Beginning of Year              | 11,386,402          | 12,233,893           |
| Cash and Cash Equivalents, End of Year                    | <u>\$ 8,532,860</u> | <u>\$ 11,386,402</u> |
| Supplemental schedule of non-cash investing activities:   |                     |                      |
| Net change in fair value of investments                   | <u>\$ 198,568</u>   | <u>\$ 163,472</u>    |

**STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

|  | 2004                  | 2003                |
|--|-----------------------|---------------------|
| Cash Flows from Operating Activities:  |                       |                     |
| Operating Gain (Loss)  | \$ (4,340,559)        | \$ 218,477          |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities: |                       |                     |
| Depreciation and amortization  | 171,703               | 163,976             |
| Loss on disposal of property and equipment   |                       | 665                 |
| (Increase) decrease in:  |                       |                     |
| Risk fees receivable   | (359,398)             | (10,409)            |
| Receivables from fairs and others  | (1,345,880)           | 347,192             |
| Contracts receivable for equipment financing, net  | (9,680)               | (273,948)           |
| Prepaid expenses   | (25,152)              | (117,820)           |
| Inventory  |                       | 951                 |
| Increase (decrease) in:  |                       |                     |
| Accrued expenses   | (161,320)             | 224,970             |
| Division of Fairs and Exposition Funds   | 202,903               | (723,089)           |
| Revenue protection program   | (141,678)             | (7,928)             |
| Property program   | (960,148)             | (478,841)           |
| Unpaid losses and loss adjustment expenses   | 4,432,618             | (204,489)           |
| Net cash provided (used) by operating activities:  | <u>\$ (2,536,591)</u> | <u>\$ (860,294)</u> |

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

**NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003****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 2004 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.

Effective January 1, 2004, the Authority changed its SIR from \$500,000 per occurrence to \$1,000,000 per occurrence. Also the Authority obtained reinsurance to reduce its excess insurance coverage from \$9,500,000 per occurrence to \$9,000,000 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 or disease for each employee. 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 had 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. Effective July 1, 2004, the Authority has excess insurance coverage up to \$100,000,000 each occurrence for workers' compensation and \$5,000,000 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 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 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 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 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 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 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.

### GASB STATEMENT 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 2009-10 fiscal year. The new statement will significantly change the way state and local governments report their “other postemployment benefits” to the public. As a result of GASB 45, state and local governments will be 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 the employer’s cash flow.

### 3. CASH AND CASH EQUIVALENTS

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

|                                 | 2004                |                     | 2003                |                      |
|---------------------------------|---------------------|---------------------|---------------------|----------------------|
|                                 | Carrying Amount     | Bank Balance        | Carrying Amount     | Bank Balance         |
| Cash in banks                   | \$ 21,186           | \$ 348,685          | \$ 1,158,102        | \$ 1,379,298         |
| Money Market Fund               | 103,287             | 103,287             | 208,895             | 208,895              |
| Petty cash                      | 388                 |                     | 388                 |                      |
| LAIF                            | 8,407,999           | 8,407,999           | 10,019,017          | 9,979,826            |
| Total cash and cash equivalents | <u>\$ 8,532,860</u> | <u>\$ 8,859,971</u> | <u>\$11,386,402</u> | <u>\$ 11,568,019</u> |

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 less than 5% in structured notes and asset-backed securities. 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.

#### 4. 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, 2004 and 2003 consisted of the following:

DECEMBER 31, 2004

|                          | Category     |   |   | Fair Value   | Amortized Cost |
|--------------------------|--------------|---|---|--------------|----------------|
|                          | 1            | 2 | 3 |              |                |
| International Bonds      | \$ 98,652    |   |   | \$ 98,652    | \$ 100,260     |
| U.S. Government Agencies | 2,951,958    |   |   | 2,951,958    | 2,968,851      |
| Corporate Bonds          | 2,967,268    |   |   | 2,967,268    | 2,961,679      |
| Total                    | \$ 6,017,878 |   |   | \$ 6,017,878 | \$ 6,030,790   |

DECEMBER 31, 2003

|                          |              |  |  |              |              |
|--------------------------|--------------|--|--|--------------|--------------|
| 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 |

## 5. 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, 2004 are as follows:

Year ending December 31,

|  |                          |
|--|--------------------------|
| 2005   | \$ 101,295               |
| 2006   | 99,699                   |
| 2007   | 85,756                   |
| 2008   | 66,428                   |
| 2009   | <u>4,741</u>             |
| Total minimum payments                           | 357,919                  |
| Less amount representing interest                | <u>(29,080)</u>          |
| Net contracts receivable for equipment financing | <u><u>\$ 328,839</u></u> |

## 6. FIXED ASSETS

Fixed assets as of December 31, 2004 and 2003 consisted of the following:

| Description                                       | Balance at<br>December 31, |                            | Disposals          | Balance at                 |
|---|----------------------------|----------------------------|--------------------|----------------------------|
|   | 2003                       | Additions                  |                    | December 31,<br>2004       |
| Building and improvements                         | \$ 1,939,063               | \$ 146,632                 |                    | \$ 2,085,695               |
| Land  | 681,073                    |                            |                    | 681,073                    |
| Equipment   | 588,308                    | 210,148                    | \$ (111,389)       | 687,067                    |
| Furniture and leasehold<br>improvements           | 149,426                    | 5,093                      | (537)              | 153,982                    |
| Vehicles  | 83,142                     |                            |                    | 83,142                     |
| Total   | <u>3,441,012</u>           | <u>361,873</u>             | <u>(111,926)</u>   | <u>3,690,959</u>           |
| Less Accumulated Depreciation<br>and Amortization | <u>(1,486,060)</u>         | <u>(180,639)</u>           | <u>111,926</u>     | <u>(1,554,773)</u>         |
| Net Fixed Assets                                  | <u><u>\$ 1,954,952</u></u> | <u><u>\$ (181,234)</u></u> | <u><u>\$ 0</u></u> | <u><u>\$ 2,136,186</u></u> |

| Description                                       | Balance at<br>December 31, |                           | Disposals            | Balance at                 |
|---|----------------------------|---------------------------|----------------------|----------------------------|
|   | 2002                       | Additions                 |                      | December 31,<br>2003       |
| 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<br>improvements           | 149,901                    |                           | (475)                | 149,426                    |
| Vehicles  | 83,142                     |                           |                      | 83,142                     |
| Total   | <u>3,384,952</u>           | <u>67,108</u>             | <u>(11,048)</u>      | <u>3,441,012</u>           |
| Less Accumulated Depreciation<br>and Amortization | <u>(1,332,466)</u>         | <u>(163,976)</u>          | <u>10,383</u>        | <u>(1,486,060)</u>         |
| Net Fixed Assets                                  | <u><u>\$ 2,052,486</u></u> | <u><u>\$ (96,868)</u></u> | <u><u>\$ 665</u></u> | <u><u>\$ 1,954,952</u></u> |

## 7. DIVISION OF FAIRS AND EXPOSITIONS FUNDS

During 2004 and 2003, the Authority received from the Division of Fairs and Expositions (Division) approximately \$1,425,000 and \$950,000, respectively, in funds to be used for the Unemployment Insurance Program. 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, 2004 and 2003, the Authority's liabilities also included \$1,655,132 and \$2,615,280 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.

## 8. 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, 2004 and 2003 include the following:

|                                 | 2004         | 2003         |
|---------------------------------|--------------|--------------|
| Unexpended funds at January 1   | \$ 3,978,741 | \$ 3,986,669 |
| Fees assessed to fairs          | 124,250      | 134,000      |
| Investment income               | 15,390       | 35,088       |
| Claims paid or accrued          | (192,608)    | (89,516)     |
| Administration fee              | (50,000)     | (50,000)     |
| Excess policy premium           | (38,710)     | (37,500)     |
|                                 | <hr/>        | <hr/>        |
| Unexpended funds at December 31 | \$ 3,837,063 | \$ 3,978,741 |

## 9. 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, 2004 and 2003:

|   | 2004         | 2003         |
|---|--------------|--------------|
| Unpaid losses and loss adjustment expenses,<br>beginning of fiscal year                   | \$ 7,101,261 | \$ 7,305,752 |
| Incurred losses and loss adjustment expenses:   |              |              |
| Provision for covered events of the current year  | 5,507,000    | 3,432,000    |
| Increase (decrease) in provision for covered<br>events of prior years                     | 2,611,288    | (204,089)    |
| Total incurred losses and loss adjustment expenses  | 8,118,288    | 3,227,911    |
| Payments:   |              |              |
| Losses and loss adjustment expenses attributable<br>to covered events of the current year | 744,251      | 813,671      |
| Losses and loss adjustment expenses attributable<br>to covered events of prior years      | 2,941,421    | 2,618,731    |
| Total payments  | 3,685,672    | 3,432,402    |
| Total unpaid losses and loss adjustment expenses, end of fiscal year                      | \$11,533,878 | \$ 7,101,261 |

## 10. CONFIDENCE MARGIN

The Board has designated a confidence margin for all programs of the Authority for future loss development in order to maintain a 70% confidence level for the special events, general liability and workers' compensation programs for 2004. At year-end 2003 the confidence levels were set at 85% for the special events program and 85% 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 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:

|                         | 2004        | 2003        |
|-------------------------|-------------|-------------|
| General liability       | \$370,000   | \$767,000   |
| Workers' compensation   | 731,000     | 972,000     |
| Special events          | 64,000      | 176,000     |
| Total confidence margin | \$1,165,000 | \$1,915,000 |

## 11. 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.

## 12. 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% 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, 2004 was 5.77%. 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, 2004, the Authority's employee's contribution amount was \$74,413. The required contribution for the year ended December 31, 2004 was determined as part of the June 30, 2001 and June 30, 2002 actuarial valuations using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions for the 2004/2005 study included an 8.25% investment rate of return (net of administrative expenses), payroll growth of 3.75% and a 3.5% rate of inflation. The actuarial value of the Plan's assets was determined using a technique that smoothes 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, 2004 was 18 years.

### THREE-YEAR TREND INFORMATION FOR THE PLAN

| Fiscal Year Ended December 31: | Annual<br>Pension Cost<br>(APC) | Percentage of<br>APC<br>Contributed | Net<br>Obligation<br>(Asset) /<br>Liability |
|--------------------------------|---------------------------------|-------------------------------------|---|
| 2002                           | \$74,796                        | 100%                                | \$ 0  |
| 2003                           | \$78,896                        | 100%                                | \$ 0  |
| 2004                           | \$74,413                        | 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.

## 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 |
|----------------|------------------------------------|---------------------------|---------------------------|---------------|------------------------|--|
| 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%                                    |
| 2003           | \$5,575,810                        | \$5,427,307               | \$ (148,503)              | 97.3%         | \$1,686,400            | (8.8)%                                   |

**13. 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 post-retirement health care benefits are funded on a pay-as-you-go basis. The Authority had nine retirees as of December 31, 2004 and seven retirees as of December 31, 2003, on whose behalf it paid \$58,464 and \$42,898 in postretirement health care benefits during the years ended December 31, 2004 and 2003, respectively.

**14. 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 August 2005. Total rental income for the years ended December 31, 2004 and 2003, amounted to \$133,080 and \$129,734, 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, 2004:

Year ending December 31,

|       |                  |
|-------|------------------|
| 2005  | \$ 93,934        |
| Total | <u>\$ 93,934</u> |

**15. 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, 2004 are as follows:

Year ending December 31,

|                          |                   |
|--------------------------|-------------------|
| 2005                     | \$ 189,360        |
| 2006                     | 189,360           |
| 2007                     | 189,360           |
| 2008                     | 189,360           |
| 2009                     | 189,360           |
| Total lease payments due | <u>\$ 946,800</u> |

**SUPPLEMENTARY INFORMATION**

## RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT

## GENERAL LIABILITY PROGRAM FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

|  | 2004                       | 2003                       |
|--|----------------------------|----------------------------|
| Unpaid Losses and Loss Adjustment Expenses, Beginning of Year                          | <u>\$ 2,223,609</u>        | <u>\$ 2,994,000</u>        |
| Incurring Losses and Loss Adjustment Expenses:   |                            |                            |
| Provision for Insured Events of the Current Year                                       | 1,253,000                  | 991,000                    |
| Increase (decrease) in Provision for covered events of prior years:                    | <u>351,001</u>             | <u>(799,352)</u>           |
| Total Incurred Losses and Loss Adjustment Expenses                                     | <u>1,604,001</u>           | <u>191,648</u>             |
| Payments:  |                            |                            |
| Losses and Loss Adjustment Expenses Attributable to Insured Events of the Current Year | 135,876                    | 181,020                    |
| Losses and Loss Adjustment Expenses Attributable to Insured Events of Prior Years      | <u>1,049,787</u>           | <u>781,019</u>             |
| Total Payments   | <u>1,185,663</u>           | <u>962,039</u>             |
| Total Unpaid Losses and Loss Adjustment Expenses, End of Year                          | <u><u>\$ 2,641,947</u></u> | <u><u>\$ 2,223,609</u></u> |

## WORKERS' COMPENSATION PROGRAM FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

|  | 2004                       | 2003                       |
|--|----------------------------|----------------------------|
| Unpaid Losses and Loss Adjustment Expenses, Beginning of Year                          | <u>\$ 4,650,482</u>        | <u>\$ 4,101,752</u>        |
| Incurring Losses and Loss Adjustment Expenses:   |                            |                            |
| Provision for Insured Events of the Current Year                                       | 4,163,000                  | 2,383,000                  |
| Increase in Provision for Insured Events of Prior Years:                               | <u>2,277,287</u>           | <u>440,167</u>             |
| Total Incurred Losses and Loss Adjustment Expenses                                     | <u>6,440,287</u>           | <u>2,823,167</u>           |
| Payments:  |                            |                            |
| Losses and Loss Adjustment Expenses Attributable to Insured Events of the Current Year | 603,550                    | 623,522                    |
| Losses and Loss Adjustment Expenses Attributable to Insured Events of Prior Years      | <u>1,856,715</u>           | <u>1,650,915</u>           |
| Total Payments   | <u>2,460,265</u>           | <u>2,274,437</u>           |
| Total Unpaid Losses and Loss Adjustment Expenses, End of Year                          | <u><u>\$ 8,630,504</u></u> | <u><u>\$ 4,650,482</u></u> |

## RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT

## SPECIAL EVENTS PROGRAM FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

|  | 2004       | 2003       |
|--|------------|------------|
| Unpaid Losses and Loss Adjustment Expenses, Beginning of Year                          | \$ 227,171 | \$ 210,000 |
| Incurred Losses and Loss Adjustment Expenses:  |            |            |
| Provision for Insured Events of the Current Year                                       | 91,000     | 58,000     |
| Increase (decrease) in Provision for Insured Events of Prior Years                     | (17,000)   | 155,097    |
| Total Incurred Losses and Loss Adjustment Expenses                                     | 74,000     | 213,097    |
| Payments:  |            |            |
| Losses and Loss Adjustment Expenses Attributable to Insured Events of the Current Year | 4,825      | 9,129      |
| Losses and Loss Adjustment Expenses Attributable to Insured Events of Prior Years      | 34,919     | 186,797    |
| Total Payments   | 39,744     | 195,926    |
| Total Unpaid Losses and Loss Adjustment Expenses, End of Year                          | \$ 261,427 | \$ 227,171 |

SUPPLEMENTARY INFORMATION



|   | 1995           | 1996           | 1997         | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         |
|---|----------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| (1) Premium Revenue:  |                |                |              |              |              |              |              |              |              |              |
| Earned  | \$ 2,308,217   | \$ 2,322,560   | \$ 1,520,640 | \$ 1,798,886 | \$ 1,575,962 | \$ 1,528,290 | \$ 1,691,999 | \$ 1,744,634 | \$ 2,125,542 | \$ 2,125,542 |
| Ceded   | 0              | (67,241)       | (149,247)    | (221,415)    | (218,360)    | (275,000)    | (286,275)    | (308,534)    | (563,000)    | (541,192)    |
| Net Earned  | 2,308,217      | 2,255,319      | 1,371,393    | 1,577,471    | 1,357,602    | 1,253,290    | 1,405,724    | 1,436,100    | 1,562,542    | 1,584,350    |
| (2) Unallocated Expenses*:  |                |                |              |              |              |              |              |              |              |              |
| Direct and Indirect Costs   | 751,077        | 643,933        | 718,567      | 538,189      | 448,163      | 527,585      | 640,809      | 671,188      | 226,711      | 228,232      |
| ULAE Reserve Adjustment   | 0              | 0              | 0            | (396,087)    | (18,114)     | (88,273)     | 20,000       | 86,000       | 57,000       | 57,000       |
| Net Expenses  | 751,077        | 643,933        | 718,567      | 142,102      | 430,049      | 439,312      | 660,809      | 757,188      | 793,851      | 285,232      |
| (3) Estimated Losses and Expenses,  |                |                |              |              |              |              |              |              |              |              |
| End of Policy Year:   |                |                |              |              |              |              |              |              |              |              |
| Incurred**  | 2,322,830      | 2,078,420      | 4,499,615    | 800,000      | 730,000      | 1,060,000    | 825,000      | 935,000      | 1,097,000    | 1,097,000    |
| Ceded   | 0              | 0              | (652,869)    | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Net Incurred  | 2,322,830      | 2,078,420      | 3,846,746    | 800,000      | 730,000      | 1,060,000    | 825,000      | 935,000      | 1,097,000    | 1,097,000    |
| (4) Net Paid (Cumulative) as of:  |                |                |              |              |              |              |              |              |              |              |
| End of Policy Year  | 67,214         | 49,916         | 70,954       | 29,112       | 41,142       | 114,724      | 82,021       | 106,701      | 181,020      | 135,876      |
| One Year Later  | 279,430        | 143,183        | 1,153,797    | 80,343       | 169,784      | 228,825      | 396,993      | 340,038      | 560,414      |              |
| Two Years Later   | 959,139        | 336,581        | 1,591,012    | 155,479      | 562,459      | 491,656      | 599,949      | 647,554      |              |              |
| Three Years Later   | 1,027,067      | 599,882        | 3,621,314    | 180,752      | 604,452      | 576,384      | 627,781      |              |              |              |
| Four Years Later  | 1,068,584      | 600,581        | 4,641,218    | 194,738      | 612,371      | 911,429      |              |              |              |              |
| Five Years Later  | 1,051,959      | 600,581        | 3,864,312    | 446,817      | 612,371      |              |              |              |              |              |
| Six Years Later   | 1,051,959      | 602,797        | 3,577,956    | 446,817      |              |              |              |              |              |              |
| Seven Years Later   | 1,051,959      | 602,797        | 3,577,956    |              |              |              |              |              |              |              |
| Eight Years Later   | 1,051,959      | 602,797        |              |              |              |              |              |              |              |              |
| Nine Years Later  | 1,051,959      |                |              |              |              |              |              |              |              |              |
| (5) Reestimated Ceded Losses and Expenses:  | 0              | 0              | 458,123      | 0            | 0            | 306,706      | 0            | 0            | 0            | 0            |
| (6) Reestimated Net Incurred Losses and Expenses as of:                                       |                |                |              |              |              |              |              |              |              |              |
| End of Policy Year  | 2,322,830      | 2,078,420      | 3,846,746    | 800,000      | 730,000      | 1,060,000    | 825,000      | 935,000      | 1,097,000    | 1,196,000    |
| One Year Later  | 2,062,921      | 1,397,087      | 2,200,000    | 600,000      | 930,000      | 1,297,000    | 839,000      | 1,010,000    | 1,397,000    |              |
| Two Years Later   | 1,671,684      | 730,000        | 2,340,000    | 440,000      | 778,000      | 986,000      | 896,000      | 996,000      |              |              |
| Three Years Later   | 1,200,000      | 810,000        | 4,717,000    | 339,000      | 756,000      | 828,000      | 722,000      |              |              |              |
| Four Years Later  | 1,150,000      | 660,000        | 4,642,000    | 963,000      | 612,371      | 1,067,000    |              |              |              |              |
| Five Years Later  | 1,051,959      | 656,000        | 3,973,000    | 446,817      | 612,371      |              |              |              |              |              |
| Six Years Later   | 1,051,959      | 602,797        | 3,577,956    | 446,817      |              |              |              |              |              |              |
| Seven Years Later   | 1,051,959      | 602,797        |              |              |              |              |              |              |              |              |
| Eight Years Later   | 1,051,959      | 602,797        |              |              |              |              |              |              |              |              |
| Nine Years Later  | 1,051,959      |                |              |              |              |              |              |              |              |              |
| (7) Increase (Decrease) in Estimated Net Incurred Losses and Expenses from End of Policy Year | \$ (1,270,871) | \$ (1,475,623) | \$ (268,790) | \$ (353,183) | \$ (117,629) | \$ 7,000     | \$ (103,000) | \$ 61,000    | \$ 300,000   | \$ 99,000    |

\* 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  
WORKERS' COMPENSATION PROGRAM  
DECEMBER 31, 2004

|  | 1995         | 1996         | 1997         | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| (1) Premium Revenue:   |              |              |              |              |              |              |              |              |              |              |
| Earned   | \$ 3,040,938 | \$ 3,243,352 | \$ 2,141,088 | \$ 2,524,431 | \$ 2,120,786 | \$ 2,325,968 | \$ 2,569,992 | \$ 2,704,262 | \$ 4,705,853 | \$ 4,694,857 |
| Ceded  | (80,960)     | (59,258)     | (58,650)     | (43,552)     | (39,191)     | (29,370)     | (40,122)     | (71,262)     | (176,073)    | (341,407)    |
| Net Earned   | 2,959,978    | 3,184,094    | 2,082,438    | 2,480,879    | 2,081,595    | 2,296,598    | 2,529,870    | 2,633,000    | 4,529,780    | 4,353,450    |
| (2) Unallocated Expenses:*   |              |              |              |              |              |              |              |              |              |              |
| Direct and Indirect Costs  | 816,225      | 819,559      | 900,406      | 938,620      | 706,406      | 790,154      | 812,421      | 895,135      | 159,764      | 180,866      |
| ULAE Reserve Adjustment  | 0            | 0            | 0            | 107,267      | (15,000)     | (145,000)    | 31,000       | 17,000       | 7,000        | 7,000        |
| Net Expenses   | 816,225      | 819,559      | 900,406      | 1,045,887    | 691,406      | 645,154      | 843,421      | 912,135      | 166,764      | 187,866      |
| (3) Estimated Losses and Expenses,   |              |              |              |              |              |              |              |              |              |              |
| End of Policy Year:  |              |              |              |              |              |              |              |              |              |              |
| Incurred**   | 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    | 4,311,328    |
| Ceded  | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | (155,328)    |
| Net Incurred   | 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    | 4,156,000    |
| (4) Net Paid (Cumulative) as of:   |              |              |              |              |              |              |              |              |              |              |
| End of Policy Year   | 236,129      | 402,881      | 306,799      | 255,547      | 352,759      | 438,517      | 354,363      | 438,618      | 623,522      | 603,550      |
| One Year Later   | 561,340      | 908,207      | 702,814      | 585,683      | 811,315      | 1,094,032    | 803,175      | 1,082,836    | 1,430,587    |              |
| Two Years Later  | 746,076      | 1,330,716    | 885,468      | 717,831      | 1,091,017    | 1,855,783    | 1,133,626    | 1,475,201    |              |              |
| Three Years Later  | 862,417      | 1,550,110    | 1,174,981    | 731,970      | 1,306,875    | 2,298,033    | 1,379,364    |              |              |              |
| Four Years Later   | 904,817      | 1,674,202    | 1,169,909    | 756,195      | 1,411,381    | 2,578,030    |              |              |              |              |
| Five Years Later   | 917,050      | 1,785,278    | 1,264,208    | 791,391      | 1,452,030    |              |              |              |              |              |
| Six Years Later  | 940,271      | 1,868,285    | 1,249,199    | 854,377      |              |              |              |              |              |              |
| Seven Years Later  | 949,893      | 1,915,004    | 1,233,908    |              |              |              |              |              |              |              |
| Eight Years Later  | 967,180      | 1,924,370    |              |              |              |              |              |              |              |              |
| Nine Years Later   | 973,851      |              |              |              |              |              |              |              |              |              |
| (5) Reestimated Ceded Losses and Expenses:   | 5,304        | 181,882      | 47,383       | 0            | 8,500        | 383,531      | 64,863       | 0            | 0            | 155,328      |
| (6) Reestimated Net Incurred Losses and Expenses as of:                            |              |              |              |              |              |              |              |              |              |              |
| End of Policy Year   | 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    | 4,156,000    |
| One Year Later   | 1,277,603    | 1,964,052    | 1,360,000    | 1,190,000    | 1,340,000    | 2,134,000    | 1,794,000    | 2,113,000    | 3,531,000    |              |
| Two Years Later  | 1,139,219    | 1,810,000    | 1,350,000    | 1,040,000    | 1,514,000    | 2,670,000    | 1,810,000    | 2,352,000    |              |              |
| Three Years Later  | 1,110,000    | 1,870,000    | 1,340,000    | 842,000      | 1,550,000    | 2,882,000    | 1,939,000    |              |              |              |
| Four Years Later   | 1,010,000    | 1,860,000    | 1,257,000    | 857,000      | 1,510,000    | 3,115,000    |              |              |              |              |
| Five Years Later   | 980,000      | 1,952,000    | 1,288,000    | 895,000      | 1,622,000    |              |              |              |              |              |
| Six Years Later  | 962,000      | 1,961,000    | 1,261,000    | 948,000      |              |              |              |              |              |              |
| Seven Years Later  | 965,000      | 2,010,000    | 1,251,000    |              |              |              |              |              |              |              |
| Eight Years Later  | 976,000      | 2,087,000    |              |              |              |              |              |              |              |              |
| Nine Years Later   | 1,042,000    |              |              |              |              |              |              |              |              |              |
| (7) Decrease in Estimated Net Incurred Losses and Expenses from End of Policy Year | \$ (769,805) | \$ (139,692) | \$ (420,336) | \$ (482,000) | \$ 22,000    | \$ 1,635,000 | \$ 286,000   | \$ 410,000   | \$ 1,148,000 | \$ 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, 2004

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|   | 1995         | 1996         | 1997         | 1998       | 1999        | 2000       | 2001       | 2002        | 2003       | 2004       |
|---|--------------|--------------|--------------|------------|-------------|------------|------------|-------------|------------|------------|
| (1) Premium Revenue:  |              |              |              |            |             |            |            |             |            |            |
| Earned  | \$ 467,155   | \$ 492,227   | \$ 473,464   | \$ 423,099 | \$ 414,599  | \$ 385,841 | \$ 440,586 | \$ 498,426  | \$ 697,897 | \$ 694,676 |
| Ceded   | (96,526)     | (96,526)     | (53,754)     | (53,916)   | (56,843)    | (65,000)   | (65,000)   | (84,500)    | (187,633)  | (223,425)  |
| Net Earned  | 370,629      | 395,701      | 419,710      | 369,183    | 357,756     | 320,841    | 375,586    | 413,926     | 474,472    | 471,251    |
| (2) Unallocated Expenses:*  |              |              |              |            |             |            |            |             |            |            |
| Direct and Indirect Costs   | 273,859      | 258,250      | 198,007      | 196,712    | 187,747     | 190,607    | 184,338    | 203,586     | 74,433     | 80,430     |
| ULAE Reserve Adjustment   | 0            | 0            | 0            | (103,279)  | (3,000)     | 13,000     | (4,000)    | (13,000)    | 10,000     | 10,000     |
| Net Expenses  | 273,859      | 258,250      | 198,007      | 93,433     | 184,747     | 203,607    | 180,338    | 190,586     | 84,433     | 90,430     |
| (3) Estimated Losses and Expenses,<br>End of Policy Year:                                     |              |              |              |            |             |            |            |             |            |            |
| Incurred**  | 337,867      | 228,197      | 229,272      | 400,000    | 130,000     | 80,000     | 127,000    | 88,000      | 106,000    | 101,000    |
| Ceded   | 0            | 0            | 0            | 0          | 0           | 0          | 0          | 0           | 0          | 0          |
| Net Incurred  | 337,867      | 228,197      | 229,272      | 400,000    | 130,000     | 80,000     | 127,000    | 88,000      | 106,000    | 101,000    |
| (4) Net Paid (Cumulative) as of:  |              |              |              |            |             |            |            |             |            |            |
| End of Policy Year  | 11,738       | 8,982        | 6,885        | 14,824     | 6,321       | 1,364      | 18,350     | 6,500       | 9,129      | 4,825      |
| One Year Later  | 105,981      | 40,524       | 7,022        | 198,855    | 32,911      | 59,900     | 36,307     | 15,763      | 30,395     |            |
| Two Years Later   | 142,775      | 90,069       | 7,022        | 583,542    | 32,911      | 70,246     | 196,937    | 29,283      |            |            |
| Three Years Later   | 95,717       | 90,069       | 7,022        | 586,649    | 32,911      | 87,150     | 197,164    |             |            |            |
| Four Years Later  | 95,717       | 90,069       | 7,022        | 586,649    | 32,911      | 87,056     |            |             |            |            |
| Five Years Later  | 95,717       | 90,069       | 7,022        | 586,649    | 32,911      |            |            |             |            |            |
| Six Years Later   | 95,717       | 90,069       | 7,022        | 586,649    |             |            |            |             |            |            |
| Seven Years Later   | 95,717       | 90,069       | 7,022        |            |             |            |            |             |            |            |
| Eight Years Later   | 95,717       | 90,069       | 7,022        |            |             |            |            |             |            |            |
| Nine Years Later  | 95,717       | 90,069       |              |            |             |            |            |             |            |            |
| (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  | 337,867      | 228,197      | 229,272      | 400,000    | 130,000     | 80,000     | 127,000    | 88,000      | 106,000    | 101,000    |
| One Year Later  | 317,161      | 234,489      | 57,022       | 580,000    | 80,000      | 96,000     | 102,000    | 56,000      | 114,000    |            |
| Two Years Later   | 316,447      | 90,069       | 7,022        | 680,000    | 32,911      | 108,000    | 216,000    | 38,000      |            |            |
| Three Years Later   | 95,717       | 90,069       | 7,022        | 586,649    | 32,911      | 87,150     | 209,000    |             |            |            |
| Four Years Later  | 95,717       | 90,069       | 7,022        | 586,649    | 32,911      | 87,150     |            |             |            |            |
| Five Years Later  | 95,717       | 90,069       | 7,022        | 586,649    | 32,911      |            |            |             |            |            |
| Six Years Later   | 95,717       | 90,069       | 7,022        | 589,469    |             |            |            |             |            |            |
| Seven Years Later   | 95,717       | 90,069       | 7,022        |            |             |            |            |             |            |            |
| Eight Years Later   | 95,717       | 90,069       |              |            |             |            |            |             |            |            |
| Nine Years Later  | 95,717       | 90,069       |              |            |             |            |            |             |            |            |
| (7) Increase (Decrease) in Estimated Net Incurred Losses and Expenses from End of Policy Year | \$ (242,150) | \$ (138,128) | \$ (222,250) | \$ 189,469 | \$ (97,089) | \$ 7,150   | \$ 82,000  | \$ (50,000) | \$ 8,000   | \$ 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.

**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 for 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.

**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 California Fair Services Authority (the Authority) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated February 25, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our 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.

**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*.

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, 2005