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AGENDA
CALIFORNIA AUTHORITY OF RACING FAIRS
BOARD OF DIRECTORS MEETING
JOHN ALKIRE, CHAIR
12:30 P.M., TUESDAY, SEPTEMBER 10, 2013

Notice is hereby given that a meeting of the California Authority of Racing Fairs' Board of Directors will commence at 12:30 p.m., Tuesday, September 10, 2013. The meeting will be held in Sacramento. 1776 Tribute Road Conference Room, Sacramento, CA 95815

AGENDA

- I. Date, time and location of next meeting on October 8, 2013 in Fresno.
- II. Approval of minutes.
- III. Report, discussion and action, if any, on Legislation for 2013 and beyond.
- IV. Report, discussion and action, if any, on Security Agreement/MOU regarding Net Payment of Racing Commissions.
- V. Report, discussion and action, if any, on racing industry discussions regarding mini-satellite expansion in California.
- VI. Report on CHRB Parimutuel Operations Committee Meeting with discussion of NCOTWinc Report.
- VII. Consent Calendar
 - a. Financials
 - b. Investment account reports
- VIII. Executive Director's Report



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NOTICE
CALIFORNIA AUTHORITY OF RACING FAIRS
BOARD OF DIRECTORS MEETING
JOHN ALKIRE, CHAIR
12:30 P.M., TUESDAY, SEPTEMBER 10, 2013

Notice is hereby given that a meeting of the California Authority of Racing Fairs' Board of Directors will commence at 12:30 p.m., Tuesday, September 10, 2013. The meeting will be held at the CARF Conference Room located at 1776 Tribute Road, Sacramento, California 95815.

CARF Board of Directors Meeting
Toll Free Dial In Number: (800) 791-2345
Via Teleconference

In order to ensure that all meeting participants are able to hear discussions during the teleconference, we ask that teleconference participants call from a land-line and place phone on MUTE while not speaking. The Public and members of the California Authority of Racing Fairs Board of Directors may participate from the following locations:

Alameda County Fair
4501 Pleasanton Avenue
Pleasanton, CA 94566

National Orange Show
689 South E Street
San Bernardino, CA 92408

Solano County Fair
900 Fairgrounds Drive
Vallejo, CA 94589

Antelope Valley Fair
2551 West Ave. H, Suite 102
Lancaster, CA 93536

Riverside National Date Festival
46-350 Arabia Street
Indio, CA 92201

Sonoma County Fair
1350 Bennett Valley Road
Santa Rosa, CA 95404

The Big Fresno Fair
1121 S. Chance Avenue
Fresno, CA 93702

San Bernardino Co. Fair
14800 Seventh Street
Victorville, CA 92395

Southern CA Fair
18700 Lake Perris Dr.
Perris, CA 92570

California State Fair
1600 Exposition Blvd.
Sacramento, CA 95815

San Joaquin Fair
1658 S. Airport Way
Stockton, CA 95206

Stanislaus County
900 North Broadway
Turlock, CA 95380

Humboldt County Fair
1250 5th Street
Ferndale, CA 95536

Shasta District Fair
1890 Briggs Street
Anderson, CA 96007

Tulare County Fair
215 Martin Luther King
Tulare, CA 93274

Kern County Fair
1142 South P Street
Bakersfield, CA 93307

Monterey County Fair
2004 Fairground Road
Monterey, CA 93940

Ventura County Fair
10 West Harbor Blvd
Ventura, CA 93001-2706

CALIFORNIA AUTHORITY OF RACING FAIRS

Board of Directors Meeting

Tuesday, June 4, 2013

MINUTES

A teleconference meeting of the California Authority of Racing Fairs Board of Directors was held at 12:30 P.M., Tuesday, June 4, 2013. The meeting was hosted at the CARF offices, 1776 Tribute Road, Sacramento, California.

CARF Board Directors attending: John Alkire, Dan Jacobs, Mike Paluszak and Rick Pickering. Joining by conference call: Chris Borovansky and Kelly Violini.

Staff and Guests attending: Christopher Korby, Larry Swartzlander, Tom Doutrich, Heather Haviland, Amelia White, Raechelle Gibbons, Anne Grottveit, Janet Lockhart, Cindy Olsen, Richard Conway, Jim Morgan, Jeanne Wasserman, Tawny Tesconi, Stuart Titus and Richard Lewis.

Agenda Item 1 – Date, Time and Location of Next Meeting. The next Board of Directors meeting will be held September 10, 2013 in Sacramento.

Agenda Item 2 – Approval of Minutes. Mr. Jacobs moved to approve the meeting minutes as presented. Ms. Violini seconded, unanimously approved.

Agenda Item 3 – Report, Discussion and Action, if any, on Legislative Program for 2013. Mr. Brown reported that last Friday was the California legislature's "House of Origin" deadline, meaning all bills were required to pass out of the house they were originally introduced in order to continue moving through the 2013 legislative process. The CARF-sponsored bills, which are substantive yet fairly non-controversial, continue through the process without issue and will provide useful vehicles in late session if needed. The announcement of Hollywood Park's imminent closure is dominating discussion in the racing industry, specifically regarding the future of Southern California racing, the allocation of racing dates and the availability of adequate training facilities.

Mr. Brown reported that Internet Poker continues to be a prominent topic amongst racing interests. Senator Wright's sports wagering bill, SB 190, was held in the Senate Appropriations Committee and is now, technically, a two-year bill. However, discussions regarding Internet poker are still taking place behind the scenes. The meeting packets include a copy of a letter sent to members of the Legislature from Horse Racing United (HRU). The intent of the letter is to let the members know that racing is aware of the conversations taking place and will expect an all-inclusive approach to licensing. HRU is a not-for-profit representing the collective interests of the Del Mar Thoroughbred Club, Fairplex Park, Oak Tree Racing Association, Thoroughbred Owners of California, California Thoroughbred Breeders Association and CARF.

Mr. Brown reported that SB 741 (Cannella), the WFA/CDFA-sponsored bill to streamline business operations for DAA's, passed out of the Senate last week. CARF is in discussions with CDFA to revert license fee funding currently generated from racing Fairs back to Fairs that conduct live or satellite wagering. CARF is working diligently to ensure that the license fee issue is resolved in a manner that will benefit Fairs conducting pari-mutuel racing activities.

Mr. Brown reported that despite CARF's diligence in working with the racing industry to consider/provide concessions and waivers for mini-satellites, the CHRB has renewed discussions regarding eliminating the 20-mile Fair satellite radius protection. This item came up at the May CHRB meeting during the Santa Rosa live racing license application hearing. The CHRB has since asked each Fair with a satellite wagering facility to provide a position and declare if they are willing to waive their rights to the protection provided by statute. CARF has distributed an advisory and template response letter to the membership. Mr. Brown stated that this topic is not currently a legislative issue and seems to be localized to the CHRB. Mr. Korby stated that these discussions might provide a welcome opportunity to revisit an increase in satellite commissions.

Agenda Item 4 – Executive Session (Pending Litigation). Mr. Alkire stated that pursuant to section 54954.5 of the California Government Code, the CARF Board of Directors will enter into “executive” or “closed session” for counsel to update members on the status of the separation agreement with Sonoma County Fair.

The CARF Board entered closed session.

After returning, Mr. Alkire reported that no decisions had been made during closed session.

Agenda Item 5 – Discussion and Action, if any, on Request from Sonoma County Fair for Paymaster Services. Mr. Alkire reported that the meeting packets contain a letter from Tawny Tesconi, Fair Manager at the Sonoma County Fair, dated May 2, 2013 requesting services of the CARF Paymaster of Purses for the Santa Rosa self-run meet. The packets also include a response letter from Christopher Korby dated May 8, 2013 and a second letter from Tawny Tesconi dated May 14, 2013.

Mr. Alkire asked Ms. Tesconi if she wished to address the group.

Ms. Tesconi stated that as her staff began to prepare contracts and service agreements for the 2013 race meet, it became apparent there was an interest by the industry in providing one paymaster for the summer fair circuit. Ms. Tesconi clarified that the request was for the services of the paymaster as an employee, not use of CARF's horsemen accounts, banking accounts or Incompass accounts. Ms. Tesconi stated that the continuity provided by a common person in the paymaster function would be for the good of the horsemen and could offset some of the costs associated with Santa Rosa leaving CARF.

Mr. Pickering asked specifically which sector of the industry expressed interest in a common paymaster for the summer circuit.

Ms. Tesconi stated that while looking for a paymaster, other California paymasters stated that horsemen would prefer a consistent point of contact throughout the summer. Ms. Tesconi stated that after she distributed her letter of request, TOC and trainers stated that they support the concept.

Mr. Alkire called for the motion. Hearing no motion, Mr. Alkire called again for a motion. The agenda item and issue were terminated for lack of a motion.

Agenda Item 6 – Report, Discussion and Action, if any, on Planning and Projections for 2013 Summer Fair Racing Operations. Mr. Korby reported that the meeting packet includes contract extensions for TV production services provided by Pegasus Communications and liability, property and workmen's compensation insurance for CARF provided by Alliant Insurance Services.

Mr. Korby reported that the packets also contain program covers and racing advertising creative.

Mr. Korby stated that action was taken on this item by the CARF Live Racing Committee and that this report is informational.

Agenda Item 7 – Discussion and Action, if any, on Proposed Security Agreement for Reimbursement to CARF of Live Racing Expenses. Mr. Korby reported that he and Ms. Grottveit have been working since mid-2012 on a security agreement that would serve as a mechanism to carefully and deliberately structure the flow of funds between CARF and member Fairs. Mr. Korby stated that it is critical for CARF to have an agreement in place that clarifies the flow of funds from CARF to racing Fairs and assures that CARF is reimbursed for monies that are spent up front on live racing expenses. The most recent version of the MOU is contained in the meeting packet.

Mr. Korby stated that this item was discussed at length during the CARF Live Racing Committee meeting. Consensus at the Committee meeting was that the document was close to a final draft, but that action should be deferred until Fair Managers could share the agreement with their Boards and provide CARF staff with solid feedback that could be used to move the document forward at the September meetings.

Agenda Item 8 – Report on Inquiry from CHRB Pari-Mutuel Committee Regarding California Satellite Wagering Facilities. Mr. Korby reported that the issue of the 20-mile radius protection for Fair satellites came up at the May CHRB meeting during the Santa Rosa live racing license application. As a result of that meeting, by now each Fair has probably have received a request from the California Horse Racing Board for information to be discussed at the next Parimutuel Operations Committee meeting on June 19. Mr. Korby stated that this is a good opportunity for Fairs which operate satellite wagering to weigh in on important matters affecting satellite operations.

Mr. Korby has drafted suggestions for a response letter that would help communicate some of the issues facing Fairs satellite operators. These are especially relevant if the 20-mile radius matter is

discussed. A template letter has been circulated and CARF staff will circulate more information as needed.

Mr. Korby stated that CARF's recommendation is that Fairs take the basic position that we believe in maintaining the current law requiring the consent of existing satellites within a 20-mile radius, although we would be willing to discuss proposals for neighboring satellite facilities on a case-by-case basis, reserving the right under California statute to withhold our consent. We believe the 20-mile radius is in the law for a number of reasons: 1) our Fair has a major investment in the satellite facility; 2) we have employees who rely on the jobs we provide; and 3) satellite wagering is a revenue source for our Fair that we are obliged to protect. If existing satellites are having a hard time making ends meet with the present business model, we don't think it makes a lot of sense to add more satellites in the same markets unless you change the business model for satellite wagering.

Mr. Jacobs asked if it was possible to craft a group response from CARF of behalf of all member satellites. Mr. Korby responded that Commissioner Israel originally requested that a representative from each Fair appear in person and to explain their Fair's position. That request was mediated to allow each Fair to respond in writing. Mr. Jacobs reiterated that he feels it is important for CARF Fairs to maintain a united front.

Agenda Item 9 – Financials. Mr. Korby stated that financials are included in the meeting packets.

Agenda Item 9 – Executive Director's Report. No report.

Respectfully submitted,
Heather Haviland

CA Authority of Racing Fairs Legislative Report - Last 10 Days 8/30/2013

[AB 432](#) **(V. Manuel Pérez D) Horse racing: exchange wagering.**

Current Text: Enrollment: 8/29/2013 [pdf](#) [html](#)

Introduced: 2/15/2013

Last Amend: 6/19/2013

Status: 8/29/2013-Enrolled and presented to the Governor at 3:30 p.m.

Location: 8/29/2013-A. ENROLLED

2Year Dead	Desk	Policy	Fiscal	Floor	Desk	Policy	Fiscal	Floor	Conf. Conc.	Enrolled	Vetoed	Chaptered
	1st House				2nd House							

Summary: Existing law authorizes exchange wagering and authorizes the California Horse Racing Board to recover any costs associated with the licensing or regulation of exchange wagering by imposing an assessment on the exchange wagering licensee in an amount that does not exceed the reasonable costs associated with the licensing or regulation of exchange wagering. This bill would require any racing association or racing fair receiving distributions from any exchange wagering agreement to distribute a specified portion of that revenue to the official registering agency. The bill would require the official registering agency to distribute those revenues in a specified manner. By imposing new requirements on any racing association or racing fair, the violation of which would be a crime, the bill would impose a state-mandated local program. This bill contains other related provisions and other existing laws.

Organization Position
CARF

[AB 1074](#) **(Atkins D) Horse racing: thoroughbred racing.**

Current Text: Amended: 8/26/2013 [pdf](#) [html](#)

Introduced: 2/22/2013

Last Amend: 8/26/2013

Status: 8/27/2013-Read second time. Ordered to third reading.

Location: 8/27/2013-S. THIRD READING

2Year Dead	Desk	Policy	Fiscal	Floor	Desk	Policy	Fiscal	Floor	Conf. Conc.	Enrolled	Vetoed	Chaptered
	1st House				2nd House							

Calendar: 8/30/2013 #195 SENATE ASSEMBLY BILLS-THIRD READING FILE

Summary:

Existing law, the Horse Racing Law, authorizes the California Horse Racing Board to make allocations of racing weeks, as it deems appropriate, and, for thoroughbred racing, establishes a maximum of 44 weeks per year of racing weeks in the northern zone, a maximum of 42 weeks per year in the central zone, and a maximum of 7 weeks per year in the southern zone. Existing law also prohibits the board from allocating dates to a thoroughbred association in the central zone for conducting racing during daytime hours, if in the southern zone, a thoroughbred racing association is conducting racing on the same date during daytime hours. A violation of the Horse Racing Law is a crime.

This bill would instead establish a maximum of 49 weeks per year in the combined central and southern zones. The bill would also require the board to allocate from those weeks a minimum number of weeks to certain racetracks in the central and southern zones that were used to conduct thoroughbred race meetings prior to 2012 and would authorize the board to allocate from those weeks a maximum number of weeks to certain racetracks in the southern zone that were not used to conduct thoroughbred race meetings in the southern zone prior to 2012. The bill would prohibit the board from allocating dates to a thoroughbred association in the southern zone for the purpose of conducting racing, regardless of the hours, if, on the same date and during daytime hours, a thoroughbred racing association is conducting racing in the central zone, and would reciprocally prohibit the allocation of racing dates to a thoroughbred association in the central zone when daytime racing is conducted by a thoroughbred association in the southern zone. Because a violation of those provisions would be a crime, this bill would impose a state-mandated local program.

This bill contains other related provisions and other existing laws.

Organization Position
CARF Watch

[AB 1226](#) **(Hall D) Horse racing: jockey riding fees.**

Current Text: Amended: 8/26/2013 [pdf](#) [html](#)

Introduced: 2/22/2013

Last Amend: 8/26/2013

Status: 8/27/2013-Read second time. Ordered to third reading.

Location: 8/27/2013-S. THIRD READING

2Year Dead	Desk	Policy	Fiscal	Floor	Desk	Policy	Fiscal	Floor	Conf. Conc.	Enrolled	Vetoed	Chaptered
	1st House				2nd House							

Calendar: 8/30/2013 #203 SENATE ASSEMBLY BILLS-THIRD READING FILE

Summary:

Existing law, the Horse Racing Law, generally vests the administration of horse racing with the California Horse Racing Board, and requires the board to set minimum jockey riding fees. Existing law also prohibits the paymaster of a racing association or racing fair from disbursing any sum from a jockey's compensation to any person other than the jockey, except as specified. A violation of the Horse Racing Law, where no other penalty is expressed, is a misdemeanor. This bill would require the board not to permit any portion of an entry, nomination, or other fee paid by an owner to be deducted from a jockey riding fee unless the entry, nomination, or other fee is paid exclusively by the owner. Because a violation of the provisions of the bill would be a misdemeanor, the bill would impose a state-mandated local program. This bill contains other related provisions and other existing laws.

Organization **Position**
CARF Watch

AB 1245 (V. Manuel Pérez D) Tribal gaming: compact ratification.

Current Text: Amended: 7/3/2013 [pdf](#) [html](#)

Introduced: 2/22/2013

Last Amend: 7/3/2013

Status: 8/21/2013-Read second time. Ordered to third reading.

Location: 8/21/2013-S. THIRD READING

2Year Dead	Desk	Policy	Fiscal	Floor	Desk	Policy	Fiscal	Floor	Conf. Conc.	Enrolled	Vetoed	Chaptered
	1st House				2nd House							

Calendar: 8/30/2013 #166 SENATE ASSEMBLY BILLS-THIRD READING FILE

Summary: Existing federal law, the Indian Gaming Regulatory Act of 1988, provides for the negotiation and execution of tribal-state gaming compacts for the purpose of authorizing certain types of gaming on Indian lands within a state. The California Constitution authorizes the Governor to negotiate and conclude compacts, subject to ratification by the Legislature. Existing law expressly ratifies a number of tribal-state gaming compacts, and amendments of tribal-state gaming compacts, between the State of California and specified Indian tribes. This bill would ratify the tribal-state gaming compact entered into between the State of California and the Ramona Band of Cahuilla, executed on June 10, 2013. The bill would provide that, in deference to tribal sovereignty, certain actions are not projects for purposes of CEQA. This bill contains other related provisions and other existing laws.

Organization **Position**
CARF Watch

AB 1420 (Committee on Accountability and Administrative Rev) State government: state agencies: reports.

Current Text: Enrollment: 8/26/2013 [pdf](#) [html](#)

Introduced: 3/21/2013

Last Amend: 7/11/2013

Status: 8/26/2013-Enrolled and presented to the Governor at 4:15 p.m.

Location: 8/26/2013-A. ENROLLED

2Year Dead	Desk	Policy	Fiscal	Floor	Desk	Policy	Fiscal	Floor	Conf. Conc.	Enrolled	Vetoed	Chaptered
	1st House				2nd House							

Summary:

Existing law requires various state agencies to submit certain reports, plans, evaluations, and other similar documents to the Legislature and other state agencies. This bill would eliminate provisions that require certain state agencies to submit certain reports to the Legislature and other state agencies. The bill would also modify requirements of certain reports by requiring, among other things, that reports be placed on the Internet Web site of the reporting agency rather than to be submitted to the Legislature or other state agencies, or requiring certain state agencies to collaborate with other state agencies in preparing those reports. The bill would also modify cross-references. This bill contains other related provisions.

Organization **Position**
CARF Watch

SB 472 (Hill D) Gaming: licenses.

Current Text: Amended: 8/26/2013 [pdf](#) [html](#)

Introduced: 2/21/2013

Last Amend: 8/26/2013

Status: 8/26/2013-Read third time and amended. Ordered to third reading.

Location: 8/26/2013-A. THIRD READING

2Year Dead	Desk	Policy	Fiscal	Floor	Desk	Policy	Fiscal	Floor	Conf. Conc.	Enrolled	Vetoed	Chaptered
	1st House				2nd House							

Calendar: 8/30/2013 #122 ASSEMBLY SENATE THIRD READING FILE

Summary:

The Gambling Control Act provides for the licensure of certain individuals and establishments involved in various gambling activities, and for the regulation of those activities, by the California Gambling Control Commission. The act makes any person who willfully violates any of the provisions of the act for which a penalty is not expressly provided guilty of a misdemeanor.

This bill would instead require the application described above to be filed within 45 calendar days after receipt of an order of the commission.

This bill contains other related provisions and other existing laws.

Organization Position

CARF Watch

Total Measures: 6

Total Tracking Forms: 6

MEMORANDUM OF UNDERSTANDING

THIS WILL CONSTITUTE A MEMORANDUM OF UNDERSTANDING (MOU) BETWEEN THE SAN JOAQUIN COUNTY FAIR (SJCF) AND THE CALIFORNIA AUTHORITY OF RACING FAIRS (CARF)

WHEREAS, by way of the Amended and Restated Joint Exercise of Powers Agreement, executed July 7, 1989 ("JPA"), CARF provides necessary services to the SJCF, by contract or otherwise which may include, but is not limited to, centralized government affairs representation; reports and analysis of the horse racing industry; administration of joint services of CARF including planning, budget implementation and fund accounting; and

WHEREAS, pursuant to the JPA, CARF shall provide to the SJCF the services outlined and agreed to in Exhibit "A", attached to and made part of this MOU for the live racing meeting to be held at the SJCF September 20-22, and September 27-29 ("2013 SJCF race meet"); and

WHEREAS, the SJCF desires that CARF, on behalf of the SJCF, underwrite the racing expenses associated with the services outlined and agreed to in Exhibit "A"; and

WHEREAS, pursuant to the JPA, CARF is responsible for the collection and distribution of the SJCF off track pari-mutuel commissions).

NOW, THEREFORE, in consideration of the mutual covenants set forth herein,

- 1) CARF shall provide the services outlined in Exhibit "A".
- 2) The SJCF agrees that CARF shall deduct from intrastate, interstate and international parimutuel commissions the monies owed to CARF by the SJCF for the racing expenses associated with the services outlined and agreed to in Exhibit "A". It is contemplated that the balance of the commissions shall be paid in the same manner as paid out in 2012 to the SJCF with a reduction of 25% which reflects the reduction in racing dates, from 8 days in 2012 to 6 days in 2013 (see Exhibit "B").
- 3) The term of this MOU shall be for the 2013 SJCF race meet.
- 4) In the event that San Joaquin County Fair racing revenues are not sufficient to cover expenses incurred by CARF on behalf of SJCF, SJCF agrees to pay the amount of the shortfall to CARF.

DATED: _____

John Alkire, Chairman, CARF _____

Nanette Martin, President, SJCF Board of Directors _____

Stockton Commissions - 2013				Stockton Commissions - 2012							
6 days								8 days			
		Total CA	Wire Transferred	Date	Control #				Total CA	Wire Transferred	Date
											Control #
simno only	9/18/2013	TBD						simno only	9/19/2012	14,045.01	
simno only	9/19/2013	TBD							9/20/2012	23,569.17	
	9/20/2013	TBD							9/21/2012	31,184.74	
	9/21/2013	TBD							9/22/2012	50,304.10	
	9/22/2013	TBD							9/23/2012	41,550.88	ACH092512
dark	9/23/2013	TBD						dark	9/24/2012	0.00	
dark	9/24/2013	TBD	1st week CA Comm / net of Expenses	9/26/2013				dark	9/25/2012	0.00	
simno only	9/25/2013	TBD						dark	9/26/2012	8,285.20	
simno only	9/26/2013	TBD							9/27/2012	19,366.66	
	9/27/2013	TBD							9/28/2012	33,245.92	
	9/28/2013	TBD							9/29/2012	63,312.06	
	9/29/2013	TBD	2nd week CA Comm / net of Expenses	10/3/2013					9/30/2012	47,060.04	ACH100412
	2012/2013 CHRB overage track portion								2011/2012 CHRB overage track portion	0.00	
	2012 Outs/Refunds	12,043.70		6/5/2013	ACH060513				2011 Outs/Refunds	7,531.91	ACH061412
315,000	Budget Excess 6%	TBD						372,000	Budget Excess 6%	25,160.16	
at year end	Expense Excess 6%	TBD						at year end	Expense Excess 6%	26,572.83	
at year end	On track expenses	TBD						at year end	On track expenses	(743.67)	
	Programs	TBD							Programs	9,090.00	ACH101912
	Programs	TBD	Program/6% Budget net of Expenses	10/15/2013					Programs	9,787.50	
	AB509 Los Alamitos Australian	TBD							AB509 Los Alamitos Australian	8,782.20	
	2013 Out of State Comm	TBD							2012 Out of State Comm	56,496.93	
	2013 ADW CA	TBD							2012 ADW CA	143,216.07	ACH120312
	2013 ADW Export	TBD	ADW CA/Export Comm / net of Expenses	11/15/13 ??					2012 ADW Export	7,391.88	
at year end	2013 AB 480	TBD						at year end	2012 AB 480	2,985.10	
	2013 Rights Fees	TBD							2012 Rights Fees	7,000.39	
	2013 Decoder Income	TBD							2012 Decoder Income	15,875.00	
	2013 misc Income	TBD							2012 misc Income	2,015.61	
	2012 Japan/Los AI/ Exp surplus	TBD							2011 Japan/Los AI/ Exp surplus	807.30	
	2013 Relocation Costs	TBD							2012 Relocation Costs	(10,454.55)	
										74,708.05	ACH011113
										52,844.76	ACH013113
	Total	12,043.70	12,043.70						Total	643,438.44	
	Balance		0.00						Balance Due to Fair	188,804.34	
actual	2013 Circuit Billing Invoice #07188								2012 CARF Dues	(\$14,203.50)	
actual	2013 January-June Billback Invoice #07192	77,805.66 net with 1st week	9/26/2013						2012 Circuit Bill Invoice	(\$75,561.19)	
		5,229.94 net with 1st week	9/26/2013						Jan-June Billback Invoice	(\$5,608.02)	
estimate	July Billback								July Billback Invoice	(\$1,721.54)	
estimate	Aug-Sept Billback								Aug-Sept Billback	(\$52,849.98)	
estimate	Oct-Dec Billback								Oct-Dec Billback estimates	(25,746.09)	
									2013 CARF Dues (2nd qtr & 3rd qtr) pd 1st qtr	(8,995.46)	
									Net owed to Fair after reducing by AR	4,118.55	



Northern California

Off-Track Wagering, Inc.

7950 Dublin Blvd., Suite 216
Dublin, CA 94568

ORGANIZATIONAL & OPERATIONAL OVERVIEW

Presented to the California Horse Racing Board
by the NCOTWINC. Board of Directors
June 2013

JUNE 2013

CONTENTS



NCOTW, INC.

- 01 History and Formation**
Background and enabling legislation.
- 02 Organizational Structure**
Governing code 19608.2 and organizational flow chart.
- 03 Duties and Responsibilities**
Racing and satellite operations provided by NCOTW, Inc.
- 05 Sportech Quantum Data Center**
Sacramento data processing hub.
- 07 Pari-Mutuel Distributions**
Categories and definitions.
- 09 NCOTW, Inc. Distributions**
5-Year handle and distributions (2008-2012).

SATELLITE NETWORK

- 11 Northern California Off-Track Satellite Network**
Timeline, history and formation.
- 13 Northern California Satellites**
Timeline and photographs.
- 15 Northern California Satellite Distributions**
5-Year handle and distributions (2008-2012) and map.
- 17 Northern California Satellite Network Photographs**

DEVELOPMENT

- 19 Mini-Satellite Development**
Overview and design scenarios.

REPORT PREPARATION

Christopher Korby - Executive Director
California Authority of Racing Fairs
Principal Author

Heather Haviland - Director of Marketing
California Authority of Racing Fairs
Author

Bryan Wayte - General Manager
NCOTW, Inc.
Contributing Author

NCOTW, INC.

HISTORY & FORMATION

BUSINESS

AND PROFESSIONS

CODE 19608.2

The original enabling legislation for simulcasting, SB14, provided that the racing associations, the Fairs and the horsemen form an organization to oversee and administer simulcast activities.

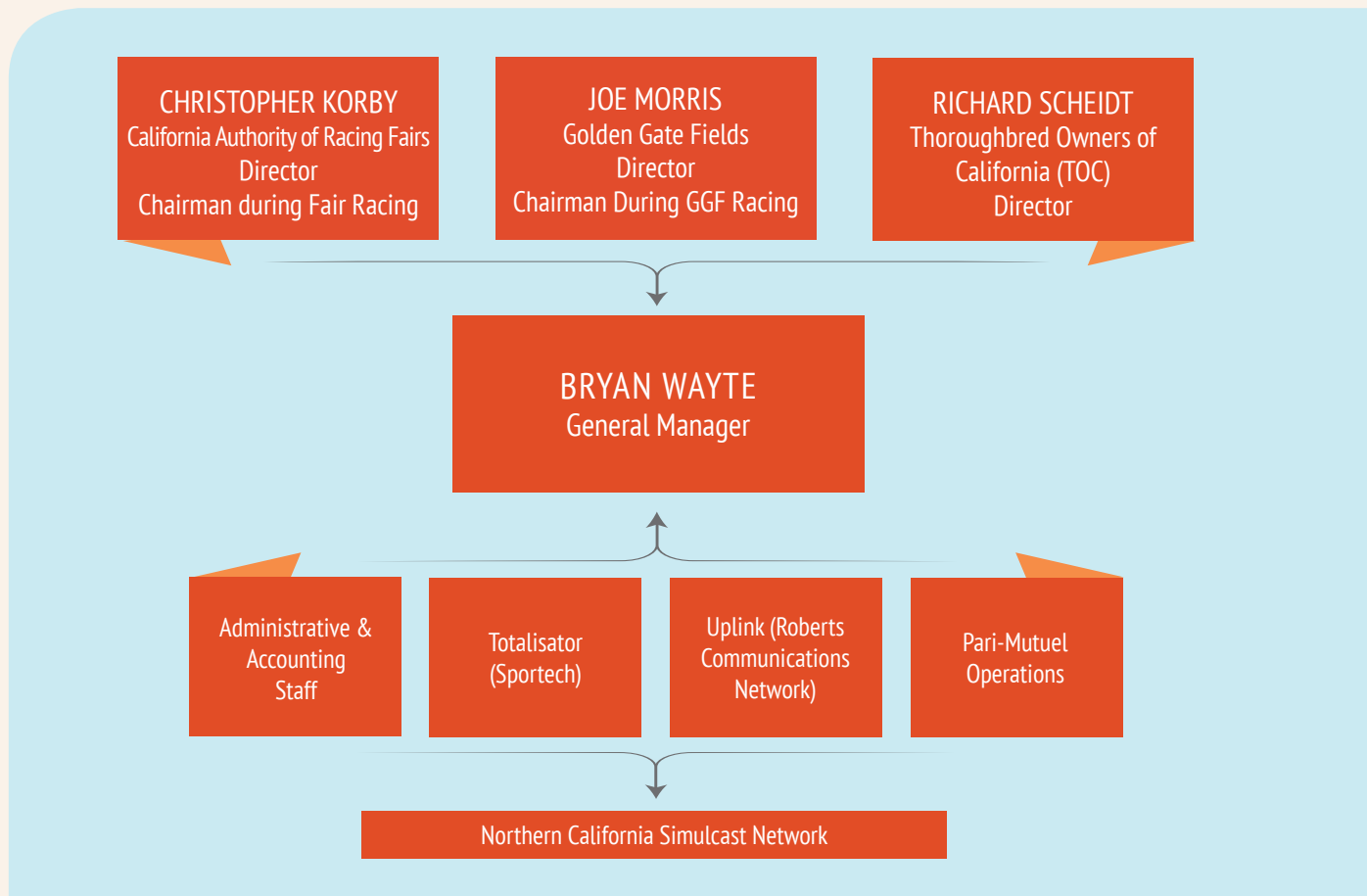


Two such organizations have been formed: Northern California Off-Track Wagering Inc. (NCOTW, Inc.) and Southern California Off-Track Wagering Inc. (SCOTW, Inc.). They are responsible for totalisator (wagering computer) services, satellite transmission, pari-mutuel clerks, banking, and accounting. Statute requires that satellite wagering Fairs have a contract, approved by the CHRB, with the appropriate regional simulcast operator.

NCOTW, Inc.

Northern California Off-Track Wagering Inc., oversees the administration of simulcast operations in Northern California. Its members are horsemen (TOC), Golden Gate Fields and the California Authority of Racing Fairs (CARF). NCOTW, Inc. sets policy, manages contracts for conduct of pari-mutuel wagering and employs pari-mutuel personnel at off-track simulcast facilities.

NCOTW, INC. ORGANIZATIONAL FLOW CHART



BUSINESS & PROFESSIONS CODE 19608.2

Business & Professions Code 19608.2 **(A) In order to permit associations providing audiovisual signals the ability to do so without undue burden**

and expense, to avoid unnecessary duplication of facilities, to permit the associations to protect the security of their signals, and to permit the associations to protect the integrity of their pari-mutuel pools and to account for wagering proceeds included in those pari-mutuel pools, associations and fairs providing audiovisual signals pursuant to Section 19608 or 19608.1 may form an organization to operate, pursuant to board supervision, the audiovisual signal system.

(B) An organization operating

under board supervision pursuant to this section may consist of any combination of associations and fairs.

(C) Nothing in this section precludes any other person or business entity from

participating in, or holding a financial interest in, an organization formed by associations or fairs to operate satellite wagering, except that the person or business entity shall be approved by the board.

(D) Any organization formed

shall provide horsemen's organizations contracting with associations and fairs for racing meetings and non racing fairs operating satellite wagering facilities meaningful representation on its governing board, and shall administer the audiovisual signal and pari-mutuel operations at satellite wagering facilities.

(E) (1) An organization shall bear the costs of operating the audiovisual signal system, including the costs of leasing or purchasing and operation of equipment for transmission and decoding

of audiovisual signals and wagering data, the costs of totalisator equipment, mutuel department labor and equipment charges, and the costs, including labor, and overhead of the organization administering the satellite wagering program.

(2) A satellite wagering facility shall

bear the costs of satellite receiving dishes, head-end assemblies, television monitors or screens, facility buildings, labor at the satellite wagering facility other than mutuel department labor, and any and all other costs at the satellite wagering facility not specifically referred to in paragraph (1).

(3) The board shall approve all costs

and resolve any differences between an organization and a satellite wagering facility as to which party is required to bear the costs for a disputed item.

RESPONSIBILITIES & DUTIES

Core functions for conduct of pari-mutuel operations in Northern California are provided and paid for by NCOTW, Inc.

Duties and Responsibilities of the NCOTW, Inc.

The simulcast organization provides and pays for audiovisual signal transmission and all pari-mutuel costs, including pari-mutuel employees on-site at satellite facilities. To cover these costs, it receives a small percentage of the off-track handle.

Pari-Mutuel Personnel and Operations

The Host Track Mutuels Manager assigns the clerks and supervisor at each site. The local supervisor is also the Money Room attendant and has responsibility for the cash bank on-site.

Pari-mutuel personnel (clerks) handle operations directly related to processing wagers. These operations include having a clerk at each terminal, money room and supervisory staff, and administrative support at the Host Track.

NCOTW, Inc. manages and provides staffing for pari-mutuel operators



at all Northern California simulcast locations.

All pari-mutuel clerks in California are union members and belong to the Pari-mutuel Clerks Guild Local 280 SEIU. The simulcast organization is also responsible for banking, armored service, currency counting machines, payroll and audit.

Totalisator

The Totalisator is a computerized data processing operation that tabulates wagering pools, issues bet tickets, and calculates payoffs. The system extends from cash register-like terminals at each wagering location, through a high-speed data communications system to a central data processing hub.

All wagers are processed identically; a wager at any satellite location is tabulated into the same pools as wagers at the Host Track. Totalisator services include technical operations and maintenance personnel.

Data Processing Hub

The wagering data processed by the totalisator computers is transmitted back and forth between the hub and satellite sites via specially dedicated telephone data lines. The system must operate fast enough so that entry of a wager at the satellite site, relay of that wager to the central computer, tabulation, and issuance of the bet ticket hundreds of miles away takes less than one second.

Audiovisual Transmission; Satellite Uplink; Encryption; Satellite Transponder

Four primary elements constitute the audiovisual transmission system. These are 1) satellite uplink, 2) encryption (scrambling), 3) satellite transponder time, and 4) satellite downlink and closed circuit television system. The satellite downlink and closed circuit television system are the responsibility of the Fair and will be discussed below. The other three elements are the responsibility of the simulcast organization. Here is a brief description of these services.

The satellite uplink is an earth transmitting station that beams a television signal from the Racetrack to a telecommunications satellite in orbit over the equator. The uplink sends a signal supplied by a television production facility at the track.

Encryption is the technical term for electronically scrambling a communications signal. The audiovisual television signal is scrambled to prevent recognizable reception by unauthorized users. A

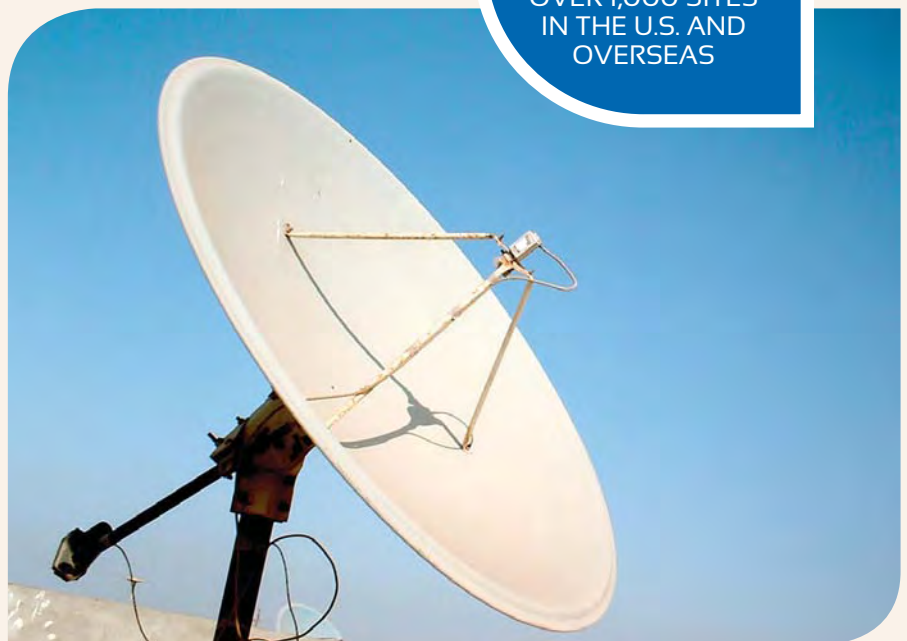
**NCOTW, Inc.
manages and
provides staffing for
pari-mutuel operators
at all Northern
California simulcast
locations.**

special code that authorizes decoders to reconstitute the signal into recognizable form is carried directly on the scrambled signal. Unlike most residential scrambling systems, this system can turn decoders on and off immediately.

The telecommunications satellite parked over the equator functions as a distant relay station. Signals beamed to it are amplified and retransmitted back to a wide coverage area on earth. Users rent or lease time on these satellites as needed. As satellite distribution of live racing has expanded, the horse racing industry has become a major purchaser of satellite time.



**NCOTW, INC. SENDS
AN ENCRYPTED
SATELLITE FEED TO
OVER 1,000 SITES
IN THE U.S. AND
OVERSEAS**



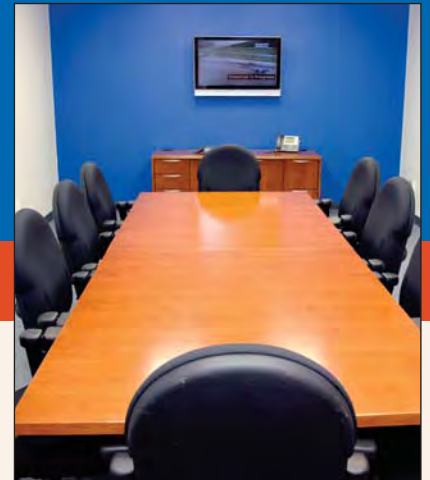
SPORTECH SACRAMENTO

TOTE HUB

The state of the art facility began operations in September 2006 with NCOTW, Inc. locations migrating to the hub in August 2007. Since the migration the hub has processed over \$2.25 billion in wagers placed at Northern California wagering locations. Additionally almost \$2.5 billion in wagers made on Northern California tracks and fairs have been processed from wagers made in Southern California, through ADW providers, and at out of state and international locations.



The Totalisator Hub (Tote Hub) operated by Sportech in Sacramento handles data processing for pari-mutuel wagering operations throughout California and the Western United States.





DISTRIBUTIONS

Commissions from pari-mutuel handle are apportioned to the various beneficiaries according to a schedule that includes region (Northern California or Southern California racing), breed of horses (Thoroughbred, Quarter Horse, etc.), and whether the handle is generated on-track or off-track.

The following sections describe major distributions of the satellite pari-mutuel handle for Northern California Thoroughbreds. Distributions for other breeds and regions are similar.

RETURNED TO WINNING BETTORS

All money wagered on losing horses is divided up for payment to the winning bettors and other beneficiaries. Winning bettors receive the largest portion of pari-mutuel distributions.

RACING ASSOCIATIONS

Racing associations derive a significant portion of their revenues from commissions on pari-mutuel handle generated at satellite facilities. The association commission is equivalent to the Purses, or Horsemen's, commission.

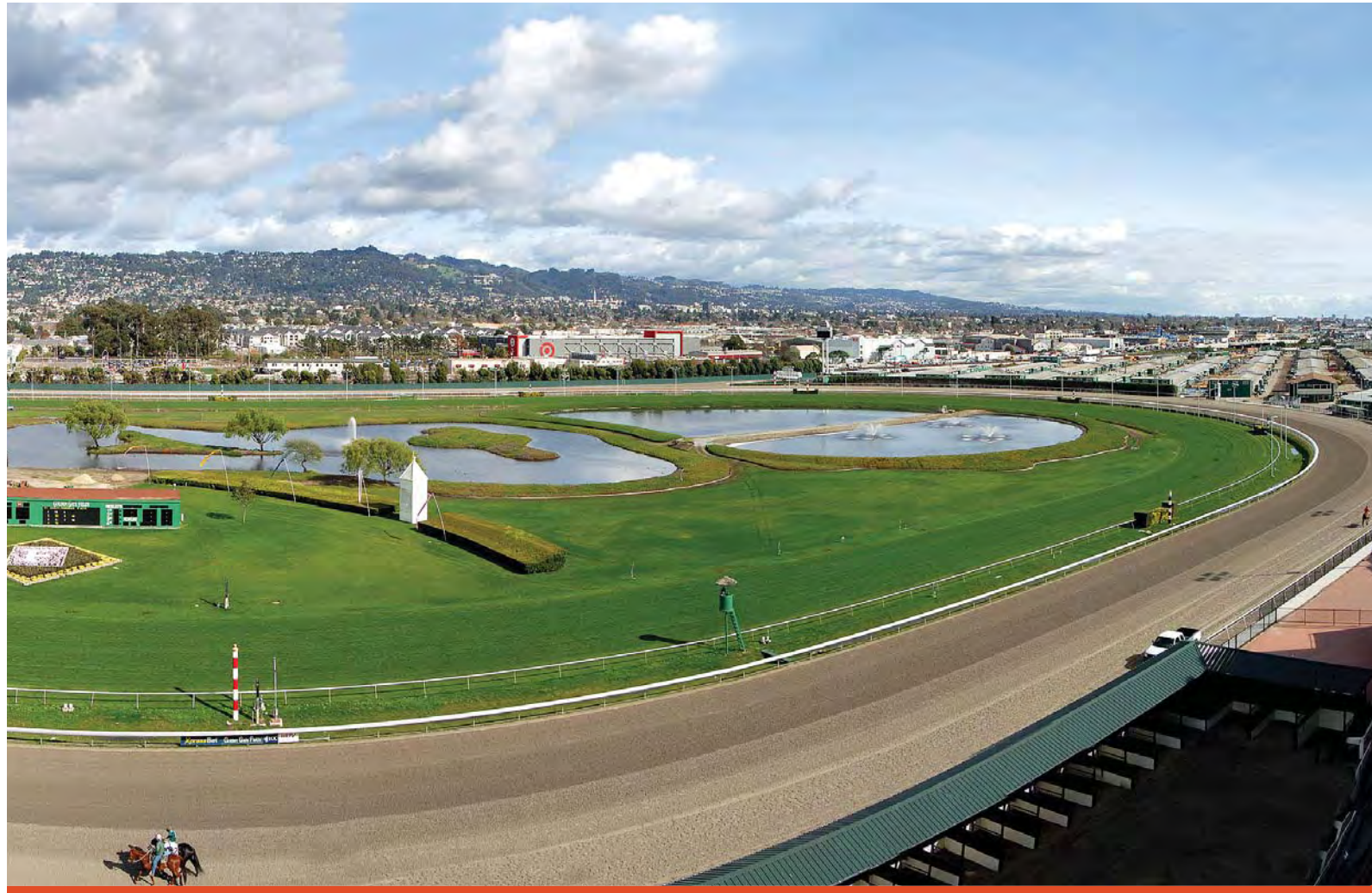
PURSES PAID TO HORSEMEN

The commission for payment of purses is racing's mechanism of self-sustenance. A percentage of the handle, equivalent to the commission

paid the racing association, flows back to the owners of winning horses. Purses are normally paid, in diminishing amounts, based on the order of the horses finishing the race. Associations may supplement the purses from time to time, but the primary source of purse money derives from a portion of the handle.

STATE OF CALIFORNIA

The State receives a license fee from racing conducted at Fairs. The funds are paid to the California Department



of Food & Agriculture.

DISTRIBUTION FOR SIMULCAST EXPENSES

(Paid to NCOTW, Inc.)

This distribution is used for payment of satellite wagering expenses such as satellite transmission, totalisator, and off-track pari-mutuel labor. Any portion of this fund left unspent after expenses are paid is divided equally between the horsemen and the association.

COMMISSION TO SATELLITE FACILITY - 2% LOCATION FEE

Each satellite wagering facility receives 2% of the handle generated from its operation. In the pari-mutuel reports, this is shown as a Location Fee. This constitutes approximately half of the gross operating revenue. Admissions, parking, and concessions constitute the other half.

DISTRIBUTION FOR PROMOTION & MARKETING

(Paid to California Marketing Committee) A proportion of handle flows to a fund used for promotion of horse racing and satellite wagering. This money is administered by the California Marketing Committee (CMC). Fair satellite facilities receive an allocation for marketing and promotion from this fund. CARF coordinates marketing plans and budgets with individual Fairs and with the CMC.

BREEDERS' AWARDS

This portion goes to breeders of winning horses as an incentive to successful operations and for financial support of California's Thoroughbred breeding industry.

STABLING AND VANNING FUND

This fund helps pay the expenses of

keeping and transporting horses. It helps ensure the long-term vitality of the racing economy by off setting the high cost of stabling and moving fine competitive racehorses.

LOCAL GOVERNMENT

Local government may receive 0.33% of handle generated at each satellite location. This goes to the municipality or county in which the facility is located or to a combination of both. The local government must formally request payment; if it does not, the money reverts to the State.

UC DAVIS EQUINE VETERINARY RESEARCH

The Veterinary School at University of California, Davis has a world-renowned Equine Research Facility. This fund helps sustain that education and research facility.

NCOTW, INC.

360°

NCOTW, Inc. Provides Essential Services and Revenues to Support the Racing Industry in Northern California

NCOTW, Inc. Handle 2008-2012

TOTAL HANDLE \$ 1,955,686,882

DISTRIBUTIONS

License Fees	6,964,010
CHRB Support Fee	5,938,259
CDFA F&E	2,007,206
City Tax	6,412,715
Equine (UC Davis)	1,955,720
Worker's Comp.	3,708,313
Location Fees	30,337,624
Expense Fund (NCOTW, Inc.)	66,018,054
CMC Promotion	6,204,652
CHRIMS	286,113
Vanning & Stabling	17,049,385
Proxy Fees	1,636,336
Harness Loc. Fees	757,039
Track Commissions	108,839,141
Purses	106,943,264
SB 1072	5,255,860
Owners (TOC)	1,172,552
Breeders/Sires	10,435,093

TOTAL DISTRIBUTIONS \$ 381,921,337

248

JOBS

NCOTW, Inc. is responsible for 248 annual jobs at pari-mutuel wagering facilities.

\$17.0
MILLION

STABLING & VANNING

Northern California Stabling and Vanning Fund.



\$5.94
MILLION

CHRB SUPPORT

Distributions made through NCOTW, Inc. support CHRB Administration and programs.



INDUSTRY DISTRIBUTIONS

Industry distributions include CHRB Support Fee, UC Davis, Worker's Comp., Location Fees, Expense Fund, CMC Promotion, CHRIMS Administration, Stabling and Vanning Fund and Track Commissions.

\$242.7
MILLION

5
YEAR

NORTHERN CALIFORNIA HANDLE & DISTRIBUTIONS 2008-2012

**\$1.95
BILLION**

TOTAL HANDLE

Total Northern California Handle
2008-2012

DISTRIBUTIONS

Approximately 80% of total handle is paid back to winning bettors and 20% is retained in distributions made to the State of California, Horsemen and the Racing Industry.

**\$15.4
MILLION**

CALIFORNIA

City Tax, F&E Support and License
Fees (through 2009).

**\$123.8
MILLION**

HORSEMEN

Paid to Horsemen through Purses,
Breeder's Incentives and TOC
Administration.



NORTHERN CALIFORNIA

SATELLITE

When advances in technology made simulcasting possible in the 1980's, the horse racing industry and Fairs joined together to pursue this new opportunity.

When advances in technology made simulcasting possible in the 1980's, the horse racing industry and Fairs joined together to pursue this new opportunity. Working with the late Senator Ken Maddy, a long-time advocate for horse racing, the racing industry, Fairs and legislators put together a plan

to implement simulcasting in California.

The marriage of Fairs and horse racing has deep roots in California, going back to the beginning of modern pari-mutuel wagering in 1933. Working together to realize this new opportunity through

technological innovation was a logical next step in a long political relationship.

Simulcast wagering in Northern California began with a pilot test between Golden Gate Fields and the Fresno Fairgrounds race track in 1984. In 1987, legislation carried by Senator Maddy, SB 14,

1985



Bar area at the Stockton satellite facility.

FRESNO, SACRAMENTO, SANTA ROSA & STOCKTON:

The Fresno District Fair, California State Fair, Sonoma County Fair and San Joaquin County Fair open satellite wagering facilities.

1 9 8 4

1984

SB 1499 (MADDY):

Implemented satellite wagering in the central and southern part of the state, and made conforming and technical changes in the northern part of the state.

NETWORK

enabled creation of a simulcast network at Fairgrounds and race tracks throughout the state.

Golden Gate Fields and Bay Meadows were operating as simulcast locations in 1987, so the primary expansion effort in Northern California moved to Fairgrounds locations. A team led by California Authority of Racing Fairs (CARF) undertook design, specifications, construction and installation of technical systems necessary

to bring new locations into the simulcast network. California Department of Food and Agriculture (CDFA) provided financing for this effort on behalf of Fairs. This team began a decade-long program of building satellite wagering facilities at Fairgrounds throughout California.

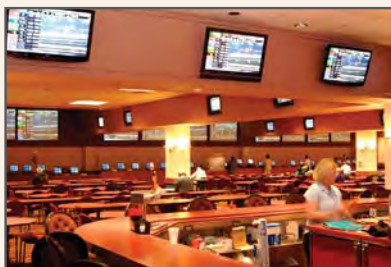
By the late 1990's, twenty-three Satellite Wagering Facilities had opened at California Fairs. Fourteen of these satellite facilities are located in Northern

California.

In recent years, Federal courts have ruled that certain Native American tribes may operate Satellite Wagering Facilities. Subsequent California legislation now allows smaller mini-satellite locations throughout the state.

Currently, the Northern California network is composed of one location licensed to a race track, Golden Gate Fields, and 15 satellite facilities licensed to Fairs.

1987



Bar and general seating at the Pleasanton satellite where patrons have wagered \$1.26 billion since 1987.

BAKERSFIELD, EUREKA, PLEASANTON, VALLEJO:

Satellite facilities open to the public at the Kern County Fair, Alameda County Fair and Solano County Fair.

1988



Winner's Circle seating at the Monterey satellite facility.

ANDERSON, MONTEREY, SAN JOSE:

Satellites open at the Shasta District Fair, Monterey County Fair and Santa Clara County Fair.

1 9 8 7

1987

SB14 (MADDY):

Expanded satellite wagering statewide.

1989

TULARE:

The Tulare County Fair satellite wagering facility opens.

1993

TURLOCK:

The Stanislaus County Fair satellite wagering facility opens.



➤ FRESNO CLUB ONE

The first mini-satellite in California, Fresno Club One handled \$60 million from 1998 to 2012, contributing \$3.1 million to purses.

➤ MONTEREY

Located on the California coast at the Monterey County Fair, the Monterey satellite has handled \$328 million since opening in 1988.

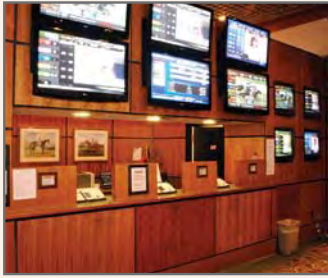
➤ SACRAMENTO

Patrons of the Sacramento satellite, located on the California State Fairgrounds, have wagered \$1.1 billion since the facility's opening and contributed \$48.6 million to purses.

➤ SAN MATEO

Since opening in 2008, the San Mateo County Fair satellite has quickly become the most significant Fair satellite in California, contributing \$62.9 million in industry distributions from \$320 million wagered.

1998



FRESNO MINI-SATELLITE:

The first mini-satellite in the state, Fresno Club One, opens as a joint partnership between Club One Casino and the Fresno District Fair.

2008



SAN MATEO:

After the closure of Bay Meadows, the Fair organizations invested \$4.2 million to open a satellite wagering facility on the Fairgrounds. The San Mateo satellite has become the largest Fair satellite in Northern California.

2013

2001

AB 471 (HERTZBERG):

Authorizes Advance Deposit Wagering.

2013

SALINAS MINI-SATELLITE:

The Triple Crown mini-satellite wagering facility in Salinas opened in early 2013 as a partnership between the Monterey County Fair and Banker's Casino.



➤ SANTA ROSA

The Jockey Club at the Sonoma County Fair in Santa Rosa has handled \$504 million since opening in 1985 and has contributed \$23.1 million to purses.

➤ STOCKTON

As one of the first locations to conduct satellite wagering in 1985, Winners at the San Joaquin Fair in Stockton has handled \$694 million since opening.

➤ TURLOCK

The satellite wagering facility at the Stanislaus County Fair in Turlock has handled \$184 million since it opened to patrons in 1993.

➤ VALLEJO

Patrons of the Solano Race Place at the Solano County Fair in Vallejo have wagered \$529 million since the satellite opened in 1987.

5 YEAR

5-YEAR SNAPSHOT SATELLITE DISTRIBUTIONS

SATELLITE HANDLE 2008-2012

TOTAL HANDLE \$ 1,426,226,721

DISTRIBUTIONS

License Fees	5,538,305
CHRB Support Fee	4,694,609
CDFA F&E	1,200,924
City Tax	4,675,210
Equine (UC Davis)	1,426,258
Worker's Comp.	2,617,717
Location Fees	28,831,859
Expense Fund	57,206,255
CMC Promotion	5,221,236
CHRIMS	240,489
Vanning & Stabling	13,784,506
Proxy Fees	1,636,336
Harness Loc. Fees	757,039
Track Commissions	69,578,026
Purses	70,008,887
SB 1072	3,578,728
Owners (TOC)	817,930
Breeders/Sires	7,445,550

TOTAL
DISTRIBUTIONS \$ 279,259,863

\$1.43
BILLION

TOTAL SATELLITE NETWORK HANDLE

\$279
MILLION

TOTAL SATELLITE NETWORK
DISTRIBUTIONS

\$1.15
BILLION

RETURNED TO WINNING BETTORS

\$73.6

MILLION

PURSES TO HORSEMEN

\$8.26

MILLION

OWNERS/BREEDERS/STAKES

\$4.69

MILLION

CHRB SUPPORT FEE

\$57.2

MILLION

NCOTW, INC. EXPENSE FUND

\$13.8

MILLION

VANNING & STABLING FUND

\$5.2

MILLION

PROMOTION FUND (CMC)





Fresno Mini-Satellite - Club One



Fresno Mini-Satellite - Club One



Fresno Mini-Satellite - Club One



Alameda County Fair Pleasanton



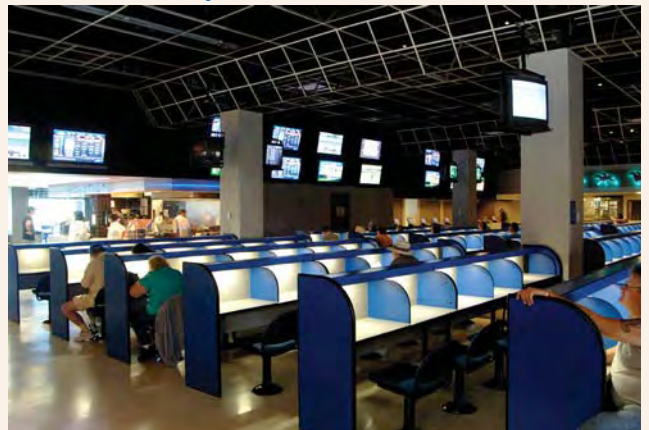
Alameda County Fair - Pleasanton



Alameda County Fair - Pleasanton



California State Fair - Sacramento



California State Fair - Sacramento



San Joaquin County Fair - Stockton



San Joaquin County Fair - Stockton



San Mateo County Fair - San Mateo



San Mateo County Fair - San Mateo



Sonoma County Fair - Santa Rosa



Stanislaus County Fair - Turlock



Solano County Fair - Vallejo

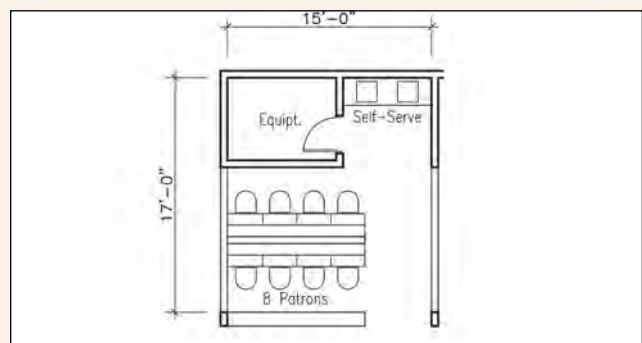
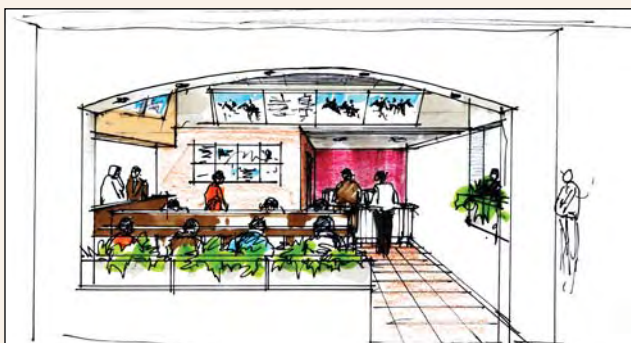


Solano County Fair - Vallejo

MINI-SATELLITE DEVELOPMENT

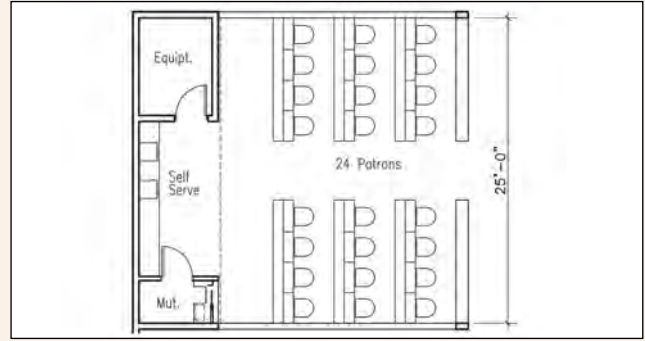
NORTHERN CALIFORNIA

NCOTW, Inc. has efforts underway to develop mini-satellite wagering facilities in Northern California. A mini-satellite opened at Banker's Casino in Salinas in early 2013. CARF commissioned these mini-satellite design scenarios to assist in the development program.



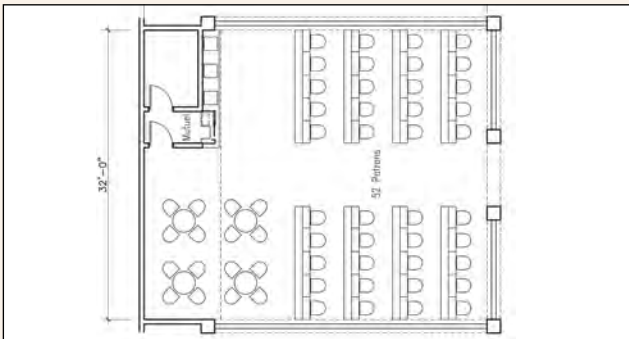
Mini-Satellite Wagering Facility - 225 Square Feet (15' x 15') - 10-12 Patrons

Two (2) totalisator terminals with 6' X 8' secure Money/Tote Room. Installation is designed to be fully self-service, but may require pari-mutuel clerk/attendant. Money/Tote Room contains wall-mounted electronic equipment rack, telecom/tote interface lockable cabinet/cupboards and money safe. Ventilation of Money/Tote Room must be a consideration and may be accomplished with open grate (chain-link) ceiling. Eight (8) 26"x32" screens. Seating for 8-10 patrons with food and beverage service. Walk-up wagering.



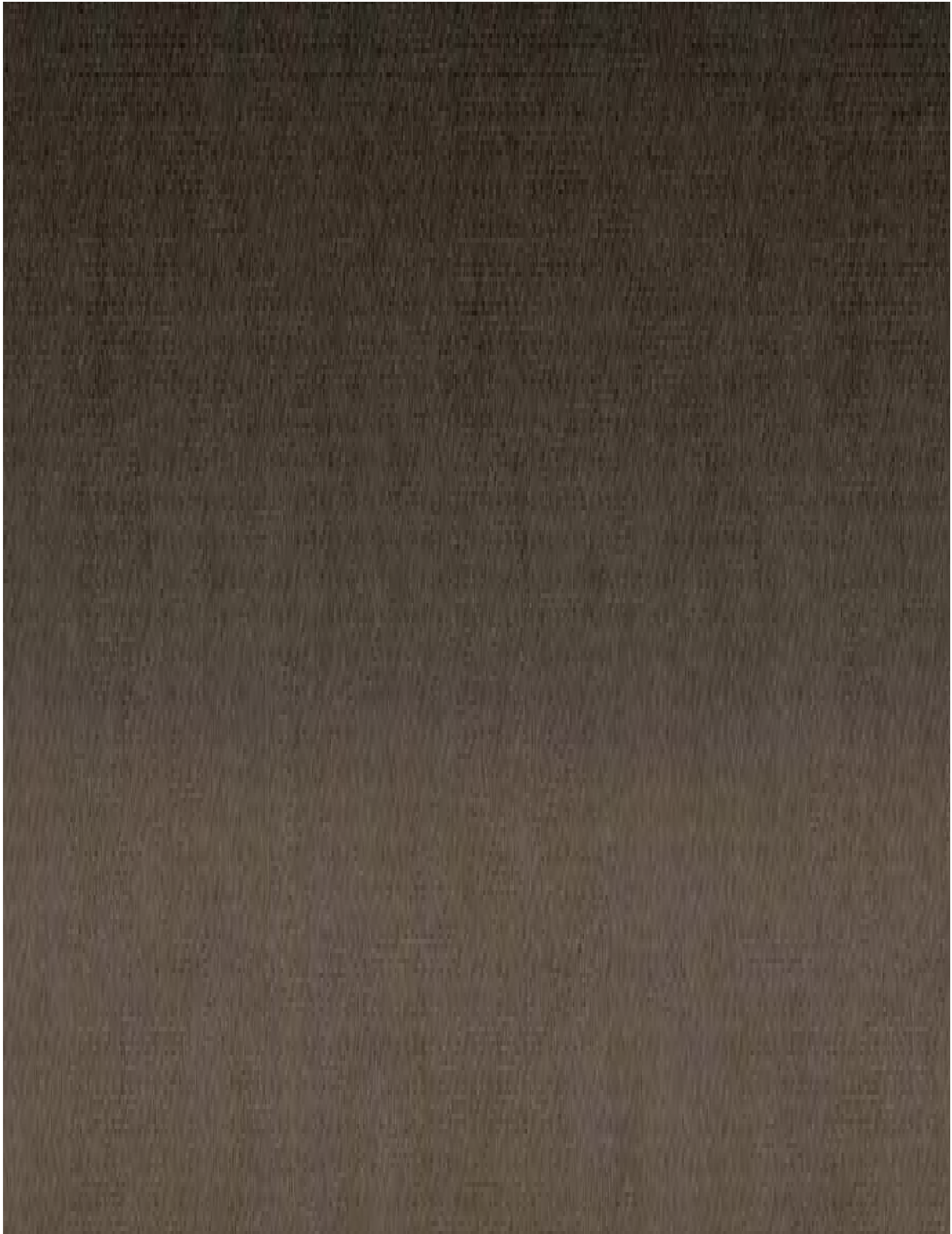
Mini-Satellite Wagering Facility - 500 Square Feet (20' x 25') - 20-25 Patrons

Three (3) totalisator terminals with 6' X 8' secure Money/Tote Room. Design will provide one for pari-mutuel clerk/attendant. Money/Tote Room contains wall-mounted electronic equipment rack, telecom/tote interface lockable cabinet/cupboards and money safe. Ventilation of Money/Tote Room must be a consideration and may be accomplished with open grate (chain-link) ceiling. Ten (10) 32" screens. Seating for 20x25 patrons with food and beverage service. Walk-up wagering.



Mini-Satellite Wagering Facility - 1,050 Square Feet (30' x 35') - 50+ Patrons

Four (4) totalisator terminals with 6' X 8' secure Money/Tote Room. Money/Tote Room contains wall-mounted electronic equipment rack, telecom/tote interface lockable cabinet/cupboards and money safe. Ventilation of Money/Tote Room must be a consideration and may be accomplished with open grate (chain-link) ceiling. Design will provide for one pari-mutuel clerk/attendant. Twelve (12) 32"x42" screens. Seating for 50+ patrons with food and beverage service. Walkup wagering.



CALIFORNIA AUTHORITY OF RACING FAIRS
BALANCE SHEET
March 31, 2013

ASSETS			
		CURRENT YTD	PRIOR YTD
		3/31/13	3/31/12
Current Assets			
CASH - LAIF & INVESTMENTS		1,028,018	1,286,415
CASH - OPERATING/MM		375,843	1,374,827
CASH - TRUST & TOC		946,422	652,582
MARKETABLE SECURITIES		2,462,867	2,409,318
A/R - DUES		54,932	94,538
A/R - PROGRAMS		69,401	48,337
A/R - RACING FAIRS		419,017	149,555
A/R - ERF/OTHER A/R		340,900	563,367
PREPAIDS/DEPOSITS		36,903	46,503
OPEB ASSETS		89,564	89,564
Total Current Assets		5,823,868	6,715,006
Fixed Assets			
AUTOMOBILE		58,382	31,942
FURNITURE & EQUIPMENT		79	746
COMPUTER HARDWARE/SOFTWARE		5,161	6,076
TRACK EQUIPMENT		100,156	150,234
Total Fixed Assets (Net of Depr.)		163,779	188,998
TOTAL ASSETS		5,987,647	6,904,004
LIABILITIES & NET ASSETS			
Current Liabilities			
A/P & WITHHOLDINGS		220,041	290,507
A/P - PROGRAM ROYALTIES TO HOST		82,507	64,592
RACING DISTRIBUTIONS		644,580	201,378
PURSES		776,527	1,108,949
TRACK SAFETY/MAINT.		209,235	413,455
CMC HORSEMENS PROGRAMS		42,895	0
LOU-5 - SYMPOSIUM		3,805	3,805
MINI SATELLITE FUNDS		446,233	503,359
CAPITAL IMPROVEMENT FUND		150,560	74,884
Total Current Liabilities		2,576,383	2,660,929
Non-Current Liabilities			
CHRIMS FUNDS		92,348	91,766
CHANGE FUND		1,014,000	1,014,000
FAIRS - EQUIP REPLACEMENT FUNDS		1,479,396	2,046,868
Total Non-Current Liabilities		2,585,744	3,152,634
TOTAL LIABILITIES		5,162,127	5,813,563
Net Assets			
FUND EQUITY		774,348	969,806
F&E Net Assets		100,156	150,234
NET INCOME/LOSS		(48,984)	(29,598)
Total Net Assets		825,520	1,090,442
TOTAL LIABILITIES & NET ASSETS		5,987,647	6,904,004

California Authority of Racing Fairs
Agency Income Statement
March 31, 2013

	2011 Year End Actual	2012 Year End Actual	2011 YTD Actual	2012 YTD Actual	2013 YTD Actual	2013 Annual Budget	2013 Budget Variance	2013 % Budget
Revenue:								
Other Revenue	981	82	0	15	20,000	20,000	0	100%
Interest Income	14,756	9,141	2,229	1,034	212	15,000	(14,789)	1%
Member Dues	288,330	270,062	73,228	97,345	66,389	265,555	(199,166)	25%
CARF South Prog Admin Fee	18,333	18,841	4,033	4,978	4,314	19,986	(15,672)	22%
CARF Projects Admin Fee	442,753	0	0	0	0	0	0	0%
CARF Live Racing Admin Fee	157,607	138,147	89,044	6,108	10,361	142,277	(131,916)	7%
CARF @ Leased Facility Rev	0	0	0	0	0	0	0	0%
Total Revenue	922,760	436,272	168,533	109,480	101,275	462,818	(361,543)	22%
Expenses:								
Salaries	310,701	250,529	66,062	52,333	37,650	169,215	131,565	22%
Employee Benefits	41,866	27,265	8,688	8,145	6,267	19,321	13,054	32%
Post Retirement Benefits	35,083	44,884	8,706	8,846	9,541	45,000	35,459	21%
Payroll Taxes	14,970	7,171	4,757	3,885	2,917	8,075	5,158	36%
Accounting Costs	23,384	16,579	5,688	4,063	4,063	16,250	12,187	25%
Audit Services	8,925	9,485	0	0	0	6,375	6,375	0%
Automobile Expense	3,251	7,690	423	1,932	36	7,000	6,964	1%
Contracted Services	3,574	11,770	1,305	964	8,770	4,500	(4,270)	195%
Depreciation	12,634	17,369	0	3,164	5,125	19,986	14,861	26%
Dues & Subscriptions	1,819	2,640	202	1,021	846	2,700	1,854	31%
Insurance Expense	38,772	44,196	9,277	10,737	11,674	45,000	33,326	26%
Legal Expenses	8,009	37,126	1,845	3,525	30,570	15,000	(15,570)	204%
Legislative Expenses	56,144	53,344	14,073	14,039	13,979	50,000	36,021	28%
Meetings Expense	3,782	2,189	1,215	730	854	3,000	2,146	28%
Misc. (Ag Day Sponsor)	51	326	0	83	68	0	(68)	0%
Office Supplies	27,362	31,394	5,135	8,699	3,913	25,000	21,087	16%
Postage & Shipping	3,960	3,849	541	1,030	456	3,600	3,144	13%
Rent (Tribute Road)	35,770	35,770	11,923	8,942	8,942	35,770	26,828	25%
Telephone Expense	11,451	9,481	3,099	2,255	2,017	10,000	7,983	20%
Agency Income (Loss)	255,965	(203,902)	23,918	(31,084)	(48,625)	(49,474)	849	
Southern Prog Income (Loss)	4,160	8,444	4,212	1,486	(358)	2,814	(34,516)	
Total Bal Sheet Net Income (Loss)	260,125	(195,458)	28,130	(29,598)	(48,984)	(46,660)	(33,667)	

California Authority of Racing Fairs
Southern Region Income Statement
March 31, 2013

	2011	2012	2011	2012	2013	2013	2013	2013
	Year End	Year End	YTD	YTD	YTD	Annual	Budget	% Budget
	Actual	Actual	Actual	Actual	Actual	Budget	Variance	
Program Revenue:								
Program Sales	254,468	262,545	63,820	66,386	57,517	266,475	(208,958)	22%
Other Revenue	0	0	0	0	0	0	0	0%
Royalties/Fees Due Host	(231,975)	(235,260)	(55,575)	(59,922)	(53,562)	(243,675)	190,113	22%
Total Revenue	22,493	27,285	8,245	6,464	3,956	22,800	(18,844)	17%
Expenses:								
Legal Expenses	0	0	0	0	0	0	0	0%
Meetings Expense	0	0	0	0	0	0	0	0%
Misc Exp.(Storage)	0	0	0	0	0	0	0	0%
Office Supplies	0	0	0	0	0	0	0	0%
Paper Expense	0	0	0	0	0	0	0	0%
Postage & Shipping	0	0	0	0	0	0	0	0%
Printing Supplies	0	0	0	0	0	0	0	0%
Rent & Utility Expenses	0	0	0	0	0	0	0	0%
Repairs & Maintenance	0	0	0	0	0	0	0	0%
Telephone Expense	0	0	0	0	0	0	0	0%
Travel Expense	0	0	0	0	0	0	0	0%
Total Expenses	0	0	0	0	0	0	0	0%
Operating Income (Loss)	22,493	27,285	8,245	6,464	3,956	22,800	(18,844)	17%
CARF Admin Fee	18,333	18,841	4,033	4,978	4,314	19,986	15,672	22%
Rebate								
Income (Loss)	4,160	8,444	4,212	1,486	(358)	2,814	(34,516)	-13%

[illegible]

**California Authority of Racing Fairs
Live Racing Income Statement
March 31, 2013**

	2011=58dys		2012= 61days					
	2011	2012	2011	2012	2013	2013	2013	2013
	Year End	Year End	YTD	YTD	YTD	Annual	Budget	% Budget
	Actual	Actual	Actual	Actual	Actual	Budget	Variance	
Revenues:								
Change Fund Admin Fee	5,161	9,392	0	1,088	1,061	12,000	(10,939)	9%
Racing Fairs Admin Fee	69,945	79,644	6,544	8,046	9,300	95,277	(85,977)	10%
Consolidated Purses Admin Fee	82,500	45,000	82,500	0	0	35,000	(35,000)	0%
NCOTWINC Reimbursement	29,000	25,000	0	0	0	25,000	(25,000)	0%
Racing Fairs Reimbursement	932,602	1,063,471	87,248	107,284	124,856	1,270,360	(1,145,504)	10%
Advertising Revenue	2,500	4,100	0	0	0	4,000	(4,000)	0%
Total	1,121,708	1,226,607	176,292	116,418	135,217	1,441,637	(1,306,420)	9%
Expenses:								
Salaries	275,424	362,294	50,778	61,156	75,959	419,004	343,045	18%
Employee Benefits	48,505	41,443	11,555	10,121	14,240	55,684	41,444	26%
Payroll Taxes	12,669	15,317	3,698	2,172	4,205	24,647	20,442	17%
Accounting Costs	42,255	49,394	10,567	12,192	12,296	48,750	36,454	25%
Audit Services	16,575	17,615	0	0	0	19,125	19,125	0%
Automobile Expense	0	40	0	30	0	1,000	1,000	0%
Dues & Subscriptions, NTRA	0	0	0	0	0	0	0	0%
Insurance Expense	0	0	0	0	0	0	0	0%
Legal Expenses	605	811	0	811	0	5,000	5,000	0%
Meetings Expense	740	870	85	136	509	2,000	1,491	25%
Misc. Exp (Storage,Bank fee)	0	339	0	0	0	0	0	0%
Telephone Expense	3,051	5,794	539	704	1,194	5,000	3,806	24%
Travel Expense	34,340	40,923	1,129	2,167	733	40,000	39,267	2%
Sub-Totals	434,164	534,841	78,352	89,489	109,135	620,210	511,075	18%
Racing Support Services:								
Announcer	17,850	22,800	0	0	0	23,850	23,850	0%
Condition Bk/Program Cover	15,748	15,575	0	0	159	20,000	19,841	1%
Racing Operations Support	57,834	79,596	1,978	1,792	3,305	65,000	61,695	5%
TC02 Testing	6,940	6,915	0	0	0	7,500	7,500	0%
Marketing/Web Devel	160	120	70	30	30	3,000	2,970	1%
Paymaster Operations	6,044	7,383	753	1,886	700	7,500	6,800	9%
Supplies	11,296	13,326	170	451	1,274	15,000	13,726	8%
Tattooing	18,901	16,313	2,153	1,939	1,473	20,000	18,527	7%
Timing/Clocker	0	0	0	0	0	0	0	0%
Transportation	1,711	1,915	0	0	0	3,500	3,500	0%
TV Production/Simulcast	74,701	42,916	0	6,250	6,250	46,350	40,100	13%
Racetrack Safety & Maint.	0	0	0	0	0	104,000	104,000	0%
Sub-Totals	529,938	553,619	8,897	20,821	15,721	679,150	663,429	2%
Total Expenses	964,102	1,088,459	87,248	110,310	124,856	1,299,360	1,174,504	10%
CARF Admin Fee	157,607	138,147	89,044	6,108	10,361	142,277	131,916	7%

Racing Fair

Financial

Highlights 2012



Total Conventional & ADW Handle

\$125 million

Revenue Distributed by CARF

\$26 million

Total Commissions

\$5.9 million

Total Purses

\$7.2 million



	Total	PLN	SAC	SR	FER	STK	FNO
Revenue							
Takeout & Other Revenue	25,534,120	6,661,347	3,767,148	6,652,190	1,667,949	2,829,696	3,955,790
Commissions							
Total Commissions	5,906,506	1,558,336	890,101	1,311,189	545,023	653,881	947,976
Purses							
Total Purses	7,246,134	1,894,882	1,142,729	1,898,668	455,472	759,582	1,094,801
Distributions							
F&E Fund 19614d/License Fees	206,482	54,053	21,368	55,456	12,217	25,311	38,077
F&E Recapture	31,797	8,654	4,612	8,573	1,706	3,132	5,120
CHRB Support	403,131	110,172	58,381	108,520	21,601	39,644	64,813
Commingle Guest O/S	5,070,998	1,366,569	605,760	1,561,356	227,325	485,802	824,186
Interstate Host	894,616	234,117	145,284	226,444	43,132	120,887	124,752
Location Fee	1,500,929	382,358	253,760	381,884	91,525	179,955	211,447
Promotion	141,931	35,833	22,742	37,276	7,477	17,597	21,006
City/County	222,060	57,563	32,817	58,636	12,054	25,475	35,515
Stabling/Vanning	709,644	179,162	113,706	186,377	37,386	87,985	105,028
Equine Lab	67,292	17,444	9,945	17,768	3,653	7,720	10,762
Owners	49,037	12,640	7,173	12,890	2,700	5,696	7,938
Breeders	503,963	128,967	77,163	133,662	29,807	57,931	76,433
CHRIMS	28,386	7,167	4,548	7,455	1,495	3,520	4,201
Other ADW Distributions	279,129	51,172	34,740	84,459	28,404	36,243	44,111
NCOTW Simulcast Expense Fund	2,266,856	560,972	341,575	560,246	146,423	318,854	338,786



CALIFORNIA FAIRS SATELLITE NETWORK

PARI-MUTUEL HANDLE & DISTRIBUTIONS (LIVE & SIMULCAST)

1987-2011

Handle & Distributions Figures Do Not Include Adadvanced Deposit Wagering (ADW).

Detailed Distribution Report
01/01/1987 -
Date Range: 12/31/2011
Race Type: All Races
Hosts: All Hosts
Locations: All Locations
Tracks: All Tracks
Report By: Location
Location Types: California

Location	Handle	License Fee	CHRB Support Fee	F & E	City Tax	Equine	Workers Comp	Satellite Location	Expense Fund	Promotion	Chrims	Van Stable	Proxy Fees	Track	Purses	SB1072	Owners	Breeders Sires	To Out of State Tracks
Anderson	80,326,332	1,735,350	21,782	107,492	259,350	79,876	35,889	1,561,052	2,590,031	375,187	665	477,976	5	3,573,453	3,554,070	11,720	73,688	353,553	485,662
Bakersfield	332,889,862	7,195,451	80,071	286,427	1,078,953	324,000	144,536	6,521,346	11,585,888	1,898,923	3,119	1,870,351	27,400	14,786,473	14,721,231	46,641	253,305	1,432,857	1,560,638
Eureka	50,441,318	1,136,636	1,498	64,349	162,942	49,268	19,097	963,000	1,530,973	239,657	0	282,824	0	2,210,479	2,202,696	0	45,955	221,303	309,455
Ferndale	24,253,924	237,130	12,174	216,928	57,407	17,122	17,917	88,856	270,195	17,584	84	34,457	16	1,811,479	1,933,428	9,984	22,310	102,365	21,031
Fresno	538,571,201	11,525,428	119,225	1,627,752	1,750,322	468,796	207,180	8,371,971	14,577,681	2,180,333	2,722	2,092,976	19,666	27,777,158	28,296,042	71,522	464,513	2,248,679	1,919,004
Fresno Club One	57,316,755	536,659	42,092	40,307	187,477	57,332	62,799	1,139,563	2,208,314	230,978	1,612	422,308	11,622	2,887,194	2,897,736	23,633	34,404	287,018	593,630
Imperial	63,558	1,310	0	0	2	64	0	1,084	1,355	217	0	303	0	2,631	2,593	0	38	293	1,915
Lake Perris	427,495,310	8,809,745	280,714	299,350	1,392,429	427,509	349,298	8,443,556	12,964,749	2,143,619	6,266	2,969,499	32,690	20,302,762	20,177,793	126,913	325,512	2,051,114	2,747,504
Lakeport	100,835	1,281	0	33	0	101	0	1,737	2,522	347	0	608	0	4,258	4,304	0	61	462	2,680
Lancaster	449,439,696	10,276,825	287,994	284,420	1,469,915	449,030	302,550	8,907,423	14,124,713	2,793,460	6,872	3,177,612	51,612	20,600,824	20,448,357	117,243	330,302	2,070,048	2,524,441
Merced	131,242	1,623	0	41	0	131	0	2,309	3,535	462	0	808	0	5,700	5,721	0	81	611	3,377
Mobile Unit	2,578,629	81,157	0	2,675	2,952	2,518	0	50,882	73,558	19,517	0	17,032	0	92,785	90,371	0	2,414	9,890	4,888
Monterey	321,483,483	6,086,931	86,724	293,002	1,043,884	320,172	154,657	6,300,773	11,719,882	1,582,997	3,680	1,602,658	39,355	15,075,852	15,035,434	50,941	257,078	1,412,750	2,171,679
Paso Robles	790,507	16,733	0	108	176	791	0	14,170	17,078	3,045	0	4,087	0	34,178	33,705	0	535	3,652	18,335
Pleasanton	1,439,548,074	26,266,464	532,315	2,927,869	4,676,666	1,338,988	825,038	24,304,043	45,181,546	5,527,227	17,198	7,617,220	158,214	72,998,837	73,974,704	307,418	1,192,543	6,401,708	8,207,819
Pomona	1,715,548,666	38,591,766	1,259,981	4,527,320	5,612,065	1,511,154	1,220,104	25,793,425	39,541,328	6,195,668	27,963	9,659,712	215,284	93,034,165	94,470,984	518,753	1,449,127	7,788,438	8,650,237
Sacramento	1,324,635,197	23,159,271	357,089	1,862,194	2,312,092	1,212,454	704,952	20,763,303	38,722,144	4,802,672	11,743	5,873,365	71,154	71,752,423	71,419,207	183,177	900,007	7,183,355	6,833,502
San Bernardino	1,386,571,292	35,601,264	532,143	819,773	4,534,633	1,384,410	652,918	27,436,466	42,104,794	9,723,308	11,960	9,938,707	65,693	61,023,804	60,350,493	233,765	1,094,863	6,116,804	5,850,656
San Jose	1,100,491,878	18,574,360	418,399	1,063,714	3,580,078	1,097,416	650,709	21,638,622	41,552,108	5,066,391	16,574	6,029,697	207,780	52,105,055	52,182,653	242,133	849,580	4,966,150	7,703,544
San Mateo	256,109,303	837,529	908,765	217,438	840,638	256,111	472,980	5,165,625	9,929,623	954,813	33,624	2,563,299	271,320	12,819,269	12,867,715	528,458	152,083	1,360,120	3,437,649
Santa Barbara	305,518,466	8,556,013	17,756	273,058	495,865	295,272	103,208	6,028,195	8,689,892	1,980,057	0	1,925,164	1,101	13,325,353	13,090,997	0	264,746	1,315,830	1,330,918
Santa Maria	241,413,382	6,252,744	87,383	210,121	787,001	236,904	103,347	4,758,888	6,885,375	1,490,336	1,493	1,611,461	3,326	10,690,951	10,530,839	27,883	203,092	1,072,886	1,140,910
Santa Rosa	661,991,173	13,118,803	186,913	1,961,396	2,153,748	584,091	322,581	9,754,458	18,336,772	2,337,627	5,188	2,798,135	49,600	35,146,399	35,900,668	113,906	560,017	2,841,800	3,024,369
Shalimar (Indio)	296,321,883	7,984,659	107,392	162,512	967,720	295,810	134,188	5,844,043	8,452,383	2,119,676	2,263	2,214,636	1,905	12,914,178	12,730,672	54,849	243,544	1,301,389	1,276,367
Sonora	151,478	2,191	0	19	0	151	0	2,636	3,394	558	0	903	0	6,581	6,671	0	116	680	3,659
Stockton	745,344,897	14,059,003	215,688	1,347,579	2,425,929	695,804	392,985	13,406,071	24,846,497	3,124,640	7,767	3,664,931	89,256	36,579,378	36,825,755	122,654	602,297	3,270,737	4,146,346
Surfside Race Place	2,276,102,789	59,597,875	942,197	988,188	7,427,714	2,273,020	1,073,728	44,893,519	63,720,400	15,498,650	21,001	17,328,335	120,507	99,418,199	97,987,455	403,728	1,897,237	10,185,620	11,833,875
Tulare	125,718,798	2,593,228	40,135	148,980	405,778	125,313	56,532	2,447,118	4,211,680	601,268	1,348	784,119	2,193	5,593,650	5,569,079	24,303	109,921	556,833	778,061
Turlock	177,509,805	2,753,210	95,868	193,246	572,104	177,425	122,780	3,453,798	5,917,010	682,901	3,185	1,331,506	1,785	8,463,774	8,476,923	56,466	151,962	838,700	1,577,598
Vallejo	617,363,414	11,094,894	197,832	1,396,380	1,259,100	561,746	345,063	10,267,781	20,092,206	2,396,382	7,412	3,001,104	99,222	32,261,765	32,731,278	119,662	497,708	2,721,119	3,546,622
Ventura	1,040,507,473	25,678,695	522,770	739,757	3,396,556	1,039,373	529,195	20,559,521	30,709,799	6,600,249	11,347	7,522,199	46,630	47,117,735	46,548,065	205,571	848,722	4,694,887	5,577,424
Victorville	305,484,368	7,090,111	122,268	190,910	998,379	305,229	185,341	6,044,453	9,693,570	1,897,966	2,929	1,999,574	31,993	13,949,882	13,857,336	55,189	223,955	1,392,410	1,638,781
Yuba City	137,875	1,998	0	26	0	138	0	2,329	3,183	501	0	800	0	5,843	5,825	0	111	591	4,032

TOTALS	16,302,352,865	349,456,337	7,477,167	22,253,364	49,851,874	15,587,519	9,189,572	294,932,014	490,264,178	82,487,215	208,014	98,818,367	1,619,331	788,372,463	788,930,799	3,656,513	13,051,827	74,204,650	88,926,609
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Madison Investment Advisors, LLC

Our Goal: We have managed fixed income portfolios for clients for 37 years through many different market environments. Using our knowledge of fixed income markets and interest rate trends, our goal is to participate in strong market environments and protect our clients' assets in difficult markets.

Our Process: We are an active, intermediate, high-quality bond manager. Our fixed income philosophy is designed as a core strategy for those seeking consistent investment returns, while minimizing portfolio risk. Our active strategies attempt to optimize the returns available in bonds by assessing the changes in interest rates and the outlook for credit markets. Using our proprietary indicators, we actively manage the portfolio duration, maturity structure, sector exposure and credit quality to take advantage of key opportunities. We use our indicators to capture higher yields and potential capital gains and to warn us of threats to the markets. When indicated we will take actions necessary to limit potential declines.

Our Focus: is on "short" to "intermediate" maturities, which have historically provided the best trade-off between risk and return. Average maturities of portfolios will generally be 5 or fewer years, with average durations between one and four years.

Quality: is important. Potential investments are limited to obligations of the United States Government, its Agencies, mortgage backed securities (where policy allows) and investment grade Corporate securities.

Investment Management Report: Fixed Income - Ltd Duration Gov/Corp

In This Report

Performance Review

Second Quarter 2013 Market Discussion
Account Performance

Investment Strategy

Outlook & Discussion

Portfolio

Portfolio Holdings
Footnotes/Disclosure

June 30, 2013

California Fair Services Authority

Second Quarter 2013 Fixed Income Market Discussion

Protecting capital proved to be a rewarding fixed income strategy in the second quarter. Intermediate investment grade bond returns entered negative territory for the first time since the fourth quarter 2010, while longer and lower quality bonds dropped dramatically. Investors interpreted Federal Reserve comments to mean emergency quantitative easing may soon diminish. In response, interest rates shifted significantly higher as market participants reexamined valuations, given prospects for reduced Fed intervention. This move suggests investors are starting to believe the economy is positioned for sustainable (albeit slow) growth and are beginning to consider economic fundamentals. We continue to caution investors to remain attentive to the prevalent risks and plan to maintain our conservative portfolio positioning to help protect capital should yields continue to rise.

The upward movement in rates caused fixed income returns to fall into negative territory and equity returns to pause from their torrid first quarter pace. Benchmark returns for the quarter were as follows: 3-month Treasury bills, 0.03%; 1-5 year government/credit, -0.75%; intermediate government/credit, -1.70%; intermediate credit, -2.30%; intermediate municipals, -1.82%; and U.S. Aggregate, -2.32%. In contrast, the S&P 500 produced a 2.91% return during the second quarter. Bond returns were impacted by reduced liquidity in May and June as fixed income mutual fund flows turned negative for the first time since mid-2011. As a result, interest rates trended higher and corporate bonds provided incremental yield as risk premiums increased.

The U.S. economy continued to grow gradually as real GDP for the first half of 2013 remained around 2% and the employment situation improved marginally. Faster growth has thus far not materialized as limited wage gains restricted consumer spending and fiscal cuts related to the sequester resulted in lower government outlays. Exports also appeared to be held back by slower global growth and an appreciating U.S. dollar. On the flip side, consumer confidence was buoyed by a relatively strong housing market, favorable -year-to-date equity returns, an improving jobs market, and slightly better access to credit. Importantly, inflation remained below 2% with little threat of moving higher in the near term given tepid wage gains, weaker commodity prices, and slow global growth.

Federal Reserve comments about reducing quantitative easing later this year became the primary focus during the quarter and overshadowed news coming from other parts of the world. Unlike prior quarters, news of slower growth in China, the recession in Europe, and social protests in other parts of the world did not seem to overly influence markets. Emerging market volatility did escalate, however, as expectations for world economic growth were lowered. Europe remains mired in recession and growth estimates in Asia have declined sharply. As a result, investors retreated from these riskier markets causing rather large losses for those with exposure.

We believe real GDP will grow in excess of 2% during the second half of 2013 aided by stronger consumer confidence and reduced fiscal drag brought about by the sequester. We anticipate business confidence increasing as more clarity surfaces in regard to fiscal, regulatory, and tax issues. Similarly, consumer confidence should rise if the employment situation continues to strengthen and if we continue to see wealth expansion through gains in housing and stocks. Exports remain a vital source of sustained growth and we remain cautious about prospects for global economic activity, even as central banks around the world continue to provide easy monetary policy. The Fed's timing for reduced quantitative easing is especially difficult to gauge given the low level of inflation and below trend economic activity. As it stands, the Fed seems poised to reduce its monthly asset purchases in late 2013 and end the program by mid-2014 – subject of course to economic conditions.

We remain steadfast in our belief that interest rates are likely to trend higher over time and therefore favor the importance of portfolio positioning rather than short-term market performance. We believe fixed income markets should remain volatile as investors speculate about fading Fed intervention and recent performance causes a shift in retail exposure to fixed income. Increased volatility may also negatively affect riskier asset classes within the bond market as decreased investor demand lessens liquidity. From a relative return perspective, we anticipate a high-quality portfolio positioned with shorter-to-intermediate maturities and focused on industries and companies able to benefit from a slowly improving economy will perform best.

California Fair Services Authority

Fixed Income - Ltd Duration Gov/Corp

Period Ending June 30, 2013

Account Summary

Market Value, December 31, 2012	\$10,501,229
Investment Return	-65,757
Additions/Withdrawals	-13,137
Market Value, June 30, 2013	\$10,422,335

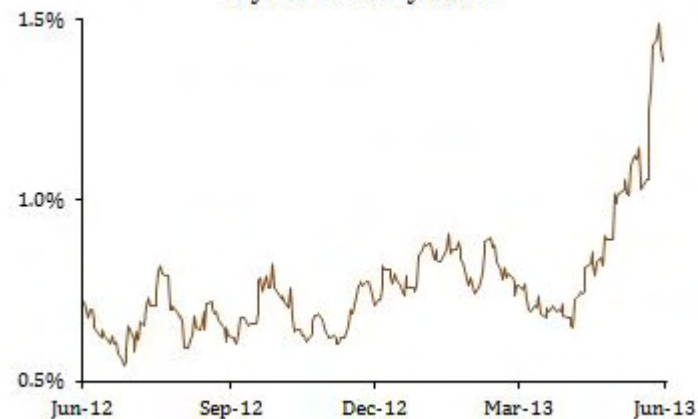
Performance

	Quarter To Date	Year To Date
Your Total Return	-0.85	-0.63
Comparison		
Merrill 1-5 Year Govt	-0.70	-0.55
Merrill 1-5 Year Govt/Corp	-0.81	-0.51
90 Day Treasury Bills	0.02	0.04

Your portfolio performed in-line with the Merrill Lynch Treasury/Agency 1-5 Year index during the second quarter as the shorter-than-benchmark positioning helped to shield market value from the full effect of increasing yields. Absolute return, however, was negative as the market value change brought about by the substantial upward shift in rates more than offset the portfolio's interest income. The Merrill Lynch Treasury/Agency index posted a -0.70% return during the second quarter.

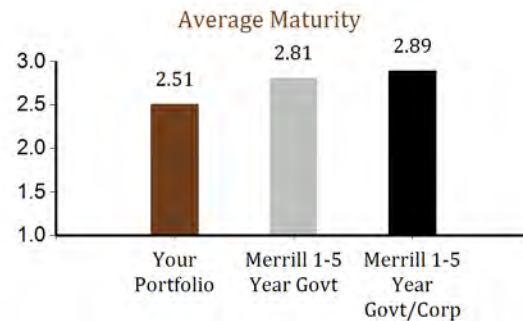
As you know, your portfolio has been conservatively positioned during the past few quarters in anticipation of yields trending higher. Although market value declines cannot be completely avoided during periods of considerable increases in yield, your portfolio's shorter-than-benchmark maturity profile acted to protect capital. On a positive note, volatility associated with market uncertainties offers the possibility for adding incremental income by positioning paper at better valuations. We have confidence in our expectation for yields to drift higher over time and therefore will work diligently to protect capital.

5-year Treasury Yield

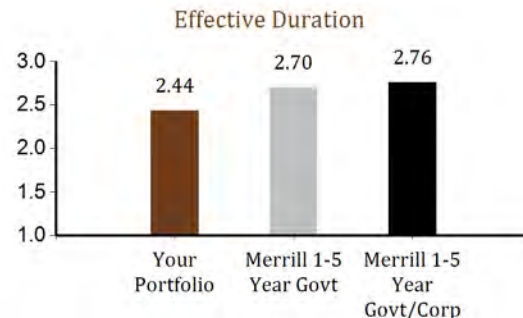


Portfolio Characteristics

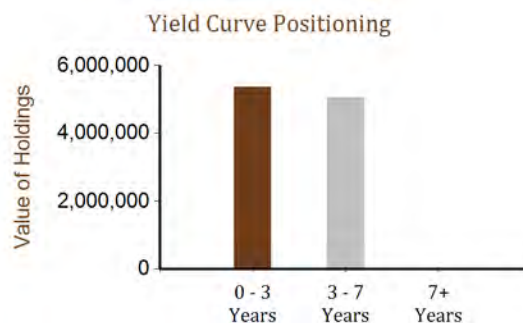
Average Maturity: 2.51 Years



Effective Duration: 2.44 Years



Yield to Maturity: 0.9%



Duration Strategy – Your portfolio was appropriately positioned for the rise in interest rates experienced during the second quarter. As you may recall, we positioned your portfolio to withstand an increase in yields, especially from the likely possibility of longer-term interest rates moving higher than shorter-term rates. Specifically, your portfolio was positioned with a slight overweight to three to four year maturities to take advantage of the higher yields available. Importantly, your portfolio had relatively little exposure to five year maturities.

Even though valuations have improved our models continue to suggest rates remain too low. The U.S. economy marched forward with noteworthy improvements in unemployment, housing, and consumer sentiment. Furthermore, the Federal Reserve has indicated it may begin withdrawing market support in late 2013 and perhaps end its purchase program by mid-2014. Two wildcards causing us concern are the eventual timing of diminished Fed intervention given low inflation along with the potential impact of slower global economic growth. Nevertheless, we remain convinced that yields are apt to move higher over time rather than lower and therefore plan to maintain a shorter-than-benchmark duration.

Yield Curve Strategy – For the quarter, yields on Treasury bonds with maturities of two years and longer shifted higher. Specifically, the spread between 2- and 5-year Treasuries widened by 52 bps to 104 bps during the quarter, while the premium for 5-year Treasuries over 3-month T-bills widened by 67 bps to 136 bps. The steeper yield curve suggests market participants anticipate improving economic conditions.

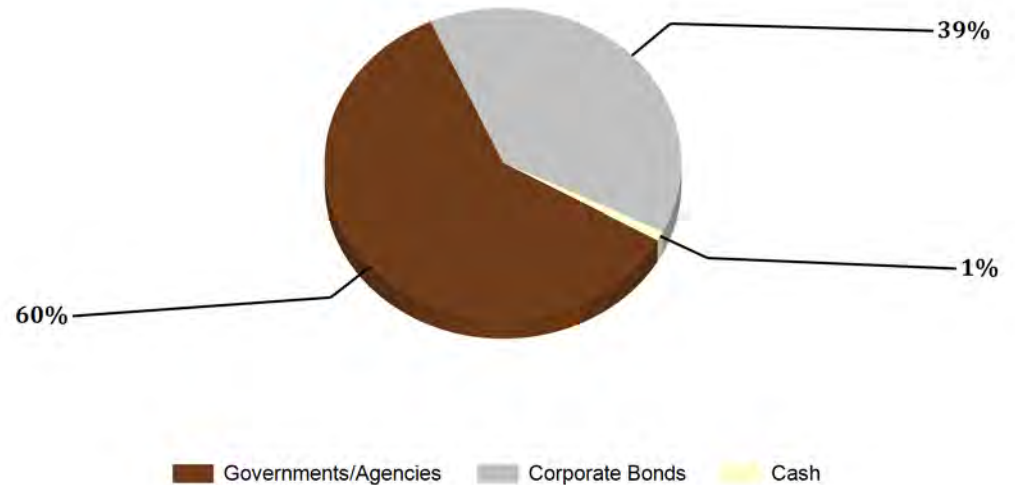
Short-term interest rates will likely remain near zero going into 2015 irrespective of when the Fed decides to scale back its monthly purchase program. However, longer maturities are prone to move higher as investors consider economic fundamentals in light of anticipated Fed policy actions and realign their perspective on market valuations. We believe the 5-year Treasury yield has room to move higher given the likelihood of increasing volatility, improving economics, and a reduction in the amount of longer-term Treasuries purchased by the Fed. In anticipation of yields on longer maturities shifting higher at a faster pace than shorter maturities, we believe your portfolio is best protected by positioning maturities in the short-to-intermediate part of the curve.

Portfolio Quality Distribution

U.S. Treasury Securities	34.9%
Government Agency Securities	25.5%
Corporate Bonds	
AAA - rated	0.0%
AA - rated	5.5%
A - rated	33.3%
BAA - rated	0.0%
Other	0.0%
Cash or Money Market	0.8%
	100%

Average Overall Portfolio Quality Aa2

Sector Distribution



Sector Strategy – Corporate bonds – Corporate spreads realigned to more reasonable valuation as liquidity weakened in the face of selling pressure caused by investors trying to flee the fixed income market. We see many segments of the corporate market approaching fair valuations. However, before buying at current levels we remain mindful of what may happen to spreads in the near-term. Continued selling pressure from existing investors coupled with new issuance by corporations attempting to refinance, appease shareholders, or finance an acquisition may cause spreads to move wider. We plan to monitor corporate valuations and opportunistically add credit exposure on a very selective basis.

Agency issues – The agency portion of the benchmark decreased -0.75%% during the past three months. Efforts are underway to replace Fannie Mae and Freddie Mac with a new independent entity. In March the Federal Housing Finance Agency decided to merge certain functions of the two mortgage financing giants into a new company. In June, legislation was introduced that could make this an eventual reality. Importantly, the legislation contained language which effectively provided a U.S. guarantee on outstanding agency debt. We plan to continue investing in agency paper as a low risk way of increasing portfolio yield.

Treasury bonds – The Treasury sector within the benchmark returned -0.69% during the quarter as interest rates drifted significantly higher. Fed comments sparked a move away from Treasury securities as investors attempted to minimize losses associated with the expectation rates would move higher as the Fed tapers its market support. Although our timing was a bit early, we correctly anticipated the direction of rates and positioned your portfolio accordingly. Treasury valuations have improved, but our models suggest rates remain depressed and are susceptible to further increases. We are positioning shorter maturity Treasuries and awaiting an opportunity to redeploy into slightly longer maturities.

**California Fair Services Authority
Fixed Income - Ltd Duration Gov/Corp**

HISTORICAL RETURNS & ASSET GROWTH

INCEPTION DATE: January 24, 1994

<u>Period</u>	<u>Investment Return</u>	<u>Gross % Return*</u>	<u>Additions/Withdrawals</u>	<u>Assets</u>
Beginning Value:				\$2,581,556
1994	-25,823 P	-1.02%	-767,256	\$1,788,478
1995	225,410	12.12%	387,189	\$2,401,077
1996	109,247	4.57%	-15,843	\$2,494,480
1997	163,148	6.56%	-16,668	\$2,640,960
1998	213,325	7.47%	381,306	\$3,235,591
1999	82,837	2.57%	-21,323	\$3,297,106
2000	254,959	9.53%	-1,019,317	\$2,532,748
2001	240,495	9.52%	-17,225	\$2,756,018
2002	199,088	7.25%	-18,421	\$2,936,685
2003	99,217	3.39%	-19,579	\$3,016,324
2004	46,232	1.54%	-19,880	\$3,042,676
2005	59,692	1.97%	-13,200	\$3,089,168
2006	139,773	4.54%	-12,451	\$3,216,489
2007	408,620	7.18%	3,381,075	\$7,006,184
2008	466,443	6.67%	-17,840	\$7,454,787
2009	251,877	3.47%	981,115	\$8,687,779
2010	330,533	2.98%	3,099,884	\$12,118,196
2011	239,089	2.32%	-2,026,759	\$10,330,526
2012	196,710	1.91%	-26,007	\$10,501,229
2013	-65,757 P	-0.63%	-13,137	\$10,422,335
	3,635,115		4,205,664	

P = Partial Year

* See Footnotes to Quarterly Report



ON THE PLUS SIDE . . .

- **Global economic activity remains sluggish.** Both the International Monetary Fund and World Bank recently reduced their respective global growth forecasts, citing the probable impact of high unemployment, especially in Europe. Additionally, central banks continue aggressive monetary easing, especially Japan which is desperately attempting to re-inflate its depressed economy.
- **As the Federal Reserve adjusts policy, volatility in the market may cause accelerated repositioning into less risky securities.** Much of the recent interest rate volatility is attributable to central bank comments, especially in the U.S. Although timing of the Fed's eventual reduction of quantitative easing is uncertain, yields on longer-dated Treasuries have risen to levels which may not be sustainable until Fed actions confirm they are in fact reducing market support.
- **Emerging market volatility is likely to increase demand for Treasury securities.** Slowing global demand has in part caused commodity prices to fall, thereby threatening growth prospects for many emerging market countries. In response, this has caused many investors to reduce allocation to sectors considered most risky. Typically, these assets are reallocated to safer classes such as Treasuries.
- **Inflation remains at the low end of the Fed's target allowing for a gradual adjustment to policy.** The Fed currently has considerable leeway in deciding when it may be best to reduce its asset purchase program given that core inflation is below 2%. This will likely keep interest rates from drifting towards valuations more indicative of economic fundamentals.

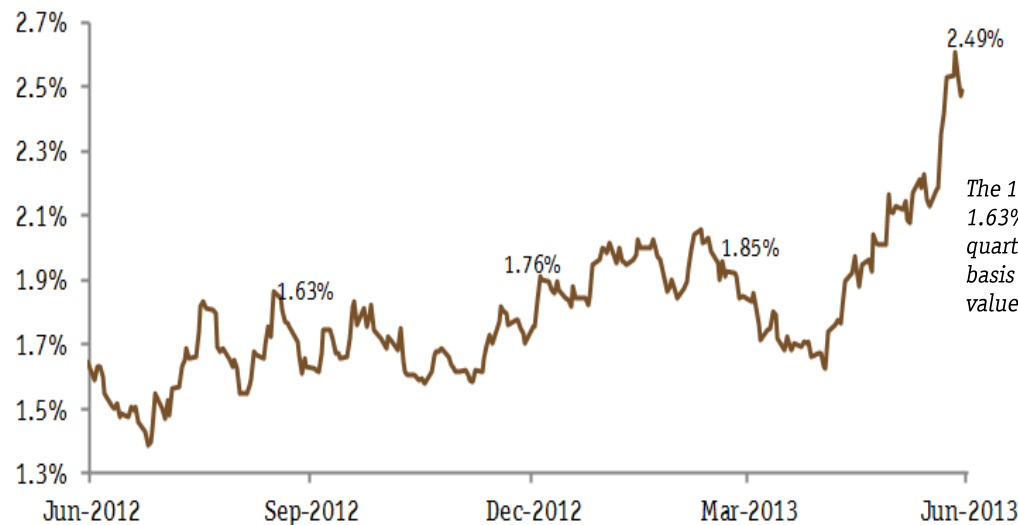
BUT KEEP AN EYE ON . . .

- **Improved consumer and business confidence should support further spending in retail sales and durable goods.** Confidence levels have increased during the past few months as clarity has been gained with respect to the employment situation, payroll tax increase, and sequester. In addition, a stronger housing market, job gains, and favorable year-to-date equity returns may generate the momentum necessary to sustain favorable economic growth.
- **Monetary policy is likely to be less accommodative over the next twelve months.** The Federal Reserve recently stated its market support is predicated upon U.S. economic and employment conditions. While short-term rates will likely remain near zero for the foreseeable future, it is very possible for longer-term interest rates to continue trending higher in anticipation of diminished Fed intervention.
- **The massive inflows into bond funds during the past four years appears to be drawing to a close and any selling will probably be met with little demand.** The three decade old bull market in bonds has shown signs of reversal as mutual fund flows recently turned negative. Investors have begun to transition into asset classes with higher prospects for return given expectations for improved U.S. economic growth and favorable corporate earnings growth.
- **Broker/dealers have limited ability to position fixed income inventory which affects liquidity.** Banking regulations put into place during the financial crisis have severely reduced banks' capacity for positioning bonds. If more investors begin transitioning out of bonds, prices will need to adjust lower to accommodate selling pressures.

ON BALANCE . . . The market appears to be in the very early stages of adjusting toward fundamental valuations and away from central bank manipulation. The economy currently appears self-sustaining, although the pace of growth continues to be below historical levels. The need for accommodative monetary policy is less today given an improving employment situation and mostly favorable economic reports. Currently, the market appears to be in the process of adjusting to more normal levels as evidenced by the recent upward trend in interest rates. Yields on longer maturities have historically trended higher as economic conditions improve with the magnitude of the interest rate change generally influenced by investors' perception of valuations. We continue to believe the Treasury market is overvalued and therefore plan to maintain our overweight of short-to-intermediate maturities to protect capital. We expect a more volatile environment in the coming quarters and as valuations move toward more attractive levels, we will look for an opportunity to add incremental income. Lastly, we anticipate corporate bonds may cheapen as liquidity concerns become the basis for market adjustments. As this potential opportunity unfolds we plan to selectively add high-quality issuers to the portfolio.



10-year U.S. Treasury Yield Trailing Twelve Months



Source: Bloomberg

Range of 10-year Treasury Yields during each Quarter

	3Q12	4Q12	1Q13	2Q13
High:	1.87%	1.84%	2.06%	2.61%
Low:	1.39%	1.58%	1.76%	1.63%
Close:	1.63%	1.76%	1.85%	2.49%

Second Quarter Economic and Market News

Positive:

- The housing market continues to improve as evidenced by home price appreciation, new housing starts/permits, and fewer distressed home sales.
- Consumer confidence rose to its highest level during this economic cycle; business confidence has also improved.
- The economy is adding just shy of the 200,000 jobs per month considered necessary for sustainable economic growth.
- Household net worth rose to a record \$70+ trillion in the first quarter, bolstered by gains in financial assets and real estate holdings.

Challenging:

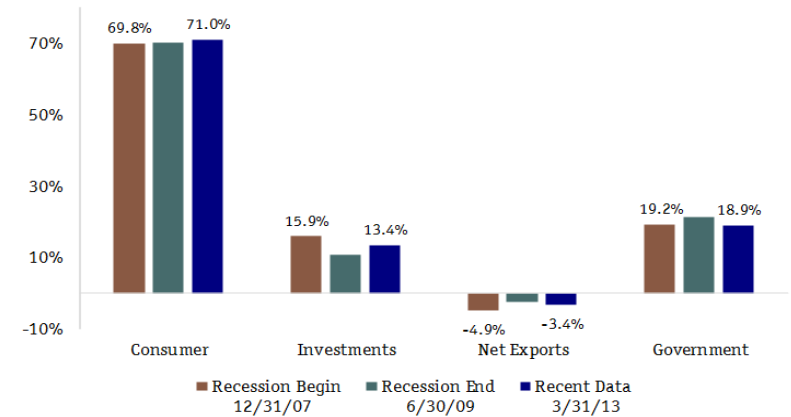
- The Bank of Japan announced plans for a highly aggressive quantitative easing program to re-inflate its depressed economy.
- Europe continues to suffer through its recession while policy remedies remain elusive; the European Central Bank cut its benchmark interest rate.
- Treasury market volatility has increased given the uncertainties surrounding the Fed's next policy action, specifically the timing of tapering QE.
- Many of the new jobs added in the U.S. are lower paying occupations.
- Geopolitical activities in North Korea and Egypt gained increased attention.

Consumers and businesses have contributed towards GDP growth while government spending has declined...

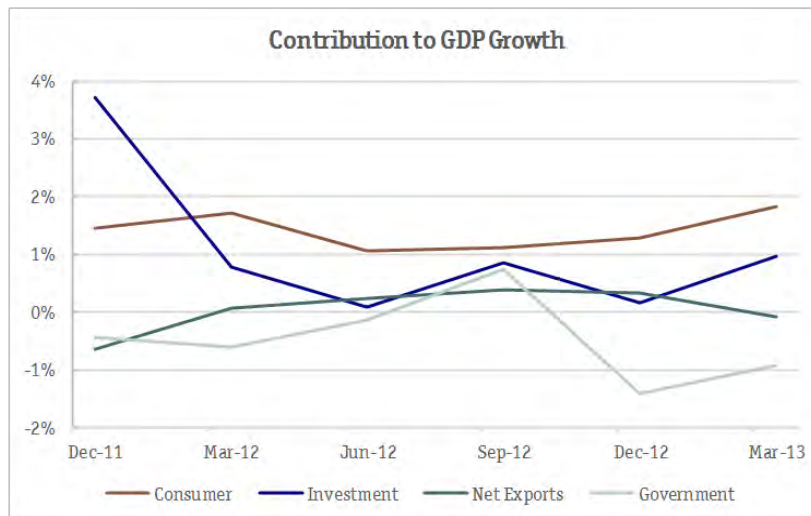
Since the financial crisis the U.S. economy has grown slowly as consumers and businesses have taken a cautious approach to spending. As shown at right, consumers have remained fairly resilient and currently account for over 70% of GDP. The chart at bottom left depicts this consumer growth as well. Business investment is rebounding, with increased durable goods orders, residential construction, and other business consumption. Somewhat atypical for this point in the economic recovery is government spending (as a percentage of GDP) which has been decreasing for the past two years.

The below trend GDP growth experienced since 2008 may be partially attributable to the lack of growth in real personal income. As shown at bottom right, personal income has yet to fully recover to pre-recession levels. Nevertheless, consumers are likely to increase spending given housing market strength, stock market gains, job gains, higher household wealth, and improving access to credit.

**Percent of Gross Domestic Product
Comparison of Financial Crisis to Current Data**



Contribution to GDP Growth



Real Personal Income (Less Transfer Payments)



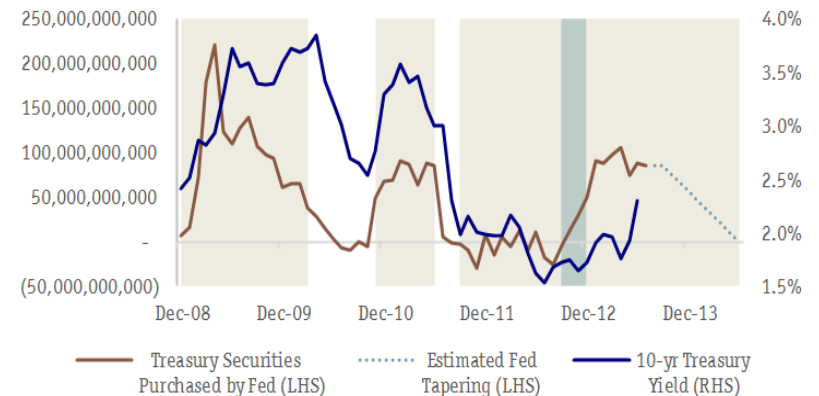
The Fed is likely to begin tapering later this year unless economic data disappoints...

The Federal Reserve has manipulated U.S. financial markets since the beginning of the financial crisis in 2008, employing five asset purchase programs generically referred to as quantitative easing. As seen in the chart at right, the downward movement in rates has coincided with the Fed's purchase of Treasury securities. The recent rise in interest rates was primarily due to the Fed's announced intention to reduce the amount of securities purchased each month. Assuming the Fed begins tapering later this year, it is conceivable that the program may completely end by mid-2014 as illustrated by the dashed line. As this occurs, we anticipate interest rates will move higher.

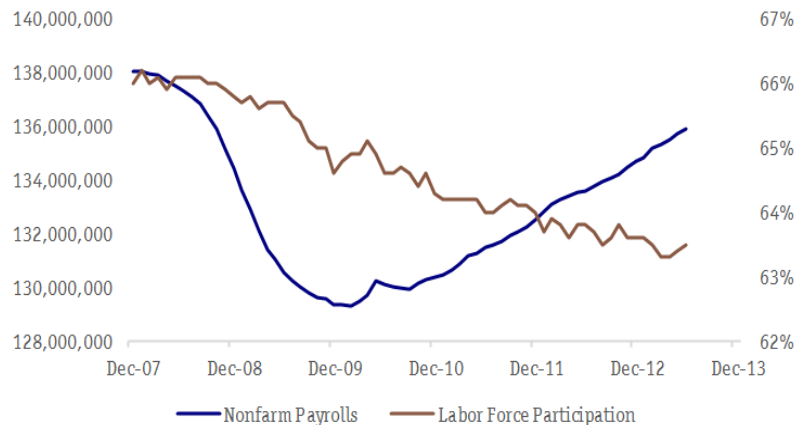
According to the Fed, the timing of reduced asset purchases is uncertain and dependent upon the health of the U.S. economy and the global financial situation. Importantly, the Fed remains concerned about the employment situation, especially the steady decline in the labor force participation rate (chart at bottom) which has contributed towards the decline in unemployment.

Eventually the Fed will find it necessary to tighten credit by raising the Fed Funds rate. As shown at bottom right, this may put further pressure on 10-year yields to maintain the historical 2.0% to 2.5% spread between short-term and longer-term rates which exists primarily due to inflation expectations.

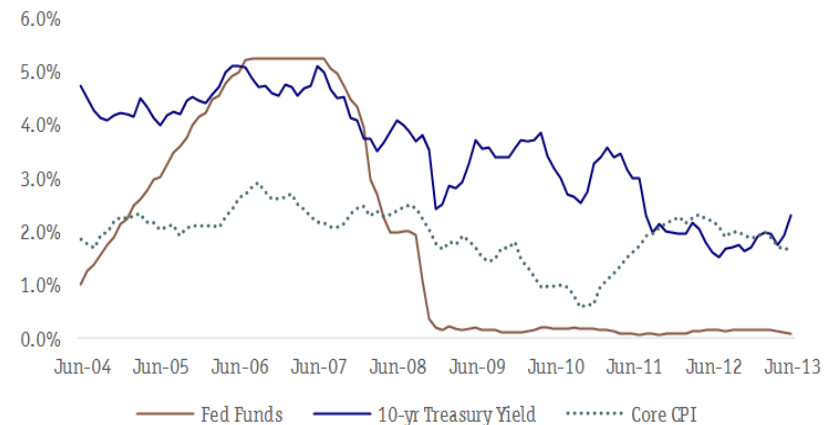
Federal Reserve Purchases of Treasury Notes and Bonds and the Impact on the 10-yr Treasury Yield



Nonfarm Payrolls and Labor Force Participation



Fed Funds, 10-year Treasury Yield and Core CPI

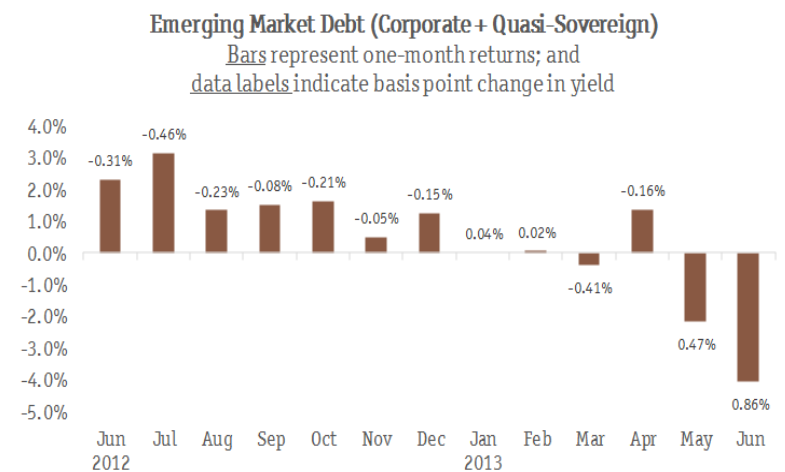
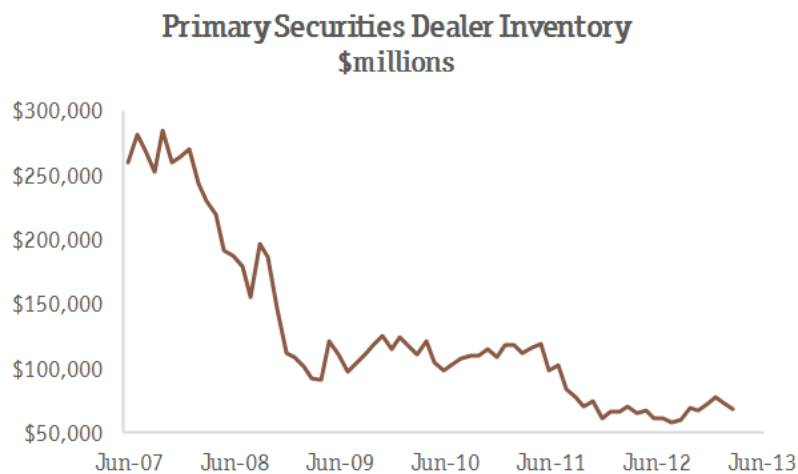
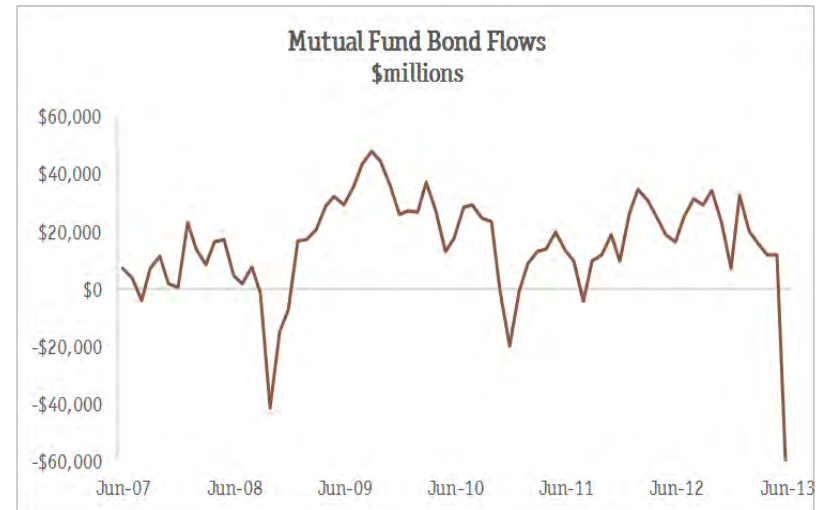


Many investors reduced fixed income exposure, causing market value declines, especially within emerging markets...

As interest rates rise, mutual fund investors tend to reduce fixed income exposure. This can be accomplished in a number of ways including shifting to shorter maturities, holding higher quality bonds, and/or reducing allocation to fixed income. Regardless of the method employed, market levels generally respond by moving toward lower valuations (e.g. higher yields) due to increased supply without an offsetting increase in demand.

As shown at right, fixed income mutual fund flows turned negative for the first time in almost two years—the outflow was approximately \$60 billion. Prior to the financial crisis, securities dealers would typically buy many of the bonds being sold. However, regulations introduced in response to the financial crisis have greatly reduced the amount of securities these institutions are able to purchase due to capital constraints.

As shown in the chart below, dealer inventories are an estimated 25% of the amount held prior to the financial crisis. Lastly, the carnage caused by investors attempting to “escape” from riskier emerging markets can be seen in the chart at bottom right. What was a popular investment in 2012 turned out to be very disappointing in the second quarter as risk premiums widened and market values declined significantly.



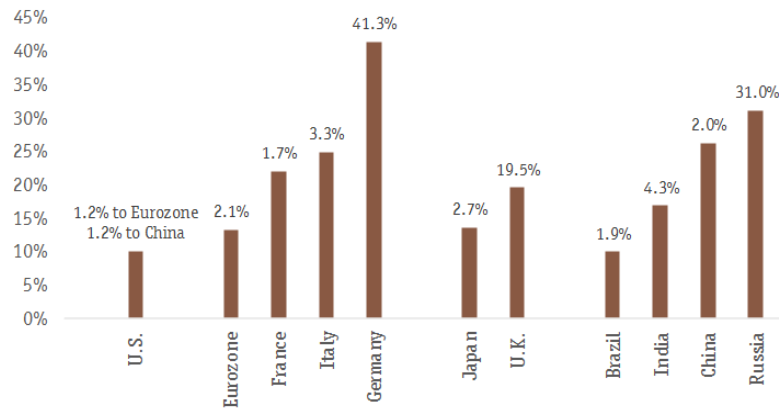
The U.S. may be in an enviable position given it is less dependent upon exports for economic growth...

As seen in the chart at right, global growth has slowed somewhat during the past couple of years and economists estimate growth will remain sluggish for the foreseeable future due to the European recession and slower growth in emerging markets, especially China.

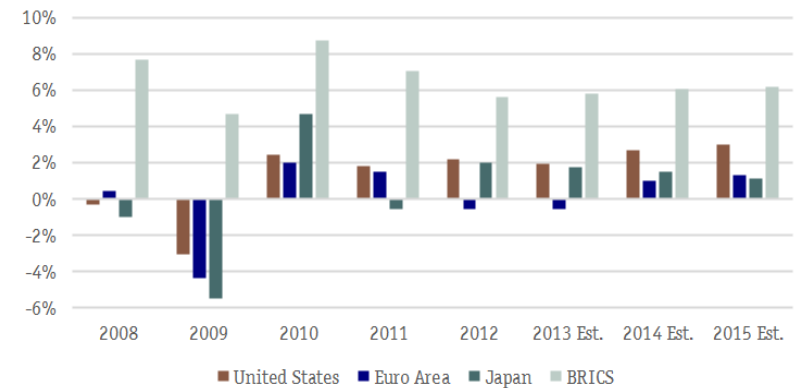
Fortunately, U.S. economic growth is not overly dependent on exports as shown in the chart at bottom left — exports contribute approximately 10% of GDP. In comparison, other parts of the world are highly dependent upon exports as a major source of growth (e.g. 41% for Germany).

One source of concern for U.S. economic growth is the appreciation of the U.S. dollar which makes our goods more expensive for foreign countries. In other words, an appreciating dollar may reduce the U.S.'s ability to increase exports. Somewhat counterbalancing this may be reduced imports due to the nation's improving domestic oil supply. This story will further play out should interest rates continue to rise given that the U.S. dollar would tend to appreciate in the short-term as rates increase because investors would be increasingly attracted to the higher yields available in U.S. dollar-denominated securities.

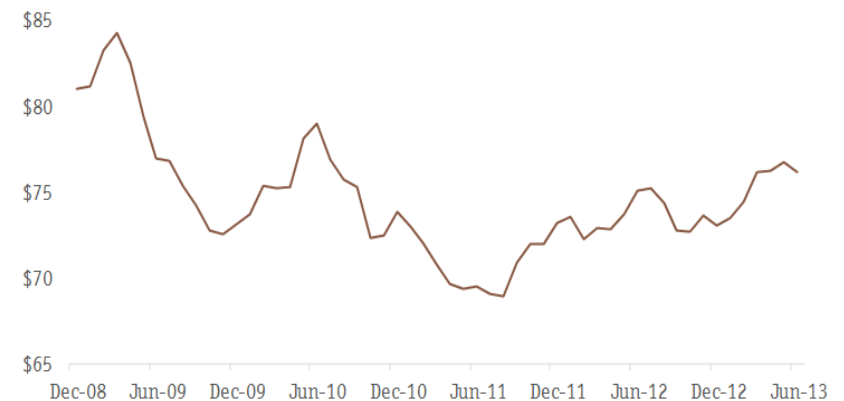
Exports as a % of Gross Domestic Product
(data label above bars represents exports to U.S.)



Real Gross Domestic Product Growth
Comparison of Developed and Developing Economies



Trade Weighted U.S. Dollar Index
versus Major Currencies

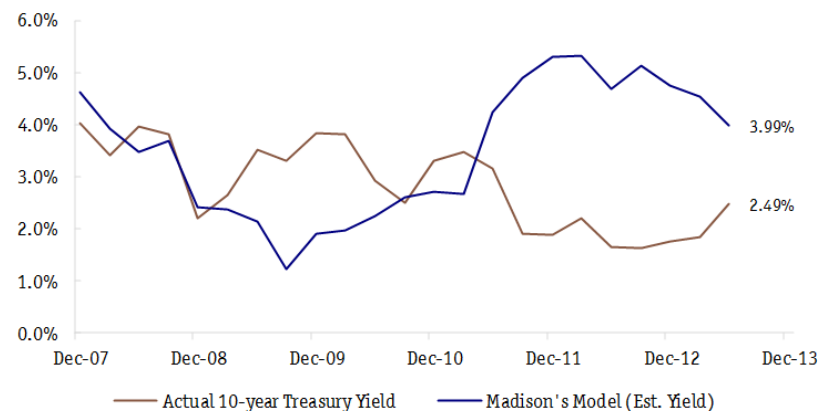


Our valuation models suggest Treasury rates remain too low and corporate bond valuations have improved...

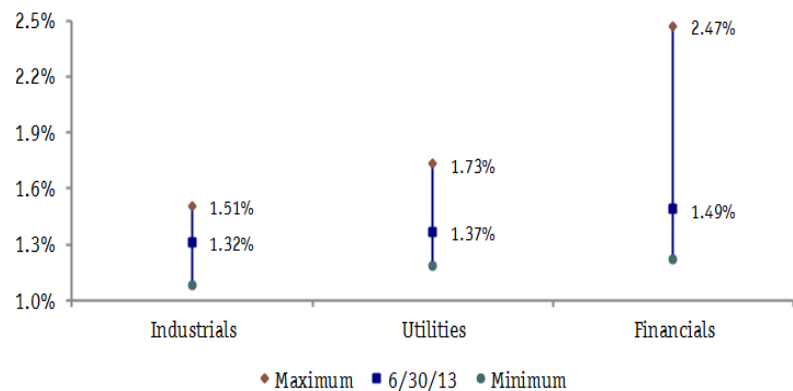
Our valuation work has a long history of explaining the level of U.S. Treasury yields as evidenced by internal data going back to the early 1990s. Statistically speaking the model successfully explains the level of interest rates 83% of the time. As shown at right, the model has been challenged since 2011 when the Fed intensified its market intervention—basically interest rate manipulation. As the Fed diminishes and eventually ends its asset purchase program, the very force currently keeping Treasury yields low will cease to exist. In our opinion, this is a good reason to maintain a cautious posture to protect against what we believe will be higher interest rates over time.

Corporate spreads (i.e. risk premiums) began to widen in May as many investors decided to reduce their fixed income exposure. As shown in the below chart, spreads in all sectors widened during the second quarter causing valuations to improve. Our corporate bond model (shown at bottom right) affirms that the relative value of corporate bonds is better today. We plan to monitor further market developments and as opportunities arise add well-researched corporate issues as allowed by portfolio constraints.

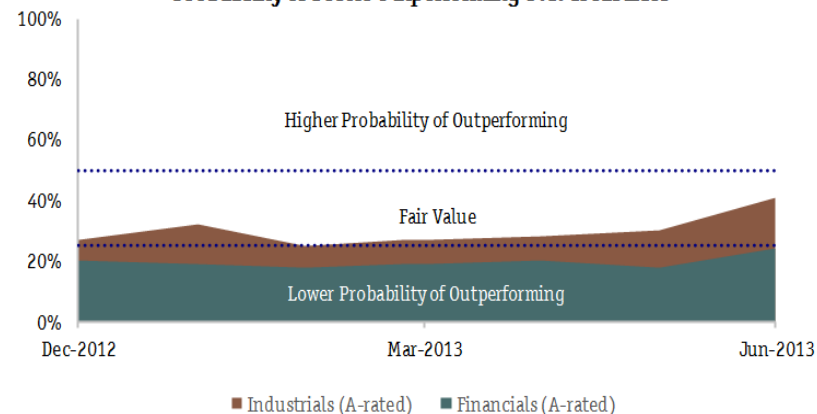
**Madison's Interest Rate Model
versus Actual 10-yr Treasury Yield**



**Corporate Bond Spreads by Sector
Range during the Past Twelve Months**



**Madison's Corporate Bond Model
Probability of Sector Outperforming U.S. Treasuries**





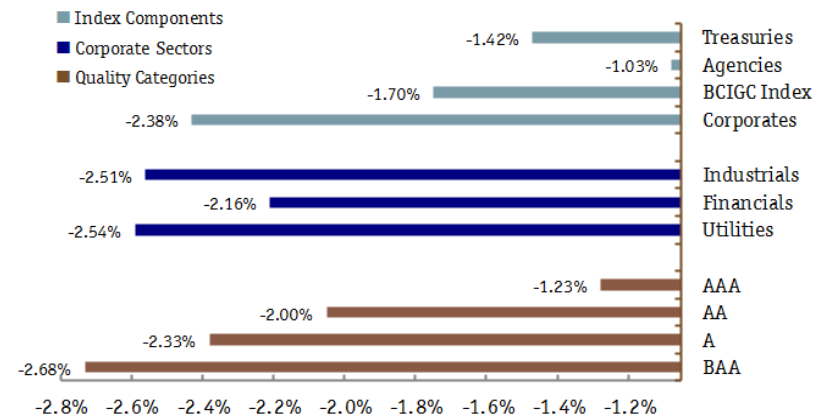
Investment grade fixed income posted negative results and risks remain, however cash flows can be reinvested at higher yields...

Performance of the investment grade bond market was negatively affected by rising interest rates. As shown at right, all sectors posted negative returns. Portfolios more conservatively positioned posted better relative returns, although absolute returns were still negative.

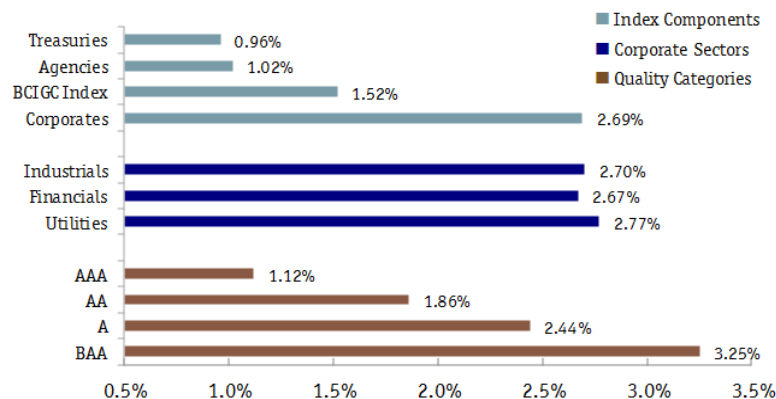
Amidst the disappointing absolute performance, the good news is cash flows can be invested at higher yields as shown in the below chart. During the second quarter available yields have increased by approximately 50 basis points. A majority of this yield change was driven by U.S. Treasury rates moving higher. For corporate bonds, the risk premium also edged wider as the supply of bonds available for sale escalated without a similar increase in demand.

Given our expectation for higher rates over time, we continue to encourage fixed income investors to remain patient with a conservatively positioned portfolio. The chart at bottom right illustrates the magnitude of possible losses should interest rates continue to rise. With extraordinary monetary easing fading in the near future, we believe now is an appropriate time to focus on protecting capital.

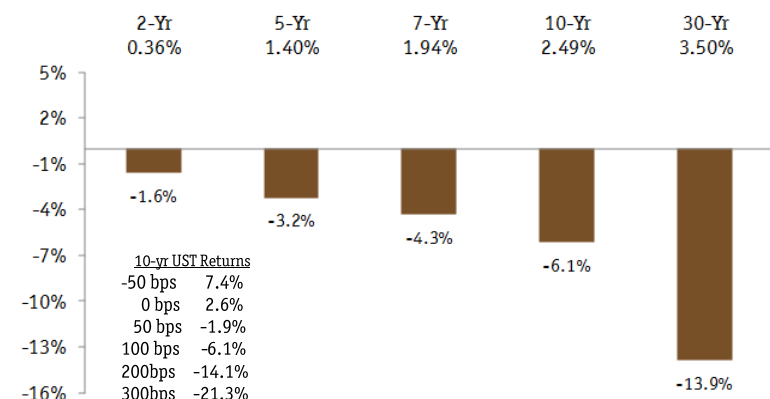
Total Return Comparison Second Quarter 2013



Yield to Maturity Comparison Second Quarter 2013



Impact of a 1% Increase in U.S. Treasury Rates (June 2013 to June 2014)



Source: Madison, Barclays, BondEdge





Madison Investment Advisors
PORTFOLIO APPRAISAL
California Fair Services Authority
Fixed Income - Ltd Duration Gov/Corp
June 30, 2013

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Cur. Yield
CORPORATE BONDS (USD)							
200,000	Berkshire Hathway 4.625% Due 10-15-13	107.63	215,258	101.18	202,363	1.9	0.6
100,000	National Rural Utility 4.750% Due 03-01-14	107.57	107,573	102.84	102,837	1.0	0.5
200,000	Eli Lilly & Co 4.200% Due 03-06-14	108.40	216,804	102.52	205,031	2.0	0.5
145,000	Bank of New York Mellon 4.300% Due 05-15-14	109.06	158,138	103.36	149,871	1.4	0.4
200,000	US Bancorp 4.200% Due 05-15-14	109.85	219,690	103.26	206,512	2.0	0.5
200,000	Proctor & Gamble 4.950% Due 08-15-14	111.33	222,657	104.99	209,985	2.0	0.5
200,000	Conocophillips 4.600% Due 01-15-15	112.02	224,038	106.03	212,058	2.0	0.7
200,000	Dupont EI Nemour 3.250% Due 01-15-15	102.88	205,762	104.02	208,039	2.0	0.6
52,000	BP Capital PLC 3.875% Due 03-10-15	104.08	54,122	105.03	54,616	0.5	0.9
275,000	American Express 1.750% Due 06-12-15	100.50	276,387	101.36	278,731	2.7	1.0
125,000	Sysco Corp 0.550% Due 06-12-15	99.45	124,311	99.94	124,923	1.2	0.6
200,000	Cisco Systems 5.500% Due 02-22-16	116.05	232,095	111.67	223,331	2.1	1.0
200,000	Stryker Corp 2.000% Due 09-30-16	101.16	202,321	102.65	205,301	2.0	1.2



Madison Investment Advisors
PORTFOLIO APPRAISAL
California Fair Services Authority
Fixed Income - Ltd Duration Gov/Corp
June 30, 2013

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Cur. Yield
200,000	General Electric Capital Corp 2.900% Due 01-09-17	99.86	199,729	103.38	206,754	2.0	1.9
200,000	AT&T 1.600% Due 02-15-17	100.00	199,992	98.98	197,962	1.9	1.9
200,000	John Deere Cap 1.400% Due 03-15-17	100.21	200,425	98.95	197,908	1.9	1.7
200,000	Wells Fargo & Co 2.100% Due 05-08-17	101.20	202,395	100.36	200,715	1.9	2.0
200,000	Ebay 1.350% Due 07-15-17	101.57	203,135	98.28	196,570	1.9	1.8
200,000	Kimberly-Clark Corp. 6.125% Due 08-01-17	123.14	246,285	117.00	234,008	2.2	1.8
200,000	Disney Co 1.100% Due 12-01-17	99.88	199,753	96.95	193,900	1.9	1.8
200,000	JPMorgan Chase & Co 1.800% Due 01-25-18	99.99	199,987	96.74	193,472	1.9	2.6
	Accrued Interest				38,110	0.4	
			4,110,856		4,042,998	38.8	1.2
GOVERNMENT BONDS (USD)							
400,000	Freddie Mac 4.500% Due 07-15-13	108.61	434,454	100.17	400,684	3.8	0.4
100,000	Fannie Mae 4.625% Due 10-15-13	108.75	108,754	101.30	101,298	1.0	0.2
250,000	US Treasury N/B 4.000% Due 02-15-14	103.03	257,565	102.40	255,996	2.5	0.2



Madison Investment Advisors
PORTFOLIO APPRAISAL
California Fair Services Authority
Fixed Income - Ltd Duration Gov/Corp
June 30, 2013

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Cur. Yield
260,000	US Treasury N/B 1.750% Due 03-31-14	98.85	257,011	101.18	263,077	2.5	0.2
300,000	US Treasury N/B 4.250% Due 08-15-14	110.78	332,327	104.52	313,547	3.0	0.2
500,000	US Treasury N/B 0.250% Due 10-31-14	100.07	500,368	100.04	500,196	4.8	0.2
550,000	US Treasury N/B 4.000% Due 02-15-15	111.41	612,775	105.99	582,957	5.6	0.3
150,000	US Treasury N/B 2.500% Due 04-30-15	105.28	157,914	103.94	155,912	1.5	0.3
250,000	US Treasury N/B 4.125% Due 05-15-15	109.90	274,752	107.05	267,637	2.6	0.3
200,000	Freddie Mac 2.500% Due 05-27-16	106.05	212,105	105.01	210,017	2.0	0.8
250,000	Freddie Mac 2.000% Due 08-25-16	103.41	258,516	103.60	258,998	2.5	0.8
350,000	Fannie Mae 1.250% Due 09-28-16	100.17	350,591	101.14	354,001	3.4	0.9
200,000	US Treasury N/B 1.000% Due 10-31-16	100.28	200,555	100.59	201,188	1.9	0.8
425,000	Fannie Mae 1.375% Due 11-15-16	100.33	426,403	101.37	430,842	4.1	1.0
100,000	US Treasury N/B 0.875% Due 02-28-17	98.68	98,676	99.75	99,750	1.0	0.9
500,000	Freddie Mac 1.000% Due 03-08-17	98.23	491,149	99.51	497,550	4.8	1.1
200,000	US Treasury N/B 0.625% Due 05-31-17	99.52	199,047	98.41	196,812	1.9	1.0



Madison Investment Advisors
PORTFOLIO APPRAISAL
California Fair Services Authority
Fixed Income - Ltd Duration Gov/Corp
June 30, 2013

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Cur. Yield
500,000	US Treasury N/B 0.750% Due 06-30-17	100.91	504,567	98.75	493,750	4.7	1.1
275,000	US Treasury N/B 2.250% Due 11-30-17	107.33	295,168	104.49	287,354	2.8	1.2
400,000	Fannie Mae 0.875% Due 02-08-18	99.41	397,633	97.09	388,354	3.7	1.5
	Accrued Interest				37,362	0.4	
			6,370,328		6,297,280	60.4	0.7
CASH AND EQUIVALENTS (LONG) (USD)							
	Cash Equiv/Money		82,057		82,057	0.8	1.0
	Market Fund						
TOTAL PORTFOLIO			10,563,241		10,422,335	100.0	0.9

Footnotes to Quarterly Report

Your Total Return:

Your actual "total return" for each calendar quarter, namely a combination of (1) interest received, earned or accrued, (2) realized gains or losses on sales of securities and (3) price appreciation or depreciation of assets held at the end of the calendar quarter. Performance represents monthly "linked" results, adjusting the base value invested by daily time-weighting any intra-month additions and withdrawals. Investment returns are presented net of all commissions, trading costs, and other execution costs, but not reduced by the investment management fees of Madison Investment Advisors, LLC.

Historical Returns & Asset Growth reports performance before reduction of management fees. Performance after reduction of fees is provided below. For "net of fees" purposes, actual management fees are reflected as a cost, reducing investment results during the month(s) when such fees are paid, whether withdrawn directly from the portfolio or paid separately.

	2013	2012	2011	2010	2009	2008	2007
Gross Returns	-0.63%	1.91%	2.32%	2.98%	3.47%	6.67%	7.18%
Net Returns	-0.75%	1.65%	2.06%	2.72%	3.21%	6.40%	6.88%

Average Duration:

The average weighted effective duration of the bonds in the portfolio at quarter end, adjusted for cash balances (money market funds or short-term instruments) and for all applicable "call", "put", early redemption or other provisions affecting the expected "life" of each bond.

Average Maturity:

The average overall maturity of the bonds in the portfolio at quarter end, adjusted for cash balances (money market funds or short-term instruments) and for all applicable "call", "put", early redemption or other provisions affecting the expected "life" of each bond.

Average Quality:

The average weighted quality rating of the bonds in the portfolio at quarter end, including cash balances (money market funds or short-term instruments) with quality ratings generally placed on each security by Standard & Poor's.

Offer to Deliver Disclosure Brochure:

When you became a client of Madison Investment Advisors, LLC, you received our "Disclosure Brochure", as required by our Form ADV registration filing with the Securities and Exchange Commission. Each year, we are required to offer to provide you with our current Disclosure Brochure which may have new or amended information about our firm, its practices, personnel or policies. We will provide you with a summary of any material modifications we made since we provided you a complete copy. If you wish to receive our current brochure, please contact our firm at 800-767-0300.

Privacy Notice to Customers:

Please refer to the attached two page notice entitled, "What Does Madison Investment Advisors Do With Your Personal Information?"

Report Comparison and Changes of Circumstances:

We urge you to compare the account statements you receive from your custodian with this quarterly report. Please contact us if you have had a change in your financial means, investment objective, time horizon, cash flow needs, risk tolerance, liquidity, tax circumstances, or any other factor that may impact the suitability of these investments for your circumstances that has not been previously communicated to Madison.

Fixed Income Portfolio Guidelines—Limited Duration Government/Corporate Strategy

Use of Guidelines. These investment policies and guidelines are followed by Madison Investment Advisors, LLC (“MIA”) in the management of clients’ fixed income portfolios. In each separate guideline category stated below, **each client’s individual written statement of investment policies or guidelines, communicated to MIA and agreed to in writing, will override and substitute for these default guidelines** where applicable. To the extent that a client’s statement of investment policies or guidelines does not state a policy or guideline on any particular matter, the guideline stated below will govern. For example, if a client’s statement of investment guidelines or policies does not state a policy on Overall Portfolio Duration, the policy below will govern. These guidelines are not applicable to client portfolios that invest in municipal bond securities.

Maturity on Individual Securities. The date of final maturity of each individual security shall not exceed 5 years at time of purchase. There is an exception for mortgage-backed securities whose maturity may exceed 5 years if the average life of the security is less than 5 years at time of purchase.

Average Overall Portfolio Maturity. The average overall portfolio maturity, with assets weighted by total current market value, shall not exceed 5 years.

Duration of Individual Securities. No security shall have a duration that exceeds 5 years at date of purchase.

Duration of Overall Portfolio. The average overall portfolio duration, with assets weighted by total current market value, shall not exceed 4 years.

Duration Defined. For purposes of these guidelines, *duration* shall mean *effective duration*.

Diversification: U.S. Treasury and Government Agency Securities. There is no percentage limit on any individual Treasury or Agency securities issue.

Diversification: Corporate Bonds. The total individual securities of any one corporate issuer shall not exceed **5%** of the total market value of the portfolio at time of purchase. For those with a total market value of less than \$500,000 but more than \$300,000, the individual corporate issuer limitation shall be **\$25,000 par value** at time of purchase. For those with a total market value of less than \$300,000, the individual corporate issuer limitation shall be **the lesser of \$20,000 par value or 10%** at time of purchase.

Diversification: Economic Sectors and Industry Concentration. The portfolio’s total holdings of securities for any one economic sector (i.e. industrial, financial, utilities, etc.) shall not exceed 50% of the total market value of the portfolio, at the time of purchase. The portfolio’s total holdings of securities for any one industry (i.e. within the finance sector: consumer finance, bank finance, securities, insurance, etc.) shall not exceed 25% of the total market value of the portfolio at the time of purchase.

Quality of Individual Corporate Securities. Each individual corporate security must have an *Investment Grade* Rating, namely rated Baa (Moody’s) or BBB (Standard & Poor’s) at the time of purchase. Unless a client’s written investment policy states otherwise, the designation of a minimum quality rating shall mean that the relevant security must have that rating by **either** Moody’s **or** Standard & Poor’s at the time of purchase. If a security subsequently drops below its permissible rating, the security will continue to be retained in the portfolio and sold within a period of time and in a manner deemed reasonable and in the best interests of the client, in the discretion of MIA. The statement of a minimum quality rating (i.e. BBB, A, AA or AAA), whether under these guidelines or so-described in any client’s investment policy statement, shall include all sub-ratings or graduations of the base rating (i.e. “A-rated” shall mean A+, A, A-, A1, A2, A3 or any other subcategory for “A”).

Quality of Overall Portfolio. The overall asset weighted quality of the portfolio shall, at all times, be A or better. If the overall portfolio quality drops below A, MIA shall execute such transactions as will bring the portfolio back up to an overall A rating within 30 days of occurrence.

Effect of Material Change in Portfolio Value or Composition. If a material change in the market value of composition of the portfolio takes place, MIA shall have a period of time that it deems reasonable and in the best interests of the client to sell or buy securities to restructure the portfolio to comply with these guidelines. For example, a client withdraws from the portfolio an amount of cash reserves equaling 20% of total portfolio value. After such withdrawal, several of the above-stated guidelines may not be met, especially the diversification guidelines. MIA shall make reasonable efforts to bring the individual holdings and total portfolio back in conformity with these guidelines, taking into account market conditions and the best interests of the client.

Policy on Derivative Securities. *Derivative securities* are not permitted without written client direction. MIA does not consider or refer to certain mortgage securities as *derivative securities*. These include mortgage collateral (e.g. Ginnie Maes, Fannie Maes and Freddie Macs) and CMOs and REMICs. MIA does not use futures, options, options on futures, swaptions or other leveraged or forward contracts to implement investment strategy.

Benchmark. For purposes of performance measurement, the recommended benchmark index is the Merrill Lynch 1-5 Year U.S. Corporate/Government Bond Index.

Other Restrictions. Fixed income portfolios, without written consent of a client, shall not:

- Invest in non-dollar denominated securities, but may invest in foreign dollar-denominated securities that are traded domestically;
- Invest in common stocks;
- Purchase or sell or enter into futures contracts, options on futures, options, or any other hedging related instrument;
- Invest in real estate (although securities secured by real estate or interests therein are permissible, as are REITs or REMICs);
- Sell securities short;
- Borrow money, or pledge, mortgage or hypothecate assets.

Amending the Guidelines. MIA may amend these guidelines by giving clients 60 days written notice of any such changes or amendments. Each client may provide its own written guidelines or, if the client has adopted these guidelines, amend these guidelines at any time by providing us written notice of the change at any time.

2015 (United States)

January						
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2014 (United States)

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February						
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June						
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August						
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2013 (United States)

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