



1776 Tribute Road, Suite 205
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AGENDA
CALIFORNIA AUTHORITY OF RACING FAIRS
BOARD OF DIRECTORS MEETING
JOHN ALKIRE, CHAIR
12:30 P.M., TUESDAY, OCTOBER 8, 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, October 8, 2013. The meeting will be at the Fresno Directors Hall located at 1121 S. Chance Ave. Fresno, CA 93747.

AGENDA

- I. Date, time and location of next meeting on November 12, 2013
- II. Public Comment
- III. Report, discussion and action, if any, on Legislative program 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 Agency Audit Report.
- VI. Consent Calendar
 - Financials
- VII. Executive Director's Report



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CARF Board of Directors Meeting
Toll Free Dial In Number: (800) 791-2345
Participant Code: 83711#
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

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

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

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

Stanislaus County
900 North Broadway
Turlock, CA 95380

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

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

Tulare County Fair
215 Martin Luther King
Tulare, CA 93274

California State Fair
1600 Exposition Blvd.
Sacramento, CA 95815

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

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

Humboldt County Fair
1250 5th Street
Ferndale, CA 95536

Shasta District Fair
1890 Briggs Street
Anderson, CA 96007

Monterey County Fair
2004 Fairground Road
Monterey, CA 93940

Solano County Fair
900 Fairgrounds Drive
Vallejo, CA 94589

CA Authority of Racing Fairs Legislative Report - Last 10 Days
9/27/2013

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

Current Text: Enrollment: 9/24/2013 [pdf](#) [html](#)

Introduced: 2/22/2013

Last Amend: 8/26/2013

Status: 9/24/2013-Enrolled and presented to the Governor at 3 p.m.

Location: 9/24/2013-A. ENROLLED

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

Summary: Existing law, 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 of separate allocations to the central and southern zones, establish a maximum of 49 racing 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: Enrollment: 9/25/2013 [pdf](#) [html](#)

Introduced: 2/22/2013

Last Amend: 8/26/2013

Status: 9/25/2013-Enrolled and presented to the Governor at 4:30 p.m.

Location: 9/25/2013-A. ENROLLED

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

Summary: Existing law, 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 and not reimbursed by any other person or entity. 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 1303](#) (Hall D) Horse racing: takeouts: disclosure to patrons.

Current Text: Introduced: 2/22/2013 [pdf](#) [html](#)

Introduced: 2/22/2013

Status: 9/13/2013-Failed Deadline pursuant to Rule 61(a)(14). (Last location was INACTIVE FILE on 6/27/2013)

Location: 9/13/2013-S. 2 YEAR

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

Summary: Existing law, the Horse Racing Law, authorizes racing associations and fairs to make various deductions from the amounts handled, and specifies the manner in which the amounts deducted are required to be distributed. A violation of the Horse Racing Law, where no other penalty is expressed, is a misdemeanor. This bill would require each racing association or fair to inform patrons, through the official program, of the takeout being applied to the handle for the racing meeting. By creating a new crime, the bill would impose a state-mandated local program. This bill contains other related provisions and other existing laws.

Organization Position
 CARF Watch

[AB 1347](#) **(Gray D) Horse racing: out-of-state thoroughbred races.**

Current Text: Amended: 9/6/2013 [pdf](#) [html](#)

Introduced: 2/22/2013

Last Amend: 9/6/2013

Status: 9/13/2013-Failed Deadline pursuant to Rule 61(a)(14). (Last location was INACTIVE FILE on 9/11/2013)

Location: 9/13/2013-S. 2 YEAR

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

Summary: Existing law authorizes a thoroughbred racing association or fair to distribute the audiovisual signal and accept wagers on the results of out-of-state thoroughbred races conducted in the United States during the calendar period the association or fair is conducting a race meeting, including days on which there is no live racing being conducted by the association or fair, without the consent of the organization that represents horsemen and horsewomen participating in the race meeting and without regard to the amount of purses. Under existing law, the total number of thoroughbred races imported by associations or fairs on a statewide basis under these provisions may not exceed 50 per day on days when live thoroughbred or fair racing is being conducted in the state, with the exception of prescribed races, including races imported that are part of the race card of the Kentucky Derby, the Kentucky Oaks, the Preakness Stakes, the Belmont Stakes, the Jockey Club Gold Cup, the Travers Stakes, the Arlington Million, the Breeders' Cup, the Dubai Cup, the Arkansas Derby, or the Haskell Invitational. This bill would also exempt from the 50 race per day limitation, races imported that are part of the race card of the Wood Memorial. This bill contains other related provisions and other existing laws.

Organization Position
 CARF Oppose

[AB 1423](#) **(Committee on Governmental Organization) Horse racing: advance deposit wagering and exchange wagering deductions.**

Current Text: Enrollment: 9/26/2013 [pdf](#) [html](#)

Introduced: 3/21/2013

Status: 9/26/2013-Enrolled and presented to the Governor at 4:30 p.m.

Location: 9/26/2013-A. ENROLLED

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

Summary: Existing law authorizes advance deposit wagering to be conducted, with the approval of the California Horse Racing Board, in accordance with specified provisions of law. Existing law requires a certain percentage of the amounts distributed for advance deposit wagering for racing meetings, except for harness racing meetings, to be deducted and distributed for the establishment and administration of a defined contribution retirement plan for California-licensed jockeys who retire on or after January 1, 2009, to supplement trainer-administered pension plans for backstretch personnel, and for distribution to a welfare fund established for horsemen and backstretch personnel, as specified. Existing law also requires a certain percentage of amounts distributed on advance deposit wagers for harness racing meetings to be deducted and distributed to a welfare fund established for the benefit of horsemen and backstretch personnel, and for any amounts remaining to be utilized for the benefit of horsemen pursuant to a written agreement between the racing association that conducts the live harness race meeting and the organization representing the horsemen, as specified. This bill would require certain amounts generated at harness race meetings that are held in trust by the California Exposition and State Fair to be distributed to the harness racing horsemen who participated in a certain racing meeting, and to the California Exposition and State Fair, in accordance with specified percentages and requirements. This bill contains other related provisions and other existing laws.

Organization Position
 CARF Watch

[AB 1426](#) **(Committee on Governmental Organization) Tribal gaming.**

Current Text: Introduced: 3/21/2013 [pdf](#) [html](#)

Introduced: 3/21/2013

Status: 9/13/2013-Failed Deadline pursuant to Rule 61(a)(14). (Last location was INACTIVE FILE on 9/10/2013)

Location: 9/13/2013-S. 2 YEAR

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

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. This bill would reorganize and make technical, nonsubstantive changes to these provisions. The bill would conform these provisions to the changes made by the Governor's Reorganization Plan No. 2. of 2012. This bill contains other existing laws.

Organization **Position**
CARF Watch

[SB 398](#)

(Galgiani D) Horse racing: distribution of proceeds.

Current Text: Enrollment: 9/20/2013 [pdf](#) [html](#)

Introduced: 2/20/2013

Last Amend: 9/10/2013

Status: 9/20/2013-Enrolled and presented to the Governor at 4:30 p.m.

Location: 9/20/2013-S. ENROLLED

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

Summary: Existing law requires each licensed racing association to designate a certain number of racing days to be conducted as charity days, and requires the net proceeds from those charity days to be distributed to beneficiaries who meet certain qualifications. Existing law also requires distributions to be made to certain nonprofit corporations and organizations, and requires that at least 20% of the distributions go to charities associated with the horse racing industry. This bill, in addition to those required distributions, would authorize a separate distribution to be made to a nonprofit corporation or trust that has as its sole purpose the support of recognized fairs or the network of California fairs. This bill contains other related provisions and other existing laws.

Organization **Position**
CARF Support

[SB 472](#)

(Hill D) Gaming: licenses.

Current Text: Enrollment: 9/20/2013 [pdf](#) [html](#)

Introduced: 2/21/2013

Last Amend: 8/26/2013

Status: 9/20/2013-Enrolled and presented to the Governor at 1 p.m.

Location: 9/20/2013-S. ENROLLED

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

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

[SB 819](#)

(Committee on Governmental Organization) Horse racing: Breeders' Cup World Championship series: payment of purses.

Current Text: Enrollment: 9/23/2013 [pdf](#) [html](#)

Introduced: 3/14/2013

Last Amend: 9/6/2013

Status: 9/23/2013-Enrolled and presented to the Governor at 2 p.m.

Location: 9/23/2013-S. ENROLLED

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

Summary: Existing law, the Horse Racing Law, generally provides for the distribution of funds collected from wagers on horse racing in California. In years that the Breeders' Cup World

Championship series is conducted at a race meeting in California, existing law requires that specified amounts that would have otherwise been distributed to a purse account be made available to promote and sponsor the Breeders' Cup. A violation of the Horse Racing Law, where no other penalty is expressed, is a misdemeanor. This bill would instead specify that those amounts shall be made available to the organization operating the Breeders' Cup World Championship series for the purpose of promoting and supporting the Breeders' Cup, including the payment of purses in Breeders' Cup World Championship races. The bill would provide that the California Horse Racing Board may authorize parimutuel wagering on Breeders' Cup races to be run at the host venue and on one nonthoroughbred race, as specified, and would require amounts from those wagers to be deducted and distributed in accordance with specified provisions. 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

Total Measures: 9

Total Tracking Forms: 9

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 #
simo only	9/18/2013	TBD				simo only	9/19/2012	14,045.01			
simo 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	100,000.00	9/25/2012	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			
simo only	9/25/2013	TBD				dark	9/26/2012	8,285.20			
simo 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	100,000.00	10/4/2012	ACH100412
	2012/2013 CHRB overage track portion	TBD					2011/2012 CHRB overage track portion	0.00			
	2012 Outs/Refunds	12,043.70	12,043.70	6/5/2013	ACH060513		2011 Outs/Refunds	7,531.91	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	60,000.00	10/19/2012	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	59,549.38	12/3/2012	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 Al/ Exp surplus	TBD					2011 Japan/Los Al/ Exp surplus	807.30			
	2013 Relocation Costs	TBD					2012 Relocation Costs	(10,454.55)			
									74,708.05	1/11/2013	ACH011113
									52,844.76	1/31/2013	ACH013113
	Total	12,043.70	12,043.70				Total	643,438.44	454,634.10		
	Balance		0.00				Balance Due to Fair		188,804.34		
actual	2013 Circuit Billing Invoice #07188	77,805.66	net with 1st week	9/26/2013			2012 CARF Dues		(\$14,203.50)		
actual	2013 January-June Billback Invoice #07192	5,229.94	net with 1st week	9/26/2013			2012 Circuit Bill Invoice		(\$75,561.19)		
							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		

**CALIFORNIA AUTHORITY
OF RACING FAIRS**

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

**FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011**

CALIFORNIA AUTHORITY OF RACING FAIRS

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
California Authority of Racing Fairs
Sacramento, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the California Authority of Racing Fairs (the Authority), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

We were unable to apply auditing procedures to documentation supporting the financial activities of the advance deposit wagering (ADW). The ADW Racing Activity schedule in the Additional Information Section, as listed in the Table of Contents, summarizes the activity related to the ADW to which we were unable to apply auditing procedures.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis and the Schedule of Funding Progress of Other Postemployment Benefits, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Additional Information

Our audit was conducted for the purpose of forming and opinion on the financial statements that collectively comprise the Authority’s basic financial statements. The Additional Information Section, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Combining Statement of Revenues, Expenses, and Changes in Net Position is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The ADW Racing Activity has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Emphasis-of-Matter Regarding Note 7

We did not audit the activity as disclosed in Note 7. The activity was audited by other auditors who report dated October 10, 2012 has been furnished to us, and our opinion, insofar as it relates to the amounts included for live racing, is based on the report of other auditors.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

August 12, 2013

CALIFORNIA AUTHORITY OF RACING FAIRS

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012

The following report reflects the financial condition of California Authority of Racing Fairs (CARF) for the year ended December 31, 2012. It is provided in order to enhance the information in the financial audit, and should be reviewed in concert with that report.

Financial Highlights, December 31, 2012

- Total operating revenues for 2012 were \$2,056,643 a decrease of 60.69% or \$3,175,847. This decrease is due to the elimination of Fairs and Exposition (F&E) funds in Equipment Replacement, Construction projects, Marketing reimbursements and Administrative fees to the agency from these projects.
- Total operating expenses were \$2,281,571 a decrease of 53.20% or \$2,593,760. This decrease is due to the elimination of Fairs and Exposition fund expenses.
- 2012 resulted in a decrease in Net Position of \$204,757.
- With the passage of Assembly Bill 95, the Authority's funding from F&E was eliminated in the areas of Supplemental Purse funds, Race Track Safety and Maintenance, Equipment Replacement Funds, Live Racing Capital Improvement funds and Satellite Wagering Facility funds. This discontinuation of funding breaks with a tradition of financial support, upon which the Authority's member fairs have relied upon in the past. The loss of funding has had a significant effect on the Authority and its member fairs in the current year.

Description of the Basic Financial Statements

CARF financial statements are prepared in conformity with generally accepted accounting principles. Balance Sheets, a Statement of Revenues, Expenses & Changes in Net Position, and the Statement of Cash Flows are included along with Notes to Financial Statements to clarify unique accounting policies and financial information.

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

CARF's accounting system is organized so that each program can be accounted for and evaluated independently. Separate governmental enterprise funds are operated for the remaining Fairs' Equipment Replacement, Mini Satellite Development, Track Safety and Maintenance and other funds. The assets, liabilities, revenues and expenses for all funds are reported on a full accrual basis.

CALIFORNIA AUTHORITY OF RACING FAIRS

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012

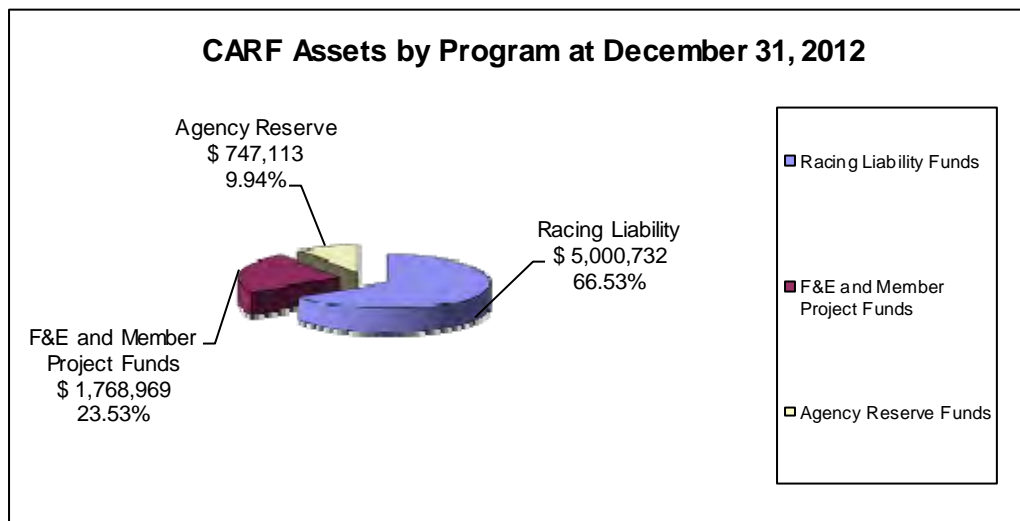
Gilbert Associates, Inc., Certified Public Accountants have performed an independent audit examination of our financial statements in accordance with generally accepted auditing standards. Their opinion is included in the Financial Section of this report.

CARF Agency and Program Assets

Agency Wide Financial Analysis

CARF's Combined Balance Sheet

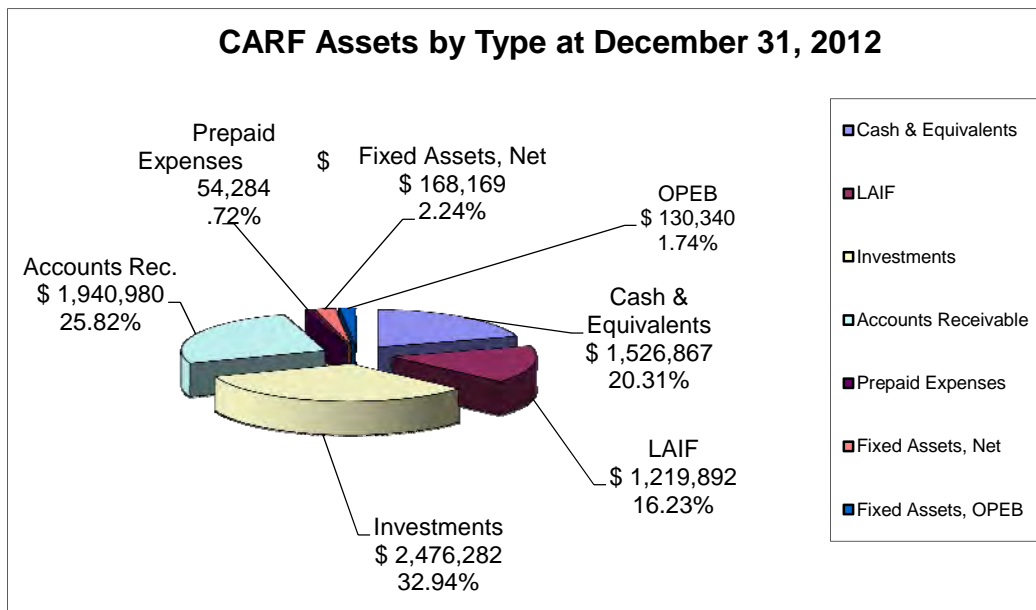
	12/31/2012	Percentage	12/31/2011	Percentage	12/31/2010	Percentage
Current Assets	\$4,953,611	65.90%	\$6,211,960	70.93%	\$ 6,334,590	60.18%
Non-Current Assets	2,563,203	34.10%	2,546,163	29.07%	4,191,068	39.82%
Total Assets	\$7,516,814	100.00%	\$8,758,123	100.00%	\$10,525,658	100.00%
Current Liabilities	\$3,801,215	57.58%	\$4,164,648	54.52%	\$ 6,669,253	68.18%
Non-Current Liabilities	\$2,800,317	42.42%	\$3,473,436	45.48%	\$ 3,111,930	31.82%
Total Liabilities	\$6,601,532	100.00%	\$7,638,084	100.00%	\$ 9,781,183	100.00%
Net Position	\$ 915,282	100.00%	\$1,120,039	100.00%	\$ 744,475	100.00%
Total Liabilities and Net Position	\$7,516,814	100.00%	\$8,758,123	100.00%	\$10,525,658	100.00%



CALIFORNIA AUTHORITY OF RACING FAIRS

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012

Total agency and program assets, as reflected in the liabilities and net position section of the Balance Sheet, decreased \$1,241,309 from \$ 8,758,123 as of December 31, 2011, to \$7,516,814 at December 31, 2012. This decrease is due to the reduction of funds held by CARF on behalf of member fairs.



CARF Program Liabilities

Accrued liabilities decreased from \$7,638,084 of December 31, 2011 to \$6,601,532 as of December 31, 2012. This decrease is mainly due to the timing of deferred revenue and the reduction of liabilities for the funds held on behalf of member fairs. All other liabilities on the Balance Sheet are actual assets of the individual programs.

CARF Revenues and Expenses

Operating revenues consist of various types of Member contributions, Administrative fees; Racing fairs reimbursements, Program revenues, Construction projects, and Marketing Reimbursements. These revenues decreased from \$5,232,490 in 2011 to \$2,056,643 in 2012, primarily as a result of the final allocation and the administration fees recognized from Fairs & Expositions to member fairs in 2011.

CALIFORNIA AUTHORITY OF RACING FAIRS

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012

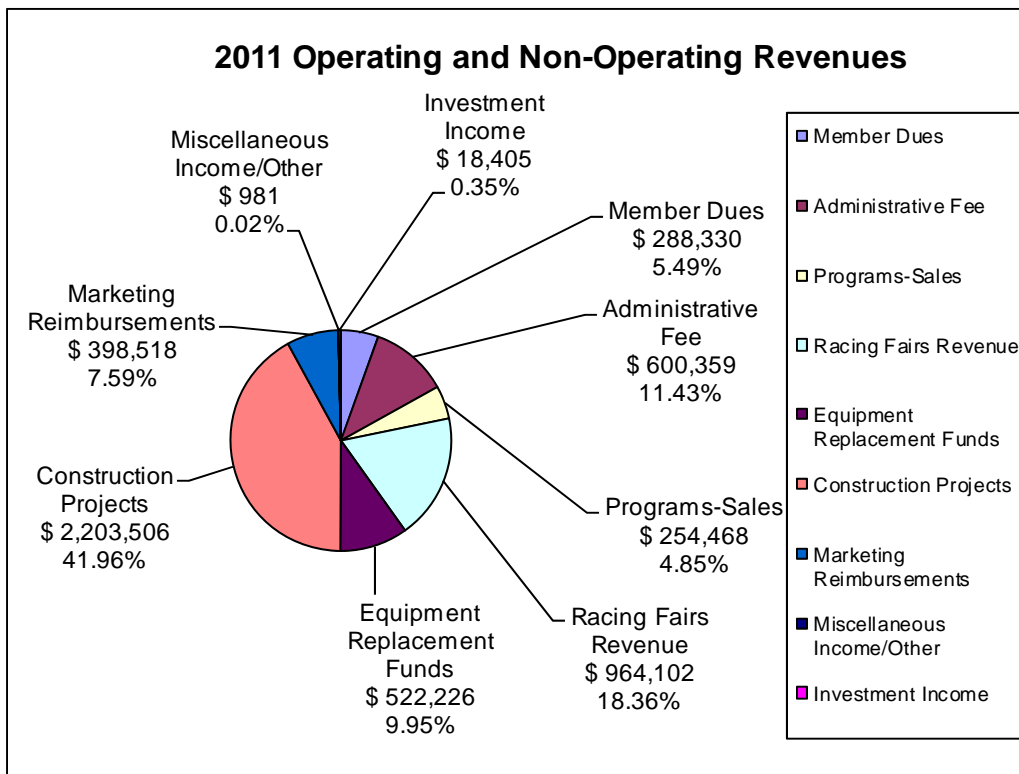
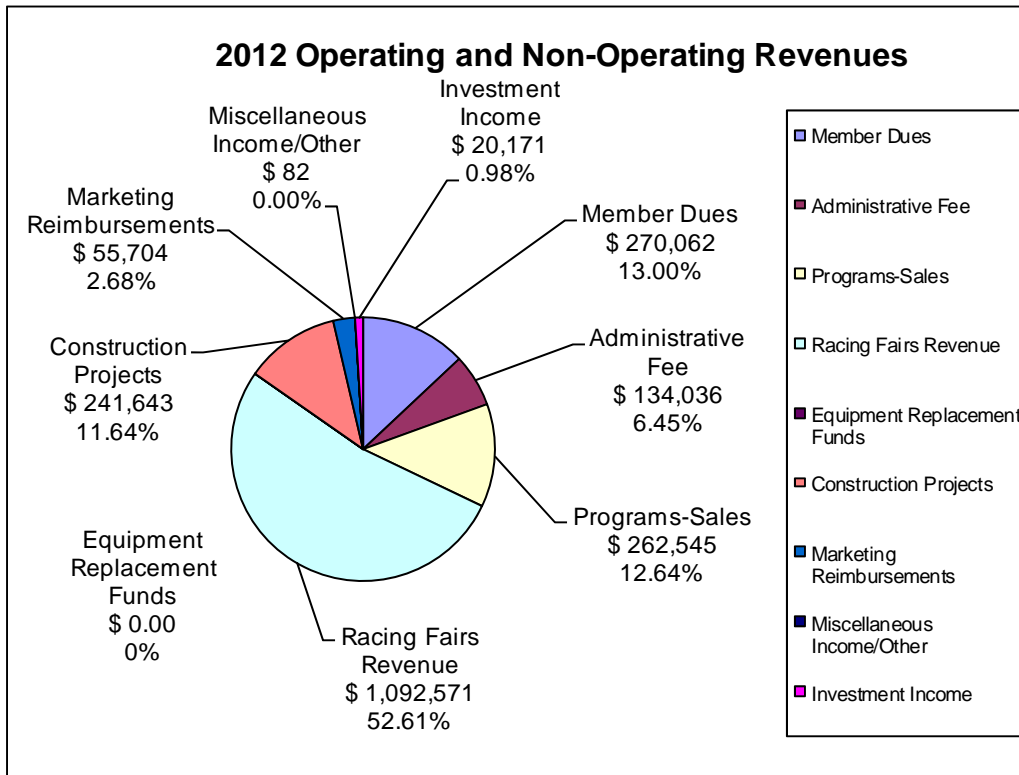
The effect on net revenues is due to three main areas of revenue; the decrease in Administrative Fees, the timing of Construction Projects, a decrease in Marketing Reimbursements and the elimination of the Equipment Replacement Funds. The effect on net expenses is due mainly to the decrease in Construction Projects, Marketing Reimbursements and the elimination of the Equipment Replacement Expenses.

CARF Statements of Revenue, Expenses, and Changes in Net Position

	Year Ended 12/31/2012	Year Ended 12/31/2011	Percentage Change	Year Ended 12/31/2010	Percentage Change
Operating Revenues					
Member Dues	\$ 270,062	\$ 288,330	-6.34%	\$ 290,107	-0.61%
Administrative Fee	134,036	600,359	-77.67%	244,532	145.51%
Programs	262,545	254,468	3.17%	285,716	-10.94%
Racing Fairs Revenue	1,092,571	964,102	13.33%	1,037,236	-7.05%
Equipment Replacement Funds	0	522,226	-100.00%	427,269	22.22%
Construction Projects	241,643	2,203,506	-89.03%	2,117,994	4.04%
Marketing Reimbursements	55,704	398,518	-86.02%	212,000	87.98%
Miscellaneous Income/Other	82	981	-91.64%	120	717.50%
Total Operating Revenues	\$2,056,643	\$5,232,490	-60.69%	\$4,614,974	13.38%
Operating Expenses					
Construction Projects	\$252,672	\$2,019,362	-87.49%	\$2,026,173	-0.34%
Equipment Replacement Funds	0	522,226	-100.00%	427,269	22.22%
Programs- (Host royalties)	235,260	231,975	1.42%	256,307	-9.49%
Live Racing Fairs	481,631	428,417	12.42%	523,551	-18.17%
Marketing Expense	55,704	398,518	-86.02%	212,000	87.98%
Salaries and Benefits	708,127	739,218	-4.21%	696,820	6.08%
Accounting and Legal	131,010	99,753	31.33%	131,629	-24.22%
Travel and Meetings	80,394	67,641	18.85%	80,348	-15.81%
Other Operating	336,773	368,221	-8.54%	341,118	7.95%
Total Operating Expenses	\$2,281,571	\$4,875,331	-53.20%	\$4,695,215	3.84%
Operating Gain/Loss	(\$224,928)	\$ 357,159	162.98%	(\$80,241)	545.11%
Investment Income	\$20,171	\$18,405	9.60%	\$ 74,338	-75.24%
Increase (decrease) in net position	(\$204,757)	\$ 375,564	-154.52%	(\$5,903)	-6462.26%
Beginning Net Position	\$1,120,039	\$ 744,475	50.45%	\$ 750,378	-0.79%
Ending Net Position	\$ 915,282	\$1,120,039	-18.28%	\$ 744,475	50.45%

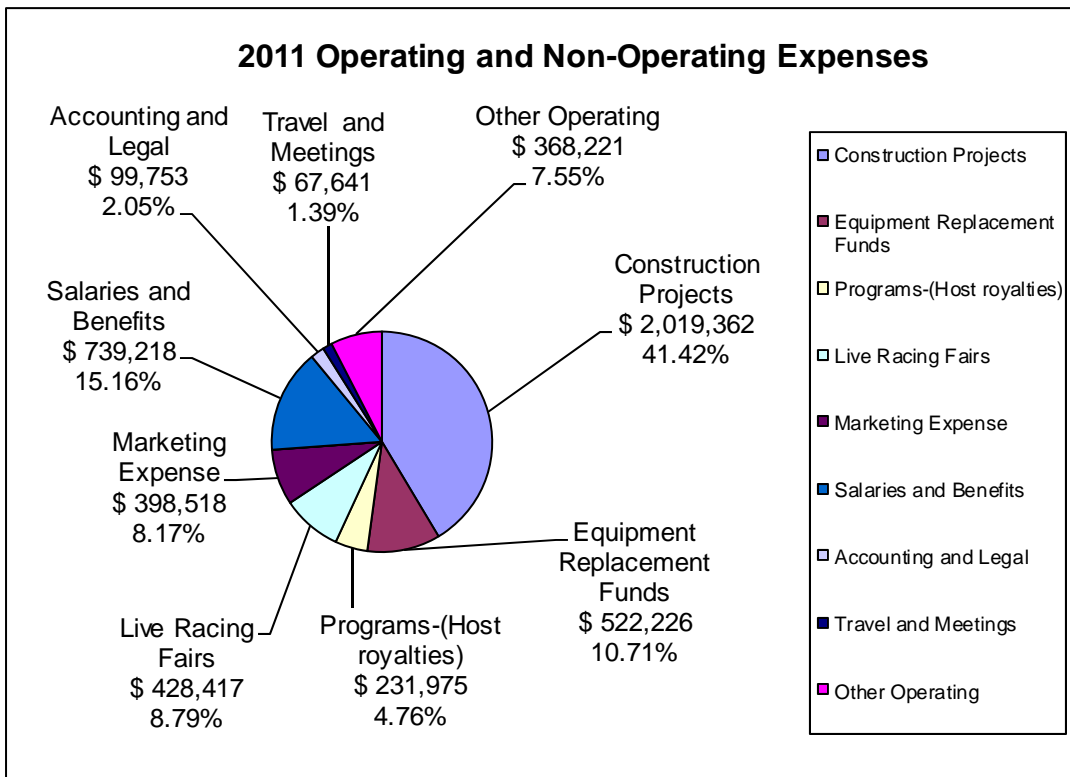
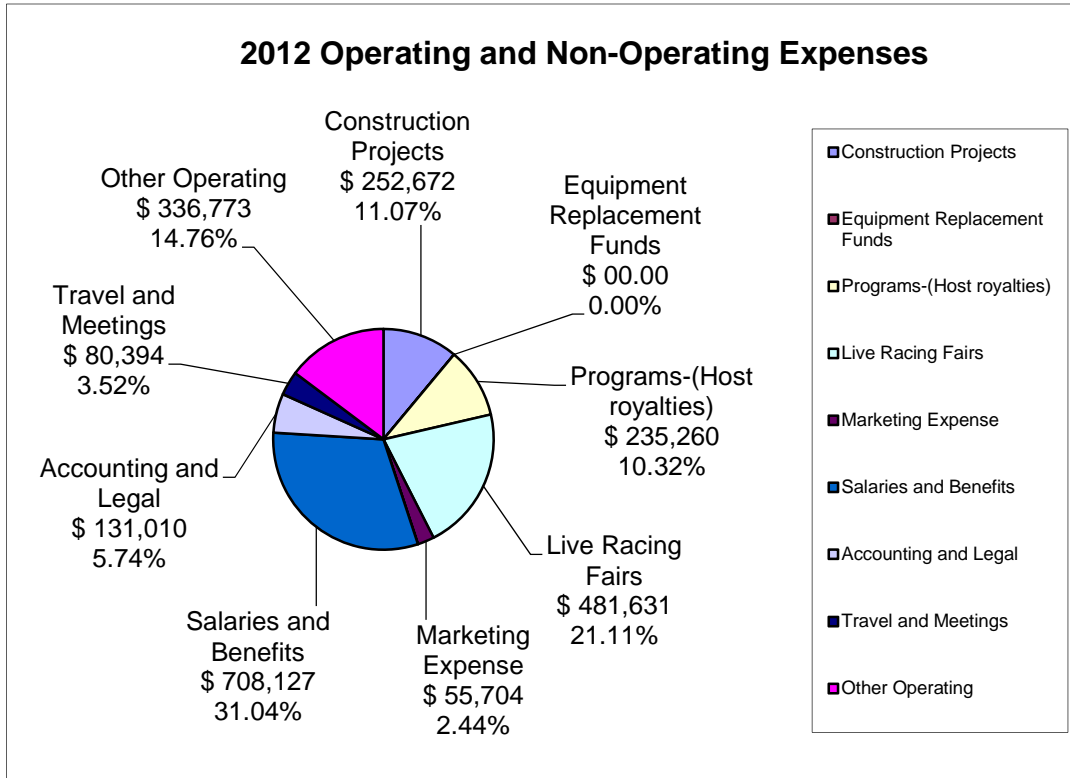
CALIFORNIA AUTHORITY OF RACING FAIRS

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012



CALIFORNIA AUTHORITY OF RACING FAIRS

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012



CALIFORNIA AUTHORITY OF RACING FAIRS

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012

Budgetary Highlights

Each year the CARF Board of Directors approves a budget and establishes rates and funding levels for all programs. The budget is brought to the Board towards the end of the current year for their approval.

Below is a summary of the budget information with a comparison to actual revenues and expenditures. (Individual line items are based on internal financial statements and may not agree to the audited financial statements due to a difference in the classification of certain revenues and expenses.)

Significant variances between the budget and the actual results include:

- Agency 2012 revenues were budgeted with the decrease in administrative fees on project funds from Fairs and Expositions.
- 2012 resulted in a decrease in Agency Net Income of \$204,757.

Conclusion

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in California Authority of Racing Fair's finances. Questions concerning any of the information should be addressed to the Financial Officer, 1776 Tribute Road, Suite 205, Sacramento, California 95815.

CALIFORNIA AUTHORITY OF RACING FAIRS

BALANCE SHEETS DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and equivalents	\$ 2,746,759	\$ 3,879,599
Investments	382,284	400,740
Accounts receivable	1,454,855	1,439,916
San Mateo loan receivable	75,000	75,000
Outstanding/refund tickets	240,429	353,932
Prepaid expenses and deposits	<u>54,284</u>	<u>62,773</u>
Total current assets	<u>4,953,611</u>	<u>6,211,960</u>
Noncurrent assets:		
Investments	2,093,998	2,019,388
Net OPEB asset	130,340	89,564
San Mateo loan receivable	170,696	245,696
Fixed assets, net	<u>168,169</u>	<u>191,515</u>
Total noncurrent assets	<u>2,563,203</u>	<u>2,546,163</u>
Total assets	<u>\$ 7,516,814</u>	<u>\$ 8,758,123</u>

CALIFORNIA AUTHORITY OF RACING FAIRS

BALANCE SHEETS - CONTINUED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accruals	\$ 1,268,694	\$ 1,479,891
Racing distributions payable	472,814	
Unredeemed winning tickets	250,265	363,768
Advanced deposit wagering liability	68,664	84,282
Purse liability	743,832	1,153,138
San Mateo loan liability	75,000	75,000
Unearned revenue	<u>921,946</u>	<u>1,008,569</u>
Total current liabilities	<u>3,801,215</u>	<u>4,164,648</u>
Noncurrent liabilities:		
CHRIMS payable	92,348	91,661
Member equipment replacement fund	1,523,273	2,122,079
San Mateo loan liability	170,696	245,696
Change fund liability	<u>1,014,000</u>	<u>1,014,000</u>
Total noncurrent liabilities	<u>2,800,317</u>	<u>3,473,436</u>
Total liabilities	<u>6,601,532</u>	<u>7,638,084</u>
Net position:		
Net investment in capital assets	168,169	191,515
Restricted net OPEB asset	130,340	89,564
Unrestricted	<u>616,773</u>	<u>838,960</u>
Total net position	<u>915,282</u>	<u>1,120,039</u>
Total liabilities and net position	<u>\$ 7,516,814</u>	<u>\$ 8,758,123</u>

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

CALIFORNIA AUTHORITY OF RACING FAIRS

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Member dues	\$ 270,062	\$ 288,330
Administration fees	134,036	600,359
Racing program reimbursements	262,545	254,468
Live racing reimbursements	1,092,571	964,102
Equipment replacement		522,226
Construction projects	241,643	2,203,506
Marketing reimbursements	55,704	398,518
Miscellaneous income	82	981
Total operating revenue	<u>2,056,643</u>	<u>5,232,490</u>
OPERATING EXPENSES:		
Construction projects	252,672	2,019,362
Equipment replacement		522,226
Racing programs	235,260	231,975
Live racing	481,631	428,417
Marketing expense	55,704	398,518
Salaries and benefits	708,127	739,218
Accounting and legal	131,010	99,753
Travel and meetings	80,394	67,641
Other operating	336,773	368,221
Total operating expenses	<u>2,281,571</u>	<u>4,875,331</u>
Operating income (loss)	(224,928)	357,159
NON-OPERATING INCOME:		
Investment income	<u>20,171</u>	<u>18,405</u>
Increase (decrease) in net position	(204,757)	375,564
NET POSITION, Beginning of Year	<u>1,120,039</u>	<u>744,475</u>
NET POSITION, End of Year	<u>\$ 915,282</u>	<u>\$ 1,120,039</u>

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

CALIFORNIA AUTHORITY OF RACING FAIRS

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from members, member activities, and member support	\$ 2,030,081	\$ 5,595,587
Payments to members, member activities, and member support	(1,089,785)	(3,441,396)
Payments to/on behalf of employees	(748,903)	(736,057)
Other operating payments	<u>(1,244,131)</u>	<u>(1,662,585)</u>
Net cash used by operating activities	<u>(1,052,738)</u>	<u>(244,451)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(209,199)	(295,522)
Purchases of fixed assets	(44,119)	(7,253)
Proceeds from sale or maturity of investments	106,291	2,202,919
Investment income	<u>66,925</u>	<u>58,600</u>
Net cash provided (used) by investing activities	<u>(80,102)</u>	<u>1,958,744</u>
Increase (decrease) in cash equivalents	(1,132,840)	1,714,293
Cash and equivalents – beginning of year	<u>3,879,599</u>	<u>2,165,306</u>
Cash and equivalents – end of year	<u>\$ 2,746,759</u>	<u>\$ 3,879,599</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (224,928)	\$ 357,159
Reconciliation to net cash used by operating activities:		
Depreciation expense	67,465	122,112
Changes in:		
Accounts receivable	(14,939)	1,114,982
Outstanding/refund tickets	113,503	25,412
Prepaid expenses and deposits	8,489	(3,482)
Net OPEB asset	(40,776)	3,161
Accounts payable and accruals	261,617	(558,030)
Unredeemed winning tickets	(113,503)	(25,412)
Advanced deposit wagering liability	(15,618)	77
Purse liability	(409,306)	(365,051)
Deferred revenue	(86,623)	(1,031,189)
CHRIMS liability	687	1,103
Member equipment replacement fund	<u>(598,806)</u>	<u>114,707</u>
Net cash used by operating activities	<u>\$ (1,052,738)</u>	<u>\$ (244,451)</u>

CALIFORNIA AUTHORITY OF RACING FAIRS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

1. SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The California Authority of Racing Fairs (the Authority) was created in 1986, as authorized by the California Government Code, Sections 6500, et. seq. The Government Code authorizes two or more public agencies to jointly exercise common powers by agreement (Section 6502). In addition, the Government Code specifically authorizes public agencies conducting fairs to enter into a joint powers agreement to form pooling arrangements for losses incurred by such agencies (Section 6516). Section 6516 states that the Department of Food and Agriculture may enter into such a joint powers agreement on behalf of district agricultural associations and citrus fruit fairs. The power of a joint powers agency “is subject to the restrictions upon the manner of exercising the power of one of the contracting parties, which party shall be designated by the agreement” (Section 6509).

The primary activities of the Authority include:

- Providing a central administrative body to represent its members and handle their mutual concerns and requirements. Annual dues are charged to each member on a calendar year basis. Administrative fees are charged for various programs administered by the Authority.
- Coordinating and promoting live racing at member fairs.
- Promoting satellite wagering and account deposit wagering in California through the legislature.
- Providing the necessary legal vehicle for the ongoing operation of the satellite wagering system.
- Administering varies construction, equipment replacement and maintenance funds on behalf of its members.

BASIS OF ACCOUNTING

The accounting records of the Authority are kept on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

USE OF ESTIMATES

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

CALIFORNIA AUTHORITY OF RACING FAIRS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

STATEMENTS OF CASH FLOWS

With regards to the statements of cash flows, the Authority considers cash in banks, all money market funds, and cash in the Local Agency Investment Fund to be cash equivalents. Investments maturing within three months from date of purchase are also considered to be cash equivalents.

OUTSTANDING/REFUNDING TICKETS

Pari-mutuel tickets (Outs), winning wagers that are unclaimed, refunds, and wagers that are scratched are purged on May 15th of the year following the year in which the meet at which they were purchased concludes. By law they are split between CHRB, Horsemen's Welfare Fund, Tracks, Purses, or held for three years before escheating to the State as unclaimed personal property.

FIXED ASSETS

Fixed assets are stated at cost. Major additions are capitalized and repair and maintenance costs are expensed. Depreciation is computed using the straight-line method over estimated useful lives of three years for automobiles and computer equipment and five years for furniture and equipment. When assets are sold or abandoned, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized in the statement of revenues, expenses, and changes in net position.

UNEARNED REVENUE

Amounts received but for which the earning process has not yet been completed are recorded as unearned revenue. See Note 8 for additional detail.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents		
Deposits with financial institutions	\$ 1,293,609	\$ 1,354,726
Money market	233,258	2,308,465
Deposits in LAIF	<u>1,219,892</u>	<u>216,408</u>
Total cash and cash equivalents	2,746,759	3,879,599
Investments	<u>2,476,282</u>	<u>2,420,128</u>
Total cash, cash equivalents and investments	<u>\$ 5,223,041</u>	<u>\$ 6,299,727</u>

CALIFORNIA AUTHORITY OF RACING FAIRS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Local Agency Investment Fund

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

Investments Authorized by the Entity's Investment Policy

The table below identifies the investment types that are authorized for the Authority by the California Government Code and the Authority's investment policy. The table also identifies certain provisions of the California Government Code that address interest rate risk and concentration of credit risk.

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

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair values to changes in market interest rates. As of year-end, the average effective maturity of the investments contained in the Authority's pool is approximately 2.7 years.

CALIFORNIA AUTHORITY OF RACING FAIRS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Information about the sensitivity of the fair values of investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity as of December 31, 2012:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>
Corporate Bonds	\$ 744,912	\$	\$ 133,781	\$ 611,131	
Government Bonds	<u>1,731,370</u>	<u>382,285</u>	<u>208,375</u>	<u>1,140,710</u>	
Total	<u>\$ 2,476,282</u>	<u>\$ 382,285</u>	<u>\$ 342,156</u>	<u>\$ 1,751,841</u>	<u>\$</u>

Information about the sensitivity of the fair values of investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity as of December 31, 2011:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>
Corporate Bonds	\$ 783,213	\$ 91,266	\$ 209,750	\$ 482,197	
Government Bonds	<u>1,636,915</u>	<u>309,474</u>	<u>446,291</u>	<u>881,150</u>	
Total	<u>\$ 2,420,128</u>	<u>\$ 400,740</u>	<u>\$ 656,041</u>	<u>\$ 1,363,347</u>	<u>\$</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented hereafter is the actual rating as of year-end for each investment type as of December 31, 2012:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt from Disclosure</u>	<u>Rating as of Year End</u>		
			<u>AAA to AA</u>	<u>AA- to A-</u>	<u>Not Rated</u>
Corporate Bonds	\$ 744,912		\$ 106,923	\$ 637,989	
Government Bonds	1,731,370	\$ 1,731,370			
LAIF	1,219,892				\$ 1,219,892
Money Market	<u>233,258</u>				<u>233,258</u>
Total	<u>\$ 3,929,432</u>	<u>\$ 1,731,370</u>	<u>\$ 106,923</u>	<u>\$ 637,989</u>	<u>\$ 1,453,150</u>

CALIFORNIA AUTHORITY OF RACING FAIRS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Presented hereafter is the actual rating as of year-end for each investment type as of December 31, 2011:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt from Disclosure</u>	<u>Rating as of Year End</u>		
			<u>AAA to AA</u>	<u>AA- to A-</u>	<u>Not Rated</u>
Corporate Bonds	\$ 783,213		\$ 107,874	\$ 675,339	
Government Bonds	1,636,915	\$ 1,636,915			
LAIF	216,408				\$ 216,408
Money Market	2,308,465				2,308,465
Total	<u>\$ 4,945,001</u>	<u>\$ 1,636,915</u>	<u>\$ 107,874</u>	<u>\$ 675,339</u>	<u>\$ 2,524,873</u>

Foreign Currency Risk

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

Derivative Investments

The Authority did not directly enter into any derivative investments. Information regarding the amount invested in LAIF is not available.

Concentration of Credit Risk

The investment policy of the Authority contains the limitation that the purchase of any single investment shall not exceed 20% of the portfolio's total invested assets, or two million dollars, whichever is greater. Government issued or backed securities shall be exempt from this restriction. As of December 31, 2012, the Authority had \$694,764 invested with the Federal Home Loan Mortgage Corporation which represents more than 5% of the total portfolio.

Custodial Credit Risk

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

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

CALIFORNIA AUTHORITY OF RACING FAIRS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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

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

3. FIXED ASSETS

Fixed assets activity consisted of the following during the year ended December 31, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Vehicles	\$ 324,871	\$ 41,801		\$ 366,672
Furniture and equipment	377,035			377,035
Computers	<u>98,150</u>	<u>2,318</u>		<u>100,468</u>
Total	800,056	44,119		844,175
Less accumulated depreciation	<u>(608,541)</u>	<u>(67,465)</u>		<u>(676,006)</u>
Fixed assets - net	<u>\$ 191,515</u>	<u>\$ (23,346)</u>	<u>\$</u>	<u>\$ 168,169</u>

Fixed assets activity consisted of the following during the year ended December 31, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Vehicles	\$ 320,871	\$ 4,000		\$ 324,871
Furniture and equipment	377,035			377,035
Computers	<u>94,897</u>	<u>3,253</u>		<u>98,150</u>
Total	792,803	7,253		800,056
Less accumulated depreciation	<u>(486,429)</u>	<u>(122,112)</u>		<u>(608,541)</u>
Fixed assets - net	<u>\$ 306,374</u>	<u>\$ (114,859)</u>	<u>\$</u>	<u>\$ 191,515</u>

CALIFORNIA AUTHORITY OF RACING FAIRS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

4. DEFERRED COMPENSATION PLAN

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

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

5. DEFINED BENEFIT PENSION PLAN

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

Plan Description

The Authority's defined benefit pension plan (the Plan) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of the Miscellaneous 2% at 55 Risk Pool of CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California.

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

Funding Policy

Active Authority employees are required to contribute 7% of their annual covered salary. The Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members (1.170% for 2011-12 and 2010-11). The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. For the years ended June 30, 2012 and 2011, there were no required employer contributions. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

In addition to contributing the required employer contribution as calculated by CalPERS, the Authority also contributes 2% of employees' 7%, with the employee contributing the remaining 5%.

CALIFORNIA AUTHORITY OF RACING FAIRS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Annual Pension Cost

For the year ended December 31, 2012, the Authority's contribution amount for the 2% contribution towards the employees required 7% was \$9,431 and \$9,903 for 2012 and 2011, respectively. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age actuarial cost method with contributions determined as a percent of pay. The actuarial assumptions included (a) a 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by age, service, and type of employment, ranging from 3.55% to 14.45% annually for miscellaneous members, and (c) a 3.25% per year cost-of-living adjustment. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the Plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into the CalPERS Risk Pool. All changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20 year period.

If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period. Each year, a single amortization base is created, using the net period for the multiple bases. At the time of joining the CalPERS Risk Pool, a side fund was created to account for the difference between the funded status of the pool and the funded status of the Authority's plan. As of the June 30, 2010 actuarial valuation, the Authority's side fund asset at the end of 2011 was \$233,405. The remaining amortization period at the June 30, 2010 actuarial valuation was 6 years.

Three-Year Trend Information for the Plan

<u>Fiscal Year Ended December 31:</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Obligation (Asset) / Liability</u>
2010	\$ 8,047	100%	\$ 0
2011	\$ 9,903	100%	\$ 0
2012	\$ 9,431	100%	\$ 0

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

CALIFORNIA AUTHORITY OF RACING FAIRS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Funded Status of the Plan

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Excess Assets</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>Excess Assets as a Percentage of Payroll</u>
6/30/2009	\$ 3,104,798,222	\$ 2,758,511,101	\$ 346,287,121	88.9%	\$ 742,981,488	46.6%
6/30/2010	\$ 3,309,064,934	\$ 2,946,408,106	\$ 362,656,828	89.0%	\$ 748,401,352	48.5%

Plan specific data for the Authority's Plan was no longer made available by CalPERS after the June 30, 2004 valuation.

6. POSTEMPLOYMENT HEALTH CARE BENEFITS

The Authority sponsors a single-employer postemployment health care benefit plan (the Plan). The Authority contributes 90-100 percent, depending on the years of service, and the number of dependents covered. Benefits are in accordance with the Authority's employment contracts to all employees who retire from the Authority on or after attaining age 50 with at least 5 years of service. During the year ended December 31, 2012, 5 retirees met these eligibility requirements.

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

The Authority elected to participate in an irrevocable trust. The Trust, California Employers' Retiree Benefit Trust (CERBT) fund, is administered by CalPERS. The Authority elected to fully fund the Plan through December 31, 2009 by accumulating assets in CERBT. The Board reserves the authority to review and amend the funding policy from time to time to ensure that the funding policy continues to best suit the circumstances of the Authority.

The value of the accumulated assets in CERBT for the years ended December 31, 2012 and 2011 was \$1,074,046 and \$980,038, respectively.

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

CALIFORNIA AUTHORITY OF RACING FAIRS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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

Actuarial cost method	<u>2012</u>	<u>2011</u>
	Level dollar	Level % of projected payroll over 1 year
Amortization method		
Remaining amortization period at December 31	28	29
Interest rate assumption	7.75%	7.75%
Health inflation assumption	Actual	9%
Annual required contribution	\$ 2,775	\$ 35,083
Interest on net OPEB obligation	(9,447)	
Adjustment to annual required contribution	10,780	
Annual OPEB expense	4,108	35,083
Contributions made	(44,884)	(31,922)
(Increase) decrease in OPEB asset	(40,776)	3,161
Net OPEB asset at January 1:	(89,564)	(92,725)
Net OPEB asset at December 31:	\$ (130,340)	\$ (89,564)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB asset is as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB expense</u>	<u>% of annual OPEB expense contributed</u>	<u>Net OPEB obligation (asset)</u>
12/31/10	\$ 33,688	102%	\$ (92,725)
12/31/11	\$ 35,083	91%	\$ (89,564)
12/31/12	\$ 4,108	1093%	\$ (130,340)

The Authority's funding progress for other postemployment benefits as of the most recent valuation, January 1, 2011, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ([b - a] / c)</u>
01/01/11	\$ 988,823	\$ 656,693	\$ (332,130)	151%	\$ 467,627	71%

CALIFORNIA AUTHORITY OF RACING FAIRS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

7. LIVE RACING FAIR ACTIVITY

The Authority administers the horse racing receipts and disbursements on behalf of the live racing fairs. Such takeout and disbursements are not reflected on the statement of revenues, expenses and changes in net position.

Horse racing receipts and disbursements on behalf of the live racing fairs are detailed as follows for the year ended December 31, 2012:

Receipts:	
Takeout	\$ 20,857,455*
Supplemental purses	182,850
Programs	139,023
Intra outs/refunds	289,526
Rights fees	110,410
Misc. revenue	27,196
Decoder revenue	124,694
Share of track expenses	(21,850)
AB509 Los Alamitos	122,108
Combined purse report	(128,327)
Overlap/redistribution Humboldt	199,961
2011/2012 CHRB surplus	52,170
2011 Los Alamitos proxy fees	24,201
	<hr/>
Total receipts	\$ 21,979,417
Expenses:	
License fees	\$ 206,482*
F&E Recapture	31,798*
Intrastate/interstate fees	5,965,596*
Location fees	1,067,329*
Promotion	141,930*
City/county fees	222,061*
Offsite stabling	709,645*
Equine lab	70,952*
Owners/breeders	413,375*
Host commission/horsemen	12,717,168*
CHRB Support	403,131*
CHRIMS	28,386*
2011/2012 CHRB surplus	1,564*
	<hr/>
Total expenses	\$ 21,979,417

CALIFORNIA AUTHORITY OF RACING FAIRS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Horse racing receipts and disbursements on behalf of the live racing fairs are detailed as follows for the year ended December 31, 2011:

Receipts:	
Takeout	\$ 21,457,065*
Supplemental purses	378,040
Programs	150,614
Intra outs/refunds	316,599
Rights fees	140,729
Misc. revenue	26,581
Decoder revenue	112,863
Share of track expenses	(24,273)
AB509 Los Alamitos	140,562
Combined purse report	<u>46,404</u>
Total receipts	<u>\$ 22,745,184</u>
Expenses:	
License fees	\$ 212,066*
F&E Recapture	32,515*
Intrastate/interstate fees	6,572,513*
Location fees	1,040,809*
Promotion	138,187*
City/county fees	218,317*
Offsite stabling	663,281*
Equine lab	66,158*
Owners/breeders	412,279*
Host commission/horsemen	12,943,501*
CHRB Support	417,921*
CHRIMS	<u>27,637*</u>
Total expenses	<u>\$ 22,745,184</u>

* Represents activities for live racing that were audited by other auditors.

8. MEMBER FUNDS

The Authority administers various construction and maintenance funds on behalf of its members. These transactions are included in the accompanying financial statements. The advances are considered revenue to the extent to which the Authority incurs related expenses. The balances of the funds are classified as liabilities.

CALIFORNIA AUTHORITY OF RACING FAIRS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

9. SAN MATEO LOAN

The Authority's Balance Sheet includes a loan to the San Mateo County Fair for a portion of the construction of a satellite wagering facility. Funds used to provide this loan came through an allocation from the F&E fund. This is a zero percent interest loan to be repaid over ten years. Principal payments will be collected by the Authority and redistributed to member fairs as directed by the CARF Funding Committee.

10. INVESTMENT INCOME

The Authority allocates investment income to the F&E funds based on the letters of understanding for these funds. The detail of the investment income is as follows for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Construction project funds interest	\$ 11,029	\$ 3,649
Other interest	<u>9,142</u>	<u>14,756</u>
Total	<u>\$ 20,171</u>	<u>\$ 18,405</u>

11. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2012, the Authority used the State Compensation Insurance Fund (SCIF) for Workers' Compensation; Associated Industries Insurance Company for General Liability, Automobile, Public Officials' Errors & Omissions, and Employment Practices Liability; Lexington Insurance Company for property; and National Union Fire Insurance Company for Government Crime bond. Coverage is as follows:

1. Workers' Compensation to statutory limits.
2. Property
Deductible: \$1,000
Coverage: All risk at repair or replacement value
3. Liability
Deductibles: \$1,000 except \$10,000 for employment practices liability
Coverages and limits: General liability \$3,000,000, Automobile liability \$3,000,000, Public officials' errors and omissions \$3,000,000, Employment Practices liability \$2,000,000.
4. Crime
Deductible: \$2,500
Coverages and limits: Public Employee Theft, Including Faithful Performance of Duty, \$1,000,000, Forgery or Alteration including Credit, Debit or Charge Card Forgery \$1,000,000, Theft, Disappearance and Destruction \$1,000,000, Robbery and Safe Burglary \$1,000,000, Computer Fraud including Funds Transfer Coverage \$1,000,000, Money Orders & Counterfeit Paper Currency \$1,000,000.

CALIFORNIA AUTHORITY OF RACING FAIRS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

12. ECONOMIC OUTLOOK

The Authority's F&E funding was eliminated in 2011 due to the passage of Assembly Bill 95. This discontinuation of funding breaks with a tradition of financial support, upon which the Authority's member fairs have relied for several years prior to 2012. The loss of funding has had a significant effect on the Authority and its member fairs. Historically, the Authority has seldom created sufficient net revenues to allocate towards capital projects and supplemental purses for the member fairs. Based upon this reality, there may continue to be a decrease in capital projects and supplemental purses provided to the member fairs in the future.

REQUIRED SUPPLEMENTARY INFORMATION

CALIFORNIA AUTHORITY OF RACING FAIRS

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS DECEMBER 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
01/01/09	\$ 0	\$ 818,387	\$ 818,387	0%	\$ 457,779	179%
01/01/11	\$ 988,823	\$ 656,693	\$ (332,130)	151%	\$ 467,627	71%

ADDITIONAL INFORMATION

CALIFORNIA AUTHORITY OF RACING FAIRS

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2012

	<u>Agency</u>	<u>Programs</u>	<u>Live Racing</u>	<u>Construction Projects</u>	<u>Total</u>
OPERATING REVENUES:					
Member dues	\$ 270,062				\$ 270,062
Administration fees	134,036				134,036
Racing program reimbursements		\$ 262,545			262,545
Live racing reimbursements			\$ 1,092,571		1,092,571
Construction projects				\$ 241,643	241,643
Marketing reimbursements	55,704				55,704
Miscellaneous income	82				82
Total operating revenue	459,884	262,545	1,092,571	241,643	2,056,643
OPERATING EXPENSES:					
Construction projects				252,672	252,672
Racing programs		235,260			235,260
Live racing			481,631		481,631
Marketing expense	55,704				55,704
Salaries and benefits	289,073		419,054		708,127
Accounting and legal	63,190		67,820		131,010
Travel and meetings	36,646		43,748		80,394
Other operating	210,488		76,207	50,078	336,773
Total operating expenses	655,101	235,260	1,088,460	302,750	2,281,571
Operating income (loss)	(195,217)	27,285	4,111	(61,107)	(224,928)
NON-OPERATING INCOME:					
Investment income	9,142			11,029	20,171
Increase (decrease) in net position	\$ (186,075)	\$ 27,285	\$ 4,111	\$ (50,078)	\$ (204,757)

CALIFORNIA AUTHORITY OF RACING FAIRS

ADW RACING ACTIVITY YEAR ENDED DECEMBER 31, 2012

ADW distributions payable at December 31, 2011	\$ <u>5,746</u>
Receipts:	
Net market access fees	3,519,823
Host Fees	292,338
Worker's comp	<u>9,972</u>
Total receipts	<u>3,822,132</u>
Disbursements:	
CHRB Support & F&E Fund	11,549
Host commissions/horsemen	2,969,773
Breeders	139,624
Worker's Comp to Horsemen	45,646
Equine	27,681
Backstretch	41,522
Location Fees	433,600
AB480	69,694
Retirement Fund	75,488
DIR	<u>7,550</u>
Total disbursements	<u>3,822,127</u>
ADW distributions payable at December 31, 2012	\$ <u>5,751</u>

To the Management and Board of Directors
California Authority of Racing Fairs

In planning and performing our audit of the financial statements of the business type activities of the California Authority of Racing Fairs (CARF) as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered CARF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CARF's internal controls. Accordingly, we do not express an opinion on the effectiveness of CARF's internal controls.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

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

PAYMASTER SEGREGATION OF DUTIES (repeat finding from prior years)

Finding:

Segregation of duties is an important element of strong internal controls. Currently, the Paymaster has full access to the Paymaster accounting system, receives checks, prepares deposits, and is the check signer. The lack of segregation of these duties creates opportunities for undetected misappropriation of cash receipts and disbursements.

Recommendation:

Because of the size of the organization and the nature of the Paymaster position and duties, we acknowledge total segregation of duties may not be possible; however cash is a very high-risk area. The most efficient way of doing this for a small organization would be to have one individual, who has no access to the accounting system and records to receive all checks/cash and prepare a daily listing of cash receipts before they are given to the individual to perform all the remaining duties necessary to process. In addition, the authorized check signer should not have access to the accounting system and records or access to cash receipts.

Management Response:

While Management acknowledges the risk included with the Paymaster position, they do not deem it practical to implement our recommendation.

To the Management and Board of Directors
California Authority of Racing Fairs
September 27, 2012
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ADVANCE DEPOSIT WAGERING AGREEMENTS (repeat finding from prior year)

Finding:

Advance deposit wagering represents a significant part of CARF's operations. CARF contracts with three companies to perform simulcast wagering services. CARF is unable to provide sufficient audit evidence to support the revenue generated from these contracts.

Recommendation:

Since the accuracy of the financial activity surrounding these operations are dependent upon the vendors' internal controls, we recommend CARF consider adding language to new and renewed contracts that would require any such company used to annually provide CARF a report on their internal controls (SAS 70 report). This would provide CARF's management with additional assurance that these companies operate with sound internal controls and that the financial data received from them is accurate. Furthermore, this may enable CARF to obtain an unqualified opinion on its annual financial audit.

Management Response:

Management is in the process of adding language to new and reviewed contracts that will require any company used to annually provide CARF a report on their internal controls (SAS 70 report).

This communication is intended solely for the information and use of management, the governing body, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

CARF management's written response to the significant deficiency and material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

August 12, 2013

COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

We have audited the financial statements of the business-type activities California Authority of Racing Fairs (the Authority) for the year ended December 31, 2012, and have issued our report thereon. Professional standards require that we provide you with the following information related to our audit. We are providing the Authority's Board of Directors with information regarding the scope and results of the audit to assist the Board of Directors in overseeing management's financial reporting and disclosure process. Below we summarize these required communications.

Area	Comments
<p>Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS).</p> <p>The financial statements are the responsibility of management. As stated in our engagement letter, our responsibility is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.</p>	<p>We issued a qualified opinion on the financial statements of the Authority for the year ended December 31, 2012. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to apply auditing procedures to the advance deposit wagering activity, the financial statements were presented fairly, in all material respects, as of and for the year ended December 31, 2012.</p>

Area	Comments
<p>Disagreements with Management</p> <p>For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.</p>	<p>We are pleased to report that no such disagreements arose during the course of our audit.</p>
<p>Management Representations</p>	<p>We have requested certain representations from management that are included in their letter to us.</p>
<p>Management Consultations with Other Independent Accountants</p> <p>In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.</p>	<p>To our knowledge, there were no such consultations with other accountants.</p>
<p>Difficulties Encountered in Performing the Audit</p>	<p>We encountered no significant difficulties in dealing with management in performing and completing our audit. Management and staff were well prepared and very cooperative.</p>

Area	Comments
<p>Planned Scope and Timing of the Audit</p>	<p>We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.</p>
<p>Significant Accounting Policies</p> <p>Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.</p>	<p>The significant accounting policies used by Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012.</p> <p>We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.</p>
<p>Management Judgments and Accounting Estimates</p> <p>Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.</p>	<p>We considered the methodologies and judgments used in assessing the collectability of account receivables, selection of useful lives of property and equipment, and the asset associated with the other postemployment benefits. We found the judgments used to be appropriate.</p>

Area	Comments
<p>Other Audit Findings or Issues</p>	<p>We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.</p> <p>A separate management letter was issued for material weaknesses identified.</p>
<p>Corrected and Uncorrected Misstatements</p> <p>Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.</p>	<p>No significant adjustments or omitted disclosures were identified during our audit.</p>
<p>Required Supplementary Information</p> <p>Government Accounting Standards Board (GASB) requires certain supplementary information to accompany the Authority's basic financial statements to be in conformity with generally accepted accounting principles. Such information has been subjected to limited procedures such as inquires of management about the methods of preparing the information and comparing the information for consistency with the basic financial statements, however, we do not express an opinion because of the limited nature of our procedures.</p>	<p>The following required supplementary information is required to accompany the Authority's basic financial statements and subjected to limited procedures, but no opinion has been expressed:</p> <ul style="list-style-type: none"> • Management's Discussion and Analysis • Schedule of Funding Progress for Other Postemployment Benefits

CALIFORNIA AUTHORITY OF RACING FAIRS
BALANCE SHEET
June 30, 2013

ASSETS		
	CURRENT YTD	PRIOR YTD
	6/30/13	6/30/12
Current Assets		
CASH - LAIF & INVESTMENTS	1,053,946	1,286,006
CASH - OPERATING/MM	100,571	827,271
CASH - TRUST & TOC	751,660	948,691
MARKETABLE SECURITIES	2,410,296	2,426,016
A/R - DUES	32,383	20,853
A/R - PROGRAMS	62,554	33,371
A/R - RACING FAIRS	563,879	371,561
A/R - ERF/OTHER A/R	342,423	433,272
PREPAIDS/DEPOSITS	29,923	30,167
OPEB ASSETS	130,340	89,564
Total Current Assets	5,477,974	6,466,772
Fixed Assets		
AUTOMOBILE	54,194	70,947
FURNITURE & EQUIPMENT	20	566
COMPUTER HARDWARE/SOFTWARE	4,343	5,249
TRACK EQUIPMENT	100,156	150,234
Total Fixed Assets (Net of Depr.)	158,713	226,997
TOTAL ASSETS	5,636,687	6,693,769
LIABILITIES & NET ASSETS		
Current Liabilities		
A/P & WITHHOLDINGS	870,643	896,227
A/P - PROGRAM ROYALTIES TO HOST	56,038	66,834
RACING DISTRIBUTIONS	(30,305)	(12,666)
PURSES	596,711	1,064,775
TRACK SAFETY/MAINT.	154,886	392,299
INFOTEXT UPGRADE	0	0
CMC HORSEMENS PROGRAMS	41,643	0
LOU-1 - TIMING/TRACK SURFACE/AREA ENHANC	0	0
LOU-2 - SPECIAL EVENT CENTERS	0	0
LOU-3 - SATELLITE SURVEY/TURF STUDY	0	0
EQUIPMENT REPLACEMENT FUND	0	0
LOU-5 - SYMPOSIUM	3,805	3,805
MINI SATELLITE FUNDS	422,114	500,867
CAPITAL IMPROVEMENT FUND	150,021	75,117
Total Current Liabilities	2,265,556	2,987,259
Non-Current Liabilities		
CHRIMS FUNDS	92,348	92,051
CHANGE FUND	1,014,000	1,014,000
FAIRS - EQUIP REPLACEMENT FUNDS	1,471,012	1,594,117
Total Non-Current Liabilities	2,577,359	2,700,168
TOTAL LIABILITIES	4,842,915	5,687,426
Net Assets		
FUND EQUITY	815,124	969,806
F&E Net Assets	100,156	150,234
CARF@GG	0	0
RETIREMENT CONTINGENCY	0	0
NET INCOME/LOSS	(121,507)	(113,698)
Total Net Assets	793,773	1,006,342
TOTAL LIABILITIES & NET ASSETS	5,636,687	6,693,769

**California Authority of Racing Fairs
Agency Income Statement
June 30, 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	30	20,030	20,000	30	100%
Interest Income	14,756	9,141	11,079	4,990	(4,759)	15,000	(19,759)	-32%
Member Dues	288,330	270,062	145,802	149,235	127,380	265,555	(138,175)	48%
CARF South Prog Admin Fee	18,333	18,841	9,293	10,476	8,368	19,986	(11,618)	42%
CARF Projects Admin Fee	442,753	0	410,503	0	0	0	0	0%
CARF Live Racing Admin Fee	157,607	138,147	11,387	13,038	22,743	142,277	(119,534)	16%
Total Revenue	922,760	436,272	588,064	177,769	173,762	462,818	(289,055)	38%
Expenses:								
Salaries	310,701	250,529	133,668	113,231	84,279	169,215	84,936	50%
Employee Benefits	41,866	27,265	19,545	15,849	13,612	19,321	5,709	70%
Post Retirement Benefits	35,083	4,108	17,413	17,692	18,540	45,000	26,460	41%
Payroll Taxes	14,970	7,171	8,082	4,933	4,502	8,075	3,573	56%
Accounting Costs	23,384	16,579	12,009	8,159	8,125	16,250	8,125	50%
Audit Services	8,925	9,485	6,300	5,950	4,900	6,375	1,475	77%
Automobile Expense	3,251	7,690	468	1,932	36	7,000	6,964	1%
Contracted Services	3,574	11,770	1,544	1,861	8,824	4,500	(4,324)	196%
Depreciation	12,634	17,369	0	6,966	10,191	19,986	9,795	51%
Dues & Subscriptions	1,819	2,640	741	1,426	1,517	2,700	1,183	56%
Insurance Expense	38,772	44,196	18,555	21,474	23,348	45,000	21,652	52%
Legal Expenses	8,009	37,126	7,372	13,485	53,130	15,000	(38,130)	354%
Legislative Expenses	56,144	53,344	28,102	28,141	27,965	50,000	22,035	56%
Meetings Expense	3,782	2,189	2,737	1,687	1,676	3,000	1,324	56%
Misc. (Ag Day Sponsor)	51	326	3	196	131	0	(131)	0%
Office Supplies	27,362	31,394	14,323	17,877	9,394	25,000	15,606	38%
Postage & Shipping	3,960	3,849	1,878	1,752	1,162	3,600	2,438	32%
Rent (Tribute Road)	35,770	35,770	17,885	17,885	17,885	35,770	17,885	50%
Repairs & Maintenance	328	0	0	0	0	500	500	0%
Telephone Expense	11,451	9,481	5,985	4,660	4,191	10,000	5,809	42%
Training	1,139	350	0	350	0	1,000	1,000	0%
Travel Expense	23,817	26,767	4,511	11,957	3,944	25,000	21,056	16%
Total Expenses	666,795	599,399	301,119	297,465	297,351	512,292	214,941	58%
Agency Income (Loss)	255,965	(163,126)	286,945	(119,696)	(123,589)	(49,474)	(74,115)	
Southern Prog Income (Loss)	4,160	8,444	1,570	5,998	2,082	2,814	(23,968)	
Total Bal Sheet Net Income (Loss)	260,125	(154,682)	288,514	(113,698)	(121,507)	(46,660)	(98,082)	

**California Authority of Racing Fairs
Southern Region Income Statement
June 30, 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	133,944	139,695	118,971	266,475	(147,504)	45%
Other Revenue	0	0	0	0	0	0	0	0%
Royalties/Fees Due Host	(231,975)	(235,260)	(123,082)	(123,220)	(108,522)	(243,675)	135,153	45%
Total Revenue	22,493	27,285	10,863	16,474	10,450	22,800	(12,350)	46%
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	10,863	16,474	10,450	22,800	(12,350)	46%
CARF Admin Fee	18,333	18,841	9,293	10,476	8,368	19,986	11,618	42%
Rebate								
Income (Loss)	4,160	8,444	1,570	5,998	2,082	2,814	(23,968)	74%

**California Authority of Racing Fairs
Project Management Income Statement
June 30, 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	
Revenue:								
CARF Admin Fee	442,753	0	410,503	0	0	0	0	0%
Project Management	0	0	0	0	0	0	0	0%
Total Revenue	442,753	0	410,503	0	0	0	0	0%
Expenses:								
Salaries Expense	0	0	0	0	0	0	0	0%
Employee Benefits	0	0	0	0	0	0	0	0%
Payroll Taxes	0	0	0	0	0	0	0	0%
Accounting Costs	0	0	0	0	0	0	0	0%
Audit Services	0	0	0	0	0	0	0	0%
Automobile Expense	0	0	0	0	0	0	0	0%
Contracted Services	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%
Misc. Storage	0	0	0	0	0	0	0	0%
Total Expenses	0	0	0	0	0	0	0	0%
CARF Admin Fee	442,753	0	410,503	0	0	0	0	0%

**California Authority of Racing Fairs
Live Racing Income Statement
June 30, 2013**

	2011=58days	2012= 61days	2013=43 days					
	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	4,241	(4,685)	12,000	(16,685)	-39%
Racing Fairs Admin Fee	69,945	79,644	16,689	25,766	27,428	95,277	(67,849)	29%
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	222,514	343,679	365,713	1,270,360	(904,647)	29%
Advertising Revenue	2,500	4,100	4,750	0	0	4,000	(4,000)	0%
Total	1,121,708	1,226,607	326,452	373,686	388,457	1,441,637	(1,053,180)	27%
Expenses:								
Salaries	275,424	362,294	101,021	137,509	174,841	419,004	244,163	42%
Employee Benefits	48,505	41,443	22,800	21,360	34,891	55,684	20,793	63%
Payroll Taxes	12,669	15,317	5,902	3,843	11,535	24,647	13,112	47%
Accounting Costs	42,255	49,394	21,130	24,385	24,628	48,750	24,122	51%
Audit Services	16,575	17,615	11,700	11,050	9,100	19,125	10,025	48%
Automobile Expense	0	40	0	40	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	301	401	734	2,000	1,266	37%
Misc. Exp (Storage,Bank fee)	0	339	0	0	0	0	0	0%
Telephone Expense	3,051	5,794	1,225	1,552	2,311	5,000	2,689	46%
Travel Expense	34,340	40,923	7,353	6,188	3,582	40,000	36,418	9%
Sub-Totals	434,164	534,841	171,432	207,139	261,622	620,210	358,588	42%
Racing Support Services:								
Announcer	17,850	22,800	9,150	0	0	23,850	23,850	0%
Condition Bk/Program Cover	15,748	15,575	6,493	4,325	3,598	20,000	16,402	18%
Racing Operations Support	57,834	79,596	45,988	48,866	37,208	65,000	27,792	57%
TC02 Testing	6,940	6,915	0	995	0	7,500	7,500	0%
Marketing/Web Devel	160	120	100	60	84	3,000	2,916	3%
Network Management	2,641	260	844	260	0	0	0	0%
Paymaster Operations	6,044	7,383	2,607	2,585	2,914	7,500	4,586	39%
Program Production	171,503	179,919	27,068	19,966	244	190,000	189,756	0%
Racing Office System	26,406	38,120	6,839	5,689	4,636	40,000	35,364	12%
Recruitment	13,654	13,712	9,539	9,175	0	15,000	15,000	0%
Jumbo Screen	104,550	114,750	10,200	33,150	30,600	118,450	87,850	26%
Supplies	11,296	13,326	802	665	1,447	15,000	13,553	10%
Tattooing	18,901	16,313	7,505	4,636	5,712	20,000	14,288	29%
Timing/Clocker	0	0	2,334	0	0	0	0	0%
Transportation	1,711	1,915	500	0	0	3,500	3,500	0%
TV Production/Simulcast	74,701	42,916	13,663	23,138	17,650	46,350	28,700	38%
Racetrack Safety & Maint.	0	0	0	0	0	104,000	104,000	0%
Sub-Totals	529,938	553,619	143,633	153,509	104,092	679,150	575,058	15%
Total Expenses	964,102	1,088,459	315,065	360,648	365,713	1,299,360	933,647	28%
CARF Admin Fee	157,607	138,147	11,387	13,038	22,743	142,277	119,534	16%

VII.

Christopher Korby

From: "Caroline Titus" <editor@ferndaleenterprise.us>
To: "Christopher Korby" <korby@calfairs.net>
Sent: September 17, 2013 2:37 AM
Subject: Public records request

Chris,

Please make available for public inspection all correspondence, including electronic, in regard to the 2014/2015 Northern California racing calendar and the Humboldt County Fair.

Caroline Titus
Publisher/Editor
The Ferndale Enterprise
Weekly since 1878
707-786-3068
editor@ferndaleenterprise.us
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<http://www.ferndaleenterprise.us>
Follow us on Twitter [@frndenterprise](https://twitter.com/frndenterprise)

Christopher Korby

From: "Caroline Titus" <editor@ferndaleenterprise.us>
To: "Ann Grottveit" <AGrottveit@kscsacramento.com>
Cc: "Chris Korby" <korby@calfairs.net>; "John Alkire" <jalkire@fresnofair.com>;
"Rick K. Pickering" <RPickering@calexpo.com>; <cpboro@stancofair.com>;
<kelly@monterycountyfair.com>; <jacobs@avfair.com>
Sent: September 20, 2013 3:21 AM
Subject: Re: Cal. Authority of Racing Fairs

Thanks, Ann.

How much did CARF pay you to write us a letter directing us to the CARF website to learn when other meetings of CARF were not teleconferenced?

Regarding the matter of CARF not offering teleconferencing of its last two live racing committee meetings, on June 3 we were told that "CARF is presently reviewing this matter." We followed up that statement with a question of who is "reviewing" the matter, since we did not see the subject on the agenda of either the live racing committee meeting or the board meeting. We received no response.

On September 16, we were told that "from time to time," CARF "elects to conduct only a live meeting of the LRC or the board meeting "or both to encourage face to face participation of committee or board members.

According to the CARF website, which you directed us to, it has been SIX years since a meeting was not teleconferenced. (Although, it may have been teleconferenced in 2007 but minutes are not available of four 2007 meetings on the CARF website.)

So, does "time to time" mean in six-year spans?

Again, we are seeking answers as to why the last two meetings of the live racing committee of CARF have not been teleconferenced and who made that decision.

We look forward to your answer or an answer from the CARF executive director or perhaps one or several of CARF directors.

Thanks,
c.

Caroline Titus
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On Sep 19, 2013, at 5:35 PM, Ann Grottveit wrote:

The original copy of the attached correspondence will follow by regular First Class mail.

<image003.jpg>

Ann M. Grottveit
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<09 19 13 PRA Resp. C Titus Ferndale Enterprise.pdf>



Fantasy Sports – Targeting A Younger Fan Base

*Racing can benefit with increased handle
from targeting and educating fantasy sports
enthusiasts – a potential new wave of racing customers*

We believe fantasy sports enthusiasts, properly recruited and educated, are a target rich audience for future racing fans and bettors. A bit of an introduction. Fantasy sports games involve consumers creating a “fantasy team” of athletes by selecting different players across different teams, which fantasy team “competes” with other fantasy teams selected by other consumers. Selected athletes earn points based on a fantasy scoring system for their performance in real world sporting events. The consumer who picks the athletes who earn the most points wins.

Fans of fantasy sports approach their game the same way our racing fans approach handicapping. In fantasy sports, data is critical. An informed player wants to know the facts. He wants to know whether a potential player on his team has been playing well recently, if he’s suffered injuries, who he’s up against on the field or court, what’s the condition of the playing surface, whether his coach has the ability to outsmart his opposing coach. These and numerous other factors can impact whether a player is selected to fill a position on the consumer’s fantasy team.

It’s the same in racing. Bettors want to know relevant facts in order to come to an opinion on a runner. They want to know the condition of the surface, the running distance, has he recently shipped in, how long since his last race, how he did in his recent outings, what’s the record of his jockey and trainer. These and many other factors are used by racing fans to decide on a runner and on a bet.

And bankroll enters the picture in both cases. In fantasy sports, you typically have a set bankroll to spend in selecting players, which have salaries attached to each player. You’ve got to manage your bankroll and decide where you want to spend your money, some on expensive talent, some on lesser value players who you think might have a break-out week. And, of course, managing your money is a cornerstone of pari-mutuel wagering. In each activity, you’ve got to decide how to spend your money for the best advantage.

Fantasy sports for real money has been clearly legal since sanctioned in the 2006 federal legislation which also white-listed pari-mutuel wagering across state lines. The Unlawful Internet Gaming Enforcement Act (UIGEA) of 2006 contained exemptions for and confirmed the legality of pari-mutuel wagering and fantasy sports games for real money.

Racing would be well served to target these “thinking” consumers, who prefer a strategic game, rather than pulling a handle on a slot machine or buying a lottery ticket at the local convenience store. These “thinking” fantasy sports customers have the added benefit of providing a younger pool of players to be exposed to and enjoy racing.

The number of people participating in fantasy sports is large and growing, and attractive for racing. In 2013, over 35 million people have played in fantasy sports games in North America, having doubled in the last five years. The average age is 31.67, an especially attractive demographic for the racing industry. With 78.1% having a college degree or higher, and with household income of over \$92,000, 80% higher than the US median, it is an audience which is primed for another thinking person’s game - pari-mutuel wagering. For more data about the fantasy sports industry, visit www.fsta.org.

To tap into this market, we’ve pursued two initiatives to benefit racing. First, Lien Games Racing launched BAM Software’s Fantasy Sports Platform at its flagship website, BetAmerica.com. It offers great fantasy sports games that appeal to the fantasy sports enthusiast. The plan is to attract fantasy sports players to BetAmerica.com and offer them the fantasy sports games they want.

And then, once a customer is in the database, to regularly educate them and incentivize them to try horse racing. The same type of thinking person who enjoys fantasy will enjoy racing, if we walk them through an education program. And having them on a racing site lets us do that. And let’s us incentivize them to give racing a try, again and again.

The second initiative is BAM Software’s introduction of FanEx Sports, its turn-key fantasy games platform, to land-based racing facilities. It’s all about utilizing a new tool to bring younger customers to racetracks and off-track wagering facilities. It’s offered through wireless networks, and consumers can either bring your own device (“BYOD”) to the track or OTB, or use one of the BAM-supplied iPads to enter fantasy contests. The BAM Platform is provided free to racing related facilities. Plus, facilities can earn a share of all entry fees paid by consumers at their location. It not only brings in new fans, it brings in new revenue for the tracks and OTBs. And, more importantly, it brings new potential racing fans into the building, where they can enjoy themselves and be exposed to horse racing. It provides an opportunity for the facility to engage with a new customer, and expose and educate the sports fan to the thrill and excitement horse racing.

As an added option, the BAM Fantasy Platform can also be used for promotional offerings by land based racing facilities. In addition to bringing in new fans, the BAM Fantasy Platform can be used to offer unique promotional contests to increase the frequency of visits of your current fan base. You can offer a variety of racing related contests – from picking the jockey who earns the most wins over a week to picking the trainer with the most horses finishing in the money on a given day. The potential kinds of contest are almost endless. It’s an option offered to land based racing facilities, hoping to help increase frequency of customer visits, and extend the length of each customer visit.

We've got a skilled product team and marketing team to achieve our objectives, bringing new fans to pari-mutuel wagering, both online and land-based racing facilities. And helping to keep existing fans coming back.

October 2013
BAM Software and Services LLC

For more information, contact:

John J. Ford
Chief Executive Officer
BAM Software and Services LLC
577 Howard Street
Second Floor
San Francisco, California 94105
925.942.9000, Ext 100
john@bamsas.com

Fantasy Games

Opportunities for Racing

John J. Ford
BAM Software and Services
2012 Global Symposium on Racing & Gaming
The Games People Play
December 4, 2012



John J. Ford

Attorney

General Counsel and VP, Ladbroke Racing

Consultant/Attorney

CEO, BAM Software

BAM Software and Services LLC

Formed 2007

Created Independent Platform for Account Based Games

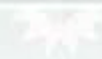
Launched BetAmerica.com in 2008 with Lien Games Racing

Added Additional ADWs for horses and greyhounds

Created Kiosks to increase number of betting locations in U.S.

Launched First Fantasy Football Games in 2010

Expanded Fantasy Games Offerings in 2012



What are Fantasy Games?

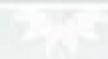
In Sports, picking players, not teams.

Create your “Fantasy Team”, picking different players from different teams.

As the game plays, your players earn points for performing – passing and running yardage, homeruns, blocked shots.

Traditional – season long fantasy sports leagues.

Growing Opportunity in Daily/Weekly games.



Who is the Fantasy Games Consumer?

35+ Million strong today, just on fantasy sports.

3 out of 4 play against people they know – very social game.

Average Household Income of \$92,750

78% own their own home

Average age is 41.4 years old (51 for racing)

Sports fans twice as likely to bet on racing

Today, \$1.9 Billion spent per year on Fantasy Sports



Is this Legal?

Dependant on state law, like racing.

Clearly exempted under Federal 2006 UIGEA, like racing.

Under UIGEA, certain requirements must be met for a fantasy or simulation sports game or educational game or contest:

1. Prize set in advance and not dependant on number of players or fees paid.
2. Winning outcomes reflect knowledge and skill of consumers.
3. Winners determined predominantly by accumulated statistical results of performance of individuals in real world events.
4. While mostly focused on sports, Pop Culture Fantasy Games also possible.



How can this help racing?

Great demographic for racing.

Marketing tool to bring new younger demographic to the track.

- Attract them to racetrack/OTB
- Retain them longer as games are played
- Keep them returning for future games

Additional money making opportunity.

- Free play, with promotional prizes.
- Offered with entry fees, with cash prizes, with hold for the operator.

Create Horse Racing Fantasy Games





NFL

ELECTION

MLB

NBA

NHL

DEPOSIT

REFER A FRIEND

HELP



John Ford - Gmail

Balance: \$26.00



OFFERED	SUBMITTED	LIVE	COMPLETE		
Contest Name	Type	Entry Amt.	Users	Prize	Start Time
Total Blocks	Sun & Mon - 3TEs	\$1	4/5	\$4.5	12/02/2012 10:00
Bad Coffee	Sun & Mon - QB, RB, WR	\$1	1/10	\$9	12/02/2012 10:00
8 City Brawl	Sunday games - QB, RB, WR	\$5	0/2	\$9	12/02/2012 10:00
Breaking Dragnet	Sun & Mon - 3TEs	\$1	0/5	\$4.5	12/02/2012 10:00
Buddy Dragons	1PMET games - QB, RB, WR - top 2 paid	\$5	0/5	\$22.5	12/02/2012 10:00
Long Junior	1PMET games - 3QBs	\$1	0/2	\$1.8	12/02/2012 10:00
Smashed Trail	Sun & Mon - 3QBs	\$20	0/2	\$36	12/02/2012 10:00
Smashed Train	Sun & Mon - 3QBs	\$5	0/2	\$9	12/02/2012 10:00
Spill Train	Sun & Mon - QB, RB, WR	\$1	0/10	\$9	12/02/2012 10:00

myself [03:30pm]: he has 62 and I have 48 so long as they score 55 or less, I think I win that game

pete k [04:30pm]: great minds think alike, i need Eli to tear it up

myself [05:16pm]: I don't think I need Eli to tear it up though?

pete k [05:19pm]: haha no you want Eli to have a very modes game

pete k [05:20pm]: like he's done for the last 3 weeks, i'm hoping that bye helped


myself [05:32pm]: I suspect I will have a good game, just hope not too good. :)

myself [05:32pm]: Actually, I am seeing I need him to produce at least 8 points in another game for me.

pete k [05:44pm]: i'm in a


Type message here

Friday, November 30, 12



NFL
ELECTION
MLB
NBA
NHL

DEPOSIT
REFER A FRIEND
HELP



John Ford - Gmail

Balance: \$19.00

Total Blocks

Spot is locked.

RULES | OPPONENTS | PRIZE POOL

Vernon Davis 36.86 SF @ STL	Dallas Clark 16.99 TAM @ DEN	Jermaine Gresham 35.84 CIN @ SD
-----------------------------------	------------------------------------	---------------------------------------

STARTS IN: **1 : 15 : 05 : 30**

DAYS HOURS MIN. SEC.

SALARY REMAINING: \$0.31

AVG. REMAINING PER PLAYER: \$0.00

CLEAR ALL
IMPORT
ENTER TIEBREAKER
55.56
SUBMIT

TE	TE	TE				Search Players
Brandon Myers	OAK vs CLE	\$33.49	\$32.07	12.01	ADD +	
Owen Daniels	HOU @ TEN	\$33.05	\$31.91	13.85	ADD +	
SD vs CIN	\$31.56	\$34.06	9.28	ADD +		
Greg Olsen	CAR @ KC	\$31.42	\$31.04	11.26	ADD +	

Thu Nov 29 2012

Back - Daniels is probable for Sunday's game against Tennessee

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Type message here

Friday, November 30, 12



John Ford - Gmail
Balance: \$26.00

Total Blocks

RULES | OPPONENTS | PRIZE POOL

LOCK YOUR SPOT?

myself [03:30pm]: he has 62 and I have 48 so long as they score 55 or less, I think I win that game

[03:30pm]: great minds need Eli to tear it

[03:30pm]: I don't think I can tear it up though?


[03:30pm]: haha no you have a very modest

[03:30pm]: like he's been out for the last 3 weeks, I'm sure I've helped

[03:30pm]: I suspect he'll be a good game, just not a good .)

[03:30pm]: Actually, I think I need him to score at least 8 points in order for me.

[03:30pm]: I'm in a bind here



Vernon Davis (Tight End)

SF

SALARY: \$ 36.86

GAME: SF @ STL

Avg Per Game: 10.34

FPs Last Game: 0.00

Salary Last Game: \$ 40.24

ADD +

Season Stats

Receiving			Rushing		Passing			Games played	Fumbles lost
Receptions	Touchdowns	Yards	Touchdowns	Yards	Touchdowns	Interceptions	Yards		
35	5	487	0	0	0	0	0	11	0

Player News


Vernon Davis: Alex Smith should be starting

Monday, November 26, 2012

Although Jim Harbaugh made the correct on-field decision to bench Smith for Colin Kaepernick, one of the risks he ran was creating a locker-room divide. "It's difficult, but I think Alex is still the man," said Davis. "In my heart I strongly believe that and you'll know next week. ... I'm sure Alex is still our guy." Kaepernick is still expected to start in Week 13 at St. Louis.


Vernon Davis held without a catch

Friday, November 30, 12



NFL
ELECTION
MLB
NBA
NHL

DEPOSIT
REFER A FRIEND
HELP





John Ford - Gmail

Balance: \$19.00

Jumpman Out

GAME COMPLETE

RULES | OPPONENTS | PRIZE POOL

 Rank: #1 gmailjohn SCORE: 87.56	 Rank: #4 brandyfe SCORE: 45.00
Cam Newton (QB) CAR vs TAM 40 RuYd, 1 PaTD, 252 PaYd 18.08	Tom Brady (QB) NE vs IND 3 PaTD, 331 PaYd 25.24
Robert Griffin III (QB) WAS vs PHI 84 RuYd, 4 PaTD, 200 PaYd 32.40	Peyton Manning (QB) DEN vs SD 3 PaTD, 270 PaYd, 1 PaInt 20.80
Matt Schaub (QB) HOU vs JAX 5 PaTD, 527 PaYd, 2 PaInt 37.08	Blaine Gabbert (QB) JAX @ HOU 1 FL, 24 PaYd -1.04
TIEBREAKER: 31	TIEBREAKER: 6

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Friday, November 30, 12

Fanix
NFL ELECTION MLB NBA NHL
DEPOSIT
REFER A FRIEND
HELP



John Ford - Gmail

Balance: \$25.00

Win the Election!

GAME COMPLETE

RULES | OPPONENTS | PRIZE POOL



Rank: #443556

gmailjohn

SCORE: 35.00

Mitt Romney (US) Republican 413141499 Contrib. \$, 48.1 Vote	0.00
Maggie Hassan (NH) Democratic 3 Pts, 930000 Contrib. \$, 54.6 Vote	3.00
Jay Inslee (WA) Democratic 3 Pts, 11451945.91 Contrib. \$, 51.1 Vote	3.00
Mark Takano (CA D41) Democratic 5 Pts, 1238651 Contrib. \$, 56.4 Vote	5.00
Tim Bishop (NY D1) Democratic 5 Pts, 2461632 Contrib. \$, 52.2 Vote	5.00
Jim Renacci (OH D16) Republican 5 Pts, 2923543 Contrib. \$, 52.2 Vote	5.00
Angus King (ME) Independent 7 Pts, 2155667 Contrib. \$, 53.1 Vote	7.00
Scott Brown (MA) Republican 24432597 Contrib. \$, 46.3 Vote %	0.00

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Type message here

Friday, November 30, 12

Future of Fantasy Games?

Expansion of fantasy sports, as substitute for sports betting.

Creation of “fantasy” racing games.

Expansion into other live events – Emmy’s for TV, Oscar’s for movies

Almost any live event.

Why not have racing involved?



Thank You

Demonstrations at Booths 5 & 6.

BAM Fantasy Games Offered FREE to racetracks.

John J Ford
BAM Software and Services LLC
San Francisco, California
925.942.9000
www.bamsas.com
john@bamsas.com

