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**AGENDA**  
**CALIFORNIA AUTHORITY OF RACING FAIRS**  
**BOARD OF DIRECTORS MEETING**  
**JOHN ALKIRE, CHAIR**  
**12:30 P.M., TUESDAY, OCTOBER 19, 2010**

**VIA TELECONFERENCE**

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 19, 2010.

**AGENDA**

- I. Date, time and location of next meeting.
- II. Approval of minutes.
- III. Report, discussion and action, if any, on legislative matters.
- IV. Report on Recent Appointments to CHRB.
- V. Report, discussion and action, if any, on Annual CARF Audit by Gilbert & Associates.
- VI. Discussion and action, if any, on Funding Allocations from CDFA Division of Fairs and Expositions for FY 2010-11 and beyond.
- VII. Report, discussion and action, if any, on Magna Bankruptcy Settlement.
- VIII. Report, discussion and action, if any, on status of Mini-Satellite Projects
- IX. Financials
- X. Executive Director's Report



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**CALIFORNIA AUTHORITY OF RACING FAIRS**  
**BOARD OF DIRECTORS MEETING**  
**JOHN ALKIRE, CHAIR**  
**12:30 P.M., TUESDAY, OCTOBER 19, 2010**  
**VIA TELECONFERENCE**

Notice is hereby given that a teleconference meeting of the California Authority of Racing Fairs Board of Directors will commence at 12:30 P.M., Tuesday, October 19, 2010.

The Public and members of the California Authority of Racing Fairs Board of Directors may participate from the locations on the following page or in person.

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



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## **CALIFORNIA AUTHORITY OF RACING FAIRS**

### **Teleconference Meeting Locations**

**Alameda County Fair**  
4501 Pleasanton Avenue  
Pleasanton, CA 94566

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

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

**California State Fair**  
1600 Exposition Blvd.  
Sacramento, CA 95815

**Humboldt County Fair**  
1250 5<sup>th</sup> Street  
Ferndale, CA 95536

**Kern County Fair**  
1142 South P Street  
Bakersfield, CA 93307

**Monterey County Fair**  
2004 Fairground Road  
Monterey, CA 93940

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

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

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

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

**Santa Barbara Co. Fair**  
937 Thornburg Street  
Santa Maria, CA 93458

**Shasta District Fair**  
1890 Briggs Street  
Anderson, CA 96007

**San Mateo County Fair**  
2495 South Delaware Street  
San Mateo, CA 94403-1027

**Solano County Fair**  
900 Fairgrounds Drive  
Vallejo, CA 94589

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

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

**Stanislaus County**  
900 North Broadway  
Turlock, CA 95380

**Tulare County Fair**  
215 Martin Luther King  
Tulare, CA 93274

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

## Senate Bill No. 1072

### CHAPTER 283

An act to amend Section 19605.73 of, to add Sections 19601.02, 19605.74, and 19642.1 to, and to add Article 9.1 (commencing with Section 19604.5) to Chapter 4 of Division 8 of, the Business and Professions Code, relating to horse racing.

[Approved by Governor September 23, 2010. Filed with  
Secretary of State September 24, 2010.]

#### LEGISLATIVE COUNSEL'S DIGEST

SB 1072, Calderon. Horse racing: statewide marketing organization: Breeders' Cup promotion: wagering deduction: exchange wagering.

(1) Existing law authorizes a thoroughbred association or fair, subject to approval by the California Horse Racing Board, to deduct from the parimutuel pool for any type of wager, a specified percentage for the meeting of the thoroughbred association or fair that accepts the wager.

This bill would require every thoroughbred association or fair that conducts a live race meeting to deduct an additional 2% of the total amount handled on exotic wagers requiring the selection of 2 wagering interests, and 3% on exotic wagers requiring the selection of 3 or more wagering interests. The bill would require that these funds be distributed into the purse account of the meet conducting racing in the zones in which the wager was placed, to be used to augment overnight purses.

This bill would require any thoroughbred racing association or fair that authorizes betting systems located outside of this state to accept wagers on a race to retain from the total amount received from the out-of-state betting system, less certain specified deductions made pursuant to existing law, the incremental amount received as a result of the 2% or 3% takeout on exotic wagers required by this bill, for distribution as overnight purses. This bill would require that the method utilized to determine the incremental amount received as a result of the takeout increase be established by agreement between the various affected thoroughbred racing associations and fairs, and horsemen's organizations. If these groups are unable to agree as to the method of determining the incremental amount received, this bill would require the board to determine the allocation method after holding a hearing.

For a thoroughbred association hosting the Breeders' Cup Championship series, this bill would require the amounts collected pursuant to the above provisions requiring that 2% or 3% be deducted from the amount handled on exotic wagers be set aside for the purpose of promoting and sponsoring the Breeders' Cup. The bill would require the thoroughbred racing association hosting the Breeders' Cup to enter into an agreement with the organization that operates the Breeders' Cup regarding the expenditure of

the funds, as provided, and would require a written report be made to the board regarding how the funds were utilized.

(2) Existing law provides that the California Horse Racing Board shall have all powers necessary to carry out the purposes of the Horse Racing Law, such as adopting rules and regulations to protect the public, allocating dates for and controlling horse racing and parimutuel wagering, and enforcing all rules and regulations.

This bill would authorize exchange wagering, defined by the bill as a form of parimutuel wagering in which 2 or more persons place identically opposing wagers in a given market, provided that the entity offering exchange wagering is licensed by the board and has entered into an exchange wagering agreement between the licensee, the applicable racing association or fair conducting live racing, and the horsemen's organization responsible for negotiated purse agreements for the breed on which exchange wagers are accepted, as provided.

The bill would invest the board with the full power to prescribe rules, regulations, and conditions under which exchange wagering may be conducted in California, except that the bill would require the board to develop rules that prohibit certain persons associated with an entrant in a particular race from placing an exchange wager on a race involving that entrant, that prohibit the placing of exchange wagers on previously run races, that require the exchange wagering licensee to provide information to the person placing the wager, that prohibit the use of automatic or quick picks to place an exchange wager, and that prohibit the displaying of the results of a wager using casino themes, as provided.

The bill would allow the board to recover any costs associated with the licensing and regulation of exchange wagering by imposing an assessment on the licensee. The bill would require that these funds be deposited in the Horse Racing Fund, to be available upon appropriation by the Legislature for the sole purpose of regulating exchange wagering.

The bill would prohibit the taking of exchange wagers by an exchange wagering licensee prior to May 1, 2012.

(3) Existing law provides that unclaimed refunds from horse racing are to be distributed to an organization that is responsible for negotiating business agreements on behalf of horsemen, to be held in trust for the purpose of negotiating an agreement with a jockeys' organization to provide health and welfare benefits to California licensed jockeys. Existing law requires that the funds held in trust shall not exceed \$450,000.

Pursuant to the above provision, this bill would require each exchange wagering licensee to annually distribute the greater of \$100,000, or an amount equal to 0.001 multiplied by the total amount of exchange revenue collected by the licensee in that year, to be used for the purposes specified above.

(4) Existing law permits racing associations, fairs, and the organization responsible for contracting with racing associations and fairs with respect to the conduct of racing meetings, to form a private, statewide marketing organization to market and promote thoroughbred and fair horse racing, and

to obtain, provide, or defray the cost of workers' compensation coverage for stable employees and jockeys of thoroughbred trainers. Existing law requires the marketing organization to annually submit to the California Horse Racing Board a statewide marketing and promotion plan and a thoroughbred trainers' workers' compensation defrayal plan for thoroughbred and fair horse racing. Existing law requires 0.4% of the amount handled by each satellite wagering facility to be distributed to the marketing organization for the promotion of thoroughbred and fair horse racing, and to defray the cost of workers' compensation insurance, as specified. Existing law repeals these provisions on January 1, 2011.

This bill would extend the operation of these provisions until January 1, 2014, when they would be repealed. The bill would specify that its provisions allowing for the formation of a private statewide marketing association apply to thoroughbred racing associations, fairs, and the organization responsible for contracting with thoroughbred racing associations and fairs with respect to the conduct of racing meetings. The bill would specify that the marketing and promotion activities that the marketing organization may engage in include, but are not limited to, the establishment and maintenance of an Internet Web site, players incentive programs, and the funding of promotional activities at satellite wagering facilities.

This bill would change the amount to be distributed to the marketing organization for the promotion of thoroughbred and fair racing from an amount equal to 0.4% of the amount handled at each satellite wagering facility to an amount not to exceed 0.25%, and would delete the provision allowing for the funds to be used to defray the cost of workers' compensation coverage for stable employees and jockeys of thoroughbred trainers. The bill would require that the initial distribution be 0.2% of the total amount handled by satellite wagering facilities for thoroughbred and fair meetings only and would allow the board to adjust this amount to an aggregate of 0.25% of the total amount handled by satellite wagering facilities for thoroughbred and fair meetings only.

The bill would, with respect to the statewide marketing and promotion plan, instead require the marketing organization, by November 1 of each year, to submit a written report to the board on the statewide marketing and promotion plan for the upcoming calendar year, and would additionally require the marketing organization to annually present to the board at the board's November meeting a verbal report on the statewide marketing and promotion plan for the upcoming calendar year. The bill would delete the requirement that the marketing organization submit to the board a thoroughbred trainers' workers' compensation defrayal plan. The bill would also require the marketing organization to quarterly submit to the board a written report that accounts for all receipts and expenditures of the promotion funds for the previous 3 months.

(5) Existing law authorizes the board, in performing its responsibilities, to participate in the affairs of associations having as their purpose the interchange of information relating to racing law enforcement, the licensing of horse racing participants, the registration of race horses, the tabulation,

analysis, and publication of statistical information based on parimutuel handles and the distribution of proceeds, and to conduct research regarding horse racing accidents, and the detection of drugs on race horses, among other things.

This bill would provide that, in addition to certain specified distributions, an amount not to exceed 0.05% of the total amount handled by each satellite wagering facility shall be distributed to a nonprofit organization designated by the board for the purposes of maintaining a database of horse racing information to further the purposes of the above provision. The bill would state that the amount distributable to the nonprofit organization shall initially be 0.05% of the total amount handled by each satellite wagering facility and may be adjusted by the board, in its discretion. The bill would require the nonprofit organization to submit an annual budget and file quarterly financial statements with the board.

(6) By imposing new requirements under the Horse Racing Law, the violation of which would be a crime, this bill would create new crimes and would thereby impose a state-mandated local program.

(7) The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

*The people of the State of California do enact as follows:*

SECTION 1. (a) The Legislature finds and declares all of the following:

(1) The Breeders' Cup Championship series of races is the preeminent series of horse races recognized throughout the world.

(2) From the inaugural running in Hollywood Park 26 years ago, the Breeders' Cup has a rich and vibrant tradition in California, having been run here eight times.

(3) The Breeders' Cup Championship races have, for 2008 and 2009, been held in California and have been an outstanding success, bringing significant revenue and tourism to the State of California.

(4) In 2009, the Breeders' Cup was held at Santa Anita racetrack located in Los Angeles County, where it was attended by over 96,000 fans and telecast to over 130 countries.

(5) The Los Angeles Economic Development Commission, having studied the impact of the Breeders' Cup Championship series being held in California the last two years, has concluded that the events have brought an additional \$60,000,000 in economic impact to the State of California and Los Angeles region each year, through added tourism and other economic impact, and created over 500 direct and indirect jobs.

(6) The Legislature and the Governor of California recognize the importance of the horse racing industry to this state, including the 50,000 jobs associated with the industry, and have taken significant steps to support



the industry, evidenced most recently by the \$40,000,000 in license fee relief provided in 2009.

(7) An additional concern is that horse owners are not bringing their horses to California because of prevailing lower purses and horses are leaving the state in order to compete for higher purses offered in other states.

(8) California has one of the lowest takeouts on conventional win, place, and show wagering, and the takeout on exotic wagering proposed in this bill will be lower than that prevailing in some of the most prominent racing jurisdictions.

(b) It is therefore the intent of the Legislature to encourage the organization operating the Breeders' Cup Championship series to make California the permanent home of the Breeders' Cup Championship series, and it is the intent of the Legislature, through the enactment of this act, to provide substantial support towards that end.

(c) It is also the intent of the Legislature to make it more advantageous for horses to compete in California racing by increasing the amount of funds available for purses. The increased purses will result in a higher caliber of racing with larger and more competitive fields, which, in turn, will improve the attractiveness of California's racing product and generate additional funds for reinvestment in the industry.

SEC. 2. Section 19601.02 is added to the Business and Professions Code, to read:

19601.02. (a) Notwithstanding Section 19610, every thoroughbred association or fair that conducts a live race meeting shall deduct an additional 2 percent of the total amount handled on exotic wagers requiring the selection of two wagering interests, and 3 percent of the total amount handled on exotic wagers requiring the selection of three or more wagering interests.

(b) The funds collected pursuant to subdivision (a) from wagers placed within the inclosure of a thoroughbred association or fair conducting a race meeting, at satellite locations within this state, and from account wagers originating within this state, shall be distributed to the purse account of the meet conducting racing in the zone in which the wager was placed, and distributed in accordance with subdivision (d).

(c) Any thoroughbred racing association or fair, when it authorizes betting systems located outside this state to accept wagers on a race, shall retain from the total amount received by the association or fair from the out-of-state betting system, the incremental amount received as a result of the takeout specified in subdivision (a) for distribution as overnight purses in accordance with subdivision (d) without regard to the provisions of paragraph (1) of subdivision (b) of Section 19602. The method utilized to determine the incremental amount received as a result of the takeout increase specified in subdivision (a) shall be established by agreement between the various affected thoroughbred racing associations and fairs and the applicable horsemen's organization. Should the thoroughbred racing association or fair and the applicable horsemen's organization be unable to reach an agreement as to the method of making such determination, the board shall determine the appropriate allocation method after a hearing on the matter.



(d) The amounts collected pursuant to subdivisions (b) and (c) shall be utilized solely to augment and not supplant overnight purses. Within 90 days after the conclusion of a given meet, the thoroughbred association or fair receiving funds pursuant to subdivisions (b) and (c) shall report to the board the manner in which the funds were used to augment and not supplant overnight purses at that meet.

(e) The board shall have the authority to postpone or revoke the implementation of the takeout increase specified in subdivision (a) if the board determines that the incremental amount that results from the negotiations with the out-of-state betting systems is incrementally insufficient.

SEC. 3. Sections 4 and 5 of this act shall be known and may be cited as the Exchange Wagering Act.

SEC. 4. The Legislature finds and declares all of the following:

(a) The horse racing industry is economically important to California, and the general welfare of the people of California will be promoted by the advancement of horse racing and related projects and facilities in California.

(b) It is the intent of the Legislature, by authorizing exchange wagering in California, to promote the economic future of the horse racing industry in California, and to foster the potential for increased commerce, employment, and recreational opportunities in California.

(c) The Legislature has determined that the California Horse Racing Board is best suited to oversee, license, and regulate exchange wagering in California.

SEC. 5. Article 9.1 (commencing with Section 19604.5) is added to Chapter 4 of Division 8 of the Business and Professions Code, to read:

#### Article 9.1. Exchange Wagering

19604.5. (a) As used in this section, the following definitions apply:

(1) “Back” means to wager on a selected outcome occurring in a given market.

(2) “Board” means the California Horse Racing Board.

(3) “Corrective wager” means an exchange wager placed by the exchange wagering licensee in a given market, under circumstances approved by the board, in order to address the impact on that market of the cancellation or voiding of a given matched wager or a given part of a matched wager.

(4) “Exchange” means a system operated by an exchange wagering licensee in which the exchange wagering licensee maintains one or more markets in which persons may back or lay a selected outcome.

(5) “Exchange revenues” means all charges, fees, income, payments, revenues, and deductions of any kind assessed or collected by, or paid or delivered to, an exchange wagering licensee in connection with the submission of any exchange wagers to the exchange wagering licensee by residents of California and residents of jurisdictions outside of California

on the results of horse races conducted in California, and by residents of California on the results of horse races conducted outside of California.

(6) “Exchange wagers” means wagers submitted to an exchange wagering licensee to be posted in a market on an exchange.

(7) “Exchange wagering” means a form of parimutuel wagering in which two or more persons place identically opposing wagers in a given market.

(8) “Exchange wagering account” means the account established with an exchange wagering licensee by a person participating in exchange wagering. An exchange wagering account may only be established or maintained with an exchange wagering licensee by a natural person.

(9) “Exchange wagering agreement” means a written agreement by and among the applicable exchange wagering licensee, the applicable racing association or racing fair conducting live racing in this state, and the horsemen’s organization responsible for negotiating purse agreements for the breed on which exchange wagers are accepted, provided that the terms and conditions for the permitted use of signal by the exchange wagering licensee, and the compensation to the applicable racing association or racing fair and the horsemen’s organization, include provisions for, but are not limited to all of the following:

(A) Calculation of any and all amounts earned and payable to the applicable racing association or racing fair and horsemen’s organization.

(B) Audit rights and conditions.

(C) Duration terms.

(D) Contractual remedies.

(10) “Exchange wagering licensee” means a person located within or outside of California that is authorized to offer exchange wagering to residents of California pursuant to this section.

(11) “Identically opposing wagers” means wagers in which one or more persons offer to lay a selected outcome at the same price at which one or more persons offer to back that same outcome, with the amount subject to the lay being proportionately commensurate to the amount subject to the back.

(12) “Lay” means to wager on a selected outcome not occurring in a given market.

(13) “Market” means, in relation to a given horse race or a given set of horse races, a particular outcome that is subject to exchange wagering as determined by an exchange wagering licensee.

(14) “Matched wager” means the wager that is formed when two or more persons are confirmed by the exchange operator as having placed identically opposing wagers in a given market on the exchange.

(15) “Net winnings” means the aggregate amounts payable to a person as a result of that person’s winning matched wagers in a pool less the aggregate amount paid by that person as a result of that person’s losing matched wagers in that pool.

(16) “Parimutuel” means any system whereby wagers with respect to the outcome of a horse race are placed with, or in, a wagering pool conducted

by an authorized person, and in which the participants are wagering with each other and not against the person conducting the wagering pool.

(17) “Person” means any individual, partnership, corporation, limited liability company, or other association or organization.

(18) “Pool” means the total of all matched wagers in a given market.

(19) “Price” means the odds for a given exchange wager.

(20) “Unmatched wager” means a wager or portion of a wager placed in a given market within an exchange that does not become part of a matched wager because there are not one or more available exchange wagers in that market with which to form one or more identically opposing wagers.

(21) “Zone” has the same meaning as defined in Section 19530.5, as modified by the provisions of subdivision (f) of Section 19601, except that for the purposes of this act the combined central and southern zones shall be considered one “central/southern” zone.

(b) Notwithstanding any other law, rule, or regulation, exchange wagering by residents of California and residents of jurisdictions outside of California on the results of horse races conducted in California, and by residents of California on the results of horse races conducted outside of California, shall be lawful provided that all of the following apply:

(1) Exchange wagering shall only be conducted by an exchange wagering licensee pursuant to a valid exchange wagering license issued by the board.

(2) No exchange wagering licensee shall accept exchange wagers on races conducted in California from a resident of California or a resident of a jurisdiction outside California, or conducted outside California from a resident of California, unless an exchange wagering agreement exists allowing these wagers.

(3) Exchange wagering shall be conducted pursuant to and in compliance with the provisions of the Interstate Horseracing Act of 1978 (15 U.S.C. Sec. 3001 et seq.), as amended, this section, all applicable federal laws, and rules and regulations promulgated by the board pursuant to this section.

(4) An exchange wagering licensee may only offer exchange wagering on thoroughbred horse races, whether these thoroughbred races are conducted within or outside of this state, to persons whose primary residence address is in the northern zone of this state if it has an exchange wagering agreement with (A) the racing association or racing fair located in the northern zone authorized by the board to conduct a live thoroughbred racing meeting in accordance with the provisions of Article 4 (commencing with Section 19480) at that time, or during the calendar period, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is in the northern zone of this state, and (B) the horsemen’s organization responsible for negotiating purse agreements for a live thoroughbred racing meeting.

(5) An exchange wagering licensee may only offer exchange wagering on thoroughbred horse races, whether these thoroughbred races are conducted within or outside of this state, to persons whose primary residence address is in the central/southern zone of this state if it has an exchange wagering agreement with (A) the racing association or racing fair located in the

central/southern zone authorized by the board to conduct a live thoroughbred racing meeting in accordance with the provisions of Article 4 (commencing with Section 19480) at that time, or during the calendar period, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is in the central/southern zone of this state, and (B) the horsemen's organization responsible for negotiating purse agreements for a live thoroughbred racing meeting.

(6) An exchange wagering licensee may only offer exchange wagering on quarter horse races, whether these quarter horse races are conducted within or outside of this state, to persons whose primary residence address is in this state if it has an exchange wagering agreement with (A) the racing association or racing fair located in the state authorized by the board to conduct a live quarter horse racing meeting in accordance with the provisions of Article 4 (commencing with Section 19480) at that time, or during the calendar period, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is this state, and (B) the horsemen's organization responsible for negotiating purse agreements for the live quarter horse racing meeting.

(7) An exchange wagering licensee may only offer exchange wagering on standardbred horse races, whether these standardbred horse races are conducted within or outside of this state, to persons whose primary residence address is in this state if it has an exchange wagering agreement with (A) the racing association or racing fair located in the state authorized by the board to conduct a live standardbred racing meeting in accordance with the provisions of Article 4 (commencing with Section 19480) at that time, or during the calendar period, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is this state, and (B) the horsemen's organization responsible for negotiating purse agreements for the live standardbred racing meeting.

(8) Exchange wagers are submitted to, and accepted by, an exchange wagering licensee in person, by direct telephone call, or by communication through other electronic media.

(c) A person shall not be permitted to open an exchange wagering account, or place an exchange wager, except in accordance with federal law, this section, and rules and regulations promulgated by the board. Only natural persons with valid exchange wagering accounts may place wagers through an exchange. To establish an exchange wagering account, a person shall be at least 18 years of age and a resident of California or of another jurisdiction within which the placement of exchange wagers would not be unlawful under United States federal law or the law of that jurisdiction.

(d) The board shall approve, as part of the exchange wagering licensee's application for an exchange wagering license, security policies and safeguards to ensure player protection and integrity, including, but not limited to, provisions governing the acceptance of electronic applications for persons establishing exchange wagering accounts, location and age verification confirmation for persons establishing exchange wagering accounts, the use of identifying factors to ensure security of individual

accounts, and the requirements for management of funds in exchange wagering accounts. An exchange wagering licensee may not accept a wager, or series of wagers, if the results of the wager or wagers would create a liability for the exchange wagering account holder that is in excess of the funds on deposit in the exchange wagering account of that holder.

(e) Notwithstanding any other law, rule, or regulation:

(1) The board shall have full power to prescribe rules, regulations, and conditions under which exchange wagering may be conducted in California consistent with this section, including the manner in which exchange wagers may be accepted and the requirements for any person to participate in exchange wagering.

(2) Prior to the board promulgating rules, regulations, and conditions under which exchange wagering may be conducted in California, the board shall consider studies or comments submitted by interested parties on the impact of exchange wagering on parimutuel betting and the economics of the California horse racing industry to assist the board in developing rules, regulations, and conditions for exchange wagering that are in the best interest of the public and the California horse racing industry. The board may set a time frame for comments and studies to be submitted by interested parties and for the board to consider the studies and comments so as to allow sufficient time, in the discretion of the board, to allow for the promulgation of rules, regulations, and conditions for exchange wagering and the issuance of licenses for exchange wagering prior to May 1, 2012.

(3) Notwithstanding paragraph (1), the board shall adopt the following rules:

(A) An owner, authorized agent, trainer, jockey, jockey's agent, driver, or stable employee shall not place an exchange wager to lay any entrant in a horse race that is owned in whole or part by that owner or the owner represented by that authorized agent, trained by that trainer or stable employee, ridden by that jockey or the jockey represented by that jockey's agent, or driven by that driver.

(B) No exchange wagers shall be placed on a market after the conclusion of a live race. Exchange wagering on previously run races is prohibited.

(C) The exchange wagering licensee shall provide a person with information on the race, including the track where the race will take place and the names of the participating horses before the person may place an exchange wager.

(D) The exchange wagering licensee shall require the person making the exchange wager to select the specific race and horse for the wager. The use of automatic, quick-pick, or similar features to aid in the placing of a wager shall be prohibited.

(E) The results of a wager shall not be displayed through the use of video or mechanical reels or other slot machine or casino game themes, including, but not limited to, dice games, wheel games, card games, and lotto.

(4) The board shall have full power to prescribe rules, regulations, and conditions under which all exchange wagering licenses are issued or renewed in California, including requiring an annual audit of the exchange wagering

licensee's books and records pertaining to exchange wagering, and to revoke, suspend, or refuse to renew a license pursuant to the authority granted to the board in this chapter.

(5) The board may reasonably require licensure or registration of officers or directors of any exchange wagering licensee.

(6) The board may recover any costs associated with the licensing or regulation of exchange wagering from the exchange wagering licensee by imposing an assessment on the exchange wagering licensee in an amount that does not exceed the reasonable costs associated with the licensing or regulation of exchange wagering. Funds received pursuant to this subdivision shall be deposited in the Horse Racing Fund, to be available upon appropriation by the Legislature for the sole purpose of regulating exchange wagering.

(f) (1) The board shall not approve an application for an original or renewal license as an exchange wagering licensee unless the entity, if requested in writing by a bona fide labor organization no later than 90 days prior to licensing, has entered into a contractual agreement with that labor organization that provides all of the following:

(A) The labor organization has historically represented employees who accept or process any form of wagering at the nearest horse racing meeting located in California.

(B) The agreement establishes the method by which the exchange wagering licensee will agree to recognize and bargain in good faith with a labor organization which has demonstrated majority status by submitting authorization cards signed by those employees who accept or process any form of wagering for which a California exchange wagering license is required.

(C) The agreement requires the exchange wagering licensee to maintain its neutrality concerning the choice of those employees who accept or process any form of wagering for which a California exchange wagering license is required and whether or not to authorize the labor organization to represent them with regard to wages, hours, and other terms and conditions of employment.

(D) The agreement applies to those classifications of employees who accept or process wagers for which a California exchange wagering license is required whether the facility is located within or outside of California.

(2) (A) The agreement required by paragraph (1) shall not be conditioned by either party upon the other party agreeing to matters outside the requirements of paragraph (1).

(B) The requirement in paragraph (1) shall not apply to an exchange wagering licensee which has entered into a collective bargaining agreement with a bona fide labor organization that is the exclusive bargaining representative of employees who accept or process parimutuel wagers on races for which an exchange wagering license is required, whether the facility is located within or outside of California.



(3) Permanent state or county employees and nonprofit organizations that have historically performed certain services at county, state, or district fairs may continue to provide those services.

(4) Parimutuel clerks employed by racing associations or fairs or employees of exchange wagering licensees who accept or process any form of wagers who are laid off due to lack of work shall have preferential hiring rights for new positions with their employer in occupations whose duties include accepting or processing any form of wagers, or the operation, repair, service, or maintenance of equipment that accepts or processes any form of wagering at a racetrack, satellite wagering facility, or exchange wagering licensee licensed by the board. The preferential hiring rights established by this paragraph shall be conditioned upon the employee meeting the minimum qualification requirements of the new job.

(g) Notwithstanding any other law, rule, or regulation, an exchange wagering licensee shall not be required to include any pools of exchange wagers in the wagering pools at the racing association or racing fair conducting the races, nor shall an exchange wagering licensee be required to retain, withhold, or take out any amounts from any exchange wagers, except as expressly set forth in the applicable exchange wagering agreement.

(h) Subject to the approval of the board, an exchange wagering licensee shall be permitted to collect exchange revenues in the manner and amounts determined by the exchange wagering licensee, including, but not limited to, assessing a surcharge on any person's net winnings.

(i) Notwithstanding any other law, rule, or regulation, the board shall require all of the following:

(1) Each exchange wagering licensee shall distribute all moneys in each pool, net of any fees, charges, or deductions of any kind assessed or collected by the exchange wagering licensee in connection with matched wagers in that pool, at the conclusion of the race or races associated with that pool.

(2) Each exchange wagering licensee shall distribute the portions of the exchange wagering licensee's exchange revenues as may be required pursuant to the exchange wagering agreement pursuant to paragraphs (2) to (7), inclusive, of subdivision (b).

(3) Fifty percent of the amounts received by a racing association or racing fair from exchange wagering shall be paid to horsemen participating in the meetings conducted by that racing association or racing fair in the form of purses. The allocation of amounts received by a racing association or racing fair from exchange wagering between that racing association or racing fair and the horsemen participating in the meetings conducted by that racing association or racing fair may be modified by a written agreement between those entities.

(4) In addition to payments set forth in paragraphs (1) and (2), each exchange wagering licensee shall distribute, on an annual basis, an amount equal to the greater of (A) one hundred thousand dollars (\$100,000), or (B) an amount equal to 0.001 multiplied by the total amount of exchange revenues collected by the exchange wagering licensee in that calendar year. The distribution shall be made at the direction of the board pursuant to



Section 19612.9. This paragraph shall become inoperative on January 1, 2021, and, as of that date, is repealed, unless a later enacted statute that is enacted before January 1, 2021, deletes or extends that date.

(j) An exchange wagering licensee may cancel or allow to be canceled any unmatched wagers, without cause, at any time.

(k) The board may prescribe rules governing when an exchange wagering licensee may cancel or void a matched wager or part of a matched wager, and the actions which an exchange wagering licensee may take when all or part of a matched wager is canceled or voided. The rules may include, but are not limited to, permitting the exchange wagering licensee to place corrective wagers under circumstances approved in the rules adopted by the board. Exchange wagers placed on a market after the start of a race shall be lawful if authorized by the board, racing association, or racing fair conducting the races, and the horsemen's organization responsible for negotiating purse agreements for the breed on which the exchange wager is made.

(l) The provisions of this section shall be deemed to be severable, and if any phrase, clause, sentence, or provision of this section is declared to be unconstitutional or the applicability thereof to any person is held invalid, the remainder of this section shall not thereby be deemed to be unconstitutional or invalid.

(m) The board shall promulgate administrative rules and regulations to effectuate the purposes of this section.

(n) No exchange wagering licensee may accept exchange wagers pursuant to this section prior to May 1, 2012.

SEC. 6. Section 19605.73 of the Business and Professions Code is amended to read:

19605.73. (a) Thoroughbred racing associations, fairs, and the organization responsible for contracting with thoroughbred racing associations and fairs with respect to the conduct of racing meetings, may form a private, statewide marketing organization to market and promote thoroughbred and fair horse racing, including, but not limited to, establishment and maintenance of an Internet Web site featuring California thoroughbred and fair racing, the establishment and administration of players incentive programs for those who wager on thoroughbred association and fair races, and promotional activities at satellite wagering facilities to increase their attendance and handle. While the promotional activities at satellite wagering facilities shall be funded by the marketing organization, they shall be implemented and coordinated by representatives of the satellite wagering facilities and the thoroughbred racing associations or fair then conducting a live race meet. The organization shall consist of the following members: two members, one from the northern zone and one from the combined central and southern zones, appointed by the thoroughbred racetracks; two members, one from the northern zone and one from the combined central and southern zones, appointed by the owners' organization responsible for contracting with associations and fairs with respect to the conduct of racing meetings; and two members, one from the northern zone and one from the combined

central and southern zones, appointed by the organization representing racing and satellite fairs.

(b) The marketing organization formed pursuant to subdivision (a) shall, by November 1 of each year, submit a written report to the board on a statewide marketing and promotion plan for the upcoming calendar year. In addition, the organization shall annually present to the board at the board's November meeting a verbal report on the statewide marketing and promotion plan for the upcoming calendar year. The plan shall be implemented as determined by the organization. The organization shall receive input from all interested industry participants and may utilize outside consultants.

(c) In addition to the distributions specified in subdivisions (a) and (b) of Section 19605.7, subdivisions (a) and (b) of Section 19605.71, and Section 19605.72, for thoroughbred and fair meetings only, from the amount that would normally be available for commissions and purses, an amount not to exceed 0.25 percent of the total amount handled by each satellite wagering facility shall be distributed to the marketing organization formed pursuant to subdivision (a) for the purposes set forth therein. The amounts initially distributed to the marketing organization formed pursuant to subdivision (a) shall be 0.2 percent of the total amount handled by satellite wagering facilities for thoroughbred and fair meetings only. The amount distributable to the marketing organization may be adjusted by the board, in its discretion. However, the adjusted amounts may not exceed an aggregate of 0.25 percent of the total amount handled by satellite wagering facilities for thoroughbred and fair meetings only. Any of the promotion funds that are not expended in the year in which they are collected may be expended in the following year. If promotion funds expended in any one year exceed the amount collected for that year, the funds expended in the following year shall be reduced by the excess amount. Any of the promotion funds that are not expended in the year in which they are collected may be expended in the following year. If promotion funds expended in any one year exceed the amount collected for that year, the funds expended in the following year shall be reduced by the excess amount. The marketing organization, on a quarterly basis, shall submit to the board a written report that accounts for all receipts and expenditures of the promotion funds for the previous three months.

(d) This section shall remain in effect only until January 1, 2014, and, as of that date, is repealed, unless a later enacted statute that is enacted before January 1, 2014, deletes or extends that date. Any moneys held by the organization shall, in the event this section is repealed, be distributed to the organization formed pursuant to Section 19608.2, for purposes of that section.

SEC. 7. Section 19605.74 is added to the Business and Professions Code, to read:

19605.74. For every year that the organization operating the Breeders' Cup Championship series chooses to conduct the Breeders' Cup at a race meeting in California, the following, notwithstanding any other provision

of law, shall apply to the race meeting conducting the Breeders' Cup races on days during which Breeders' Cup races are conducted:

(a) The amounts that would have otherwise been distributed to a purse account pursuant to subdivisions (a), (b), (c), and (d) of Section 19601.02 shall be made available for the purpose of promoting and sponsoring the Breeders' Cup.

(b) The thoroughbred racing association hosting the Breeders' Cup shall enter into a written agreement, in consultation and cooperation with the California Tourism Commission and the statewide marketing organization formed pursuant to Section 19605.73, with the organization that operates the Breeders' Cup regarding the manner in which the funds set aside to support and promote the Breeders' Cup are to be expended.

(c) Within 90 days after the holding of each Breeders' Cup, a written report shall be made to the board detailing the manner in which the set-aside funds were utilized to promote and support the Breeders' Cup.

SEC. 8. Section 19642.1 is added to the Business and Professions Code, to read:

19642.1. In addition to the distributions specified in Sections 19605.7, 19605.71, and 19605.72, from the amounts that would normally be available for commissions and purses from wagering on all breeds, an amount not to exceed 0.05 percent of the total amount handled by each satellite wagering facility shall be distributed to the nonprofit organization designated by the board for purposes of maintaining a database of horse racing information to further the purposes of Section 19444. The amount distributable to the nonprofit organization initially shall be 0.05 percent of the total amount handled by each satellite wagering facility and may be adjusted by the board, in its discretion. The nonprofit organization shall annually submit its budget for the ensuing calendar year to the board at its November meeting and shall file quarterly financial statements with the board.

SEC. 9. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because the only costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution.

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## CALIFORNIA HORSE RACING BOARD



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CHRB NEWS RELEASE

OCTOBER 8, 2010

## SENATE CONFIRMS CHRB APPOINTMENTS

SACRAMENTO, CA – Chairman Keith Brackpool and Commissioner Richard Rosenberg received Senate confirmation Thursday of their appointments to the California Horse Racing Board and the Senate also confirmed the reappointments of Vice Chairman David Israel and Commissioner Bo Derek to the Board.

Governor Arnold Schwarzenegger appointed Chairman Brackpool and Commissioner Rosenberg to the CHRB in September 2009. Governor Schwarzenegger first appointed Vice Chairman Israel and Commissioner Derek to the Board in July 2008 and then reappointed them in March 2010. All such appointments require Senate confirmation.

The terms of the commissioners are: Chairman Brackpool through July 26, 2013; Vice Chairman Israel through January 1, 2014; Commissioner Derek through January 1, 2014; and Commissioner Rosenberg through July 26, 2012.

Brief biographies for the four commissioners follow:

**KEITH BRACKPOOL** : A devoted thoroughbred racing enthusiast, Keith Brackpool currently serves as the chairman of the California Horse Racing Board. Mr. Brackpool was appointed to the Board in September 2009 by Governor Arnold Schwarzenegger and elected Chairman in January 2010. Mr. Brackpool has been engaged in the horse racing industry for over two decades as the owner of horses, including multiple group winner Elbio in England and horses currently trained in California. Through participation on numerous state boards and task forces, Mr. Brackpool has also garnered significant expertise in politics and governance at the state and local levels. In 1998, Mr. Brackpool co-chaired California Governor Gray Davis' Agriculture and Water Transition Task Force, a group charged with developing policy recommendations for the incoming administration. In 2001, Mr. Brackpool also served on Governor Davis' Commission on Building for the 21st Century, a diverse panel that developed long-term policy proposals to meet the state's future water, housing, technology and transportation needs. From 2000 – 2002, Mr. Brackpool was a member of the board of the California Foundation on the Environment and the Economy. In 2005 and again in 2009, Brackpool served as finance chair for Los Angeles Mayor Antonio Villaraigosa's mayoral campaigns. Mr. Brackpool is presently the chairman and chief executive officer of Cadiz Inc., a publicly held renewable resources company based in Los Angeles. As a co-founder of Cadiz in

1983 and the Company's President and Chief Executive Office since 1991, Mr. Brackpool has led the acquisition and development of the Company's water and agricultural assets throughout California. Cadiz owns more than 40,000 acres of land throughout Southern California. Prior to joining Cadiz, Mr. Brackpool served as director and chief executive officer, North American Operations, for Albert Fisher Group PLC, a multi-billion dollar food company based in England. Mr. Brackpool is also the owner and President of the Manhattan Country Club in Manhattan Beach, California. The Manhattan Country Club is the largest private tennis facility in Southern California and has been host to events such as the JPMorgan Chase Open. Mr. Brackpool resides in Los Angeles, California with his two children Dylan and Tristan.

**BO DEREK:** Appointed to the CHRB July 15, 2008...Reappointed in March 2010...Instantly recognizable for her performance in the 1979 smash hit "10" and other motion pictures, has since devoted much of her time to humanitarian efforts for people and animals alike...Serves as special envoy of the Secretary of State for Wildlife Trafficking, working to create awareness of the dangers of wildlife trafficking...Serves on the boards of the boards WildAid and the Galapagos Conservancy, Ecuador...Created Bless the Beasts, a line of pet products sold in stores nationwide, and donates a portion of all sales to Canine Companions for Independence, a non-profit organization that enhances the lives of people with disabilities by providing them with highly trained assistance dogs and ongoing support...Serves as national honorary chairperson for the Department of Veterans Affairs' National Rehabilitation Special Events – four annual therapeutic and rehabilitative events designed to help veterans overcome their disabilities through competition, the hallmark of rehabilitative programs in the nation...Named Honorary Green Beret in 2002 by the Special Forces Association, joining only four other Americans so honored, in recognition of her efforts on behalf of America's men and women in uniform and U.S. military veterans...Participates in USO tours, entertaining U.S. military personnel serving abroad...Appointed by President George W. Bush to the Kennedy Center Board of Trustees...An avid horsewoman, serves as spokeswoman (along with trainer Nick Zito) for the American Horse Slaughter Prevention Act, which would ban horse slaughter and the transport of horses from the U.S. for the purpose of human consumption in other countries, and was instrumental in the closing of the three horse slaughter plants remaining in the U.S...A published author, wrote "Riding Lessons: Everything That Matters in Life I Learned from Horses."

**DAVID ISRAEL:** Appointed to the CHRB July 9, 2008...Vice Chairman in 2009, 2010...Reappointed March 2010...Also appointed by Governor Arnold Schwarzenegger to the board of directors of the California Science Center in 2005...Serves as one of the Governor's appointees on the Los Angeles Memorial Coliseum Commission, immediate past president, current vice president...Served three years on the board of directors of the California Governor's and First Lady's Conference on Women...Has been writer and producer of many television series and movies, including "Midnight Caller," "The Untouchables," "Tremors," "Turks," "Fast Copy," "Crimes of the Century," "Bay City Blues," "Jake Lassiter: Justice on the Bayou," "The Port

Chicago Mutiny," "Pandora's Clock," "House of Frankenstein," "Y2K," and "Monday Night Football"...Served as Director, Office of the President, Los Angeles Olympic Organizing Committee, in 1984 under Peter V. Ueberroth...Graduate of Northwestern University's Medill School of Journalism...Was a reporter and syndicated columnist for the Chicago Daily News, Washington Star, Chicago Tribune and Los Angeles Herald Examiner...His magazine articles have appeared in Sports Illustrated, The Los Angeles Times Magazine, Playboy, Sport and California... As a sports columnist, Israel often wrote about horse racing, and covered the Triple Crown campaigns of Seattle Slew and Affirmed...Married and lives in Los Angeles.

**RICHARD A. ROSENBERG:** Appointed to the CHRB September 24, 2009...Former worldwide head of the Music Department of the William Morris Agency, later became a member of the executive committee, and served in those positions until his retirement in 2005...Previously was a founding partner in 1974 of Regency Artists, LTD, a music agency, until in 1984 he merged Regency with two other agencies to form a full-service theatrical agency, Triad Artists, Inc; from 1988 to 1992, served as president of Triad, and in 1992 he was one of the architects of the acquisition of Triad by the William Morris Agency...Received his B.S. from UCLA in 1959 and LLD from UCLA Law in 1962; practiced law in Beverly Hills with the firm of Hertzberg, Childs, Rosenberg, and Shiotani for more than 11 years...Served as past president of the Beverly Hills Barristers and board member of the Beverly Hills Bar Association...Raced standardbreds for many years in California, currently owns thoroughbreds racing in Southern California...Resides in Solana Beach.

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**Gilbert Associates, Inc.**  
CPAs and Advisors

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

In planning and performing our audit of the financial statements of California Authority of Racing Fairs (CARF) as of and for the year ended December 31, 2009, 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 the 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 minimize this exposure, Management will consider requiring dual check signatures for disbursements over a specific amount (for example, checks in excess of \$5,000). In addition, CARF implemented during 2008 as a part of the bank statement reconciliation review, a scan of the cancelled checks for possible alteration/manipulation.

**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).

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in CARF's internal control to be significant deficiency:

**PROJECT FUND BALANCES (repeat finding from prior years)**

**Finding:**

During our audit we noted that there appeared to be several contracts between the Division of Fairs and Expositions and CARF that had substantial fund balances with declining or relatively low levels of activity during 2002. Some of these contracts were based on funds received in connection with 1997-98 expenditure plans. However, these contracts also specified that CARF would retain the responsibility to "maintain and replace" the equipment or structures and that "unexpended funds, project savings and interest earnings on these funds shall be utilized by agreement of the Director of F & E and CARF for parimutuel improvements".

To the Management and Board of Directors  
California Authority of Racing Fairs  
August 27, 2010  
Page 3 of 3

**Recommendation:**

We recommend that CARF management perform a periodic review of these project fund balances to ensure that the resources are being utilized effectively and that the underlying contracts accurately reflect the current use of these funds.

**Management Response:**

Management will continue to work with the Division of Fairs and Expositions to finalize updates to these contracts.

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 deficiencies 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 27, 2010

# COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

We are providing the California Authority of Racing Fairs (CARF) Board of Directors with information regarding the scope and results of the audit to assist management in overseeing management's financial reporting and disclosure process. Below we summarize these required communications.

Area	Comments
<p><b>Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS)</b></p> <p>The financial statements are the responsibility of Management. As stated in our engagement letter, our responsibility, as described by professional standards, 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.</p>	<p>We issued a qualified opinion on the financial statements of the CARF for the year ended December 31, 2009. 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, 2009.</p>
<p><b>Planned Scope and Timing of the Audit</b></p>	<p>We performed the audit according to the planned scope and timing previously communicated in our engagement letter.</p>
<p><b>Significant Accounting Policies</b></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 the CARF are described in notes to the financial statements. During the year ending December 31, 2009, the CARF implemented GASB Statement 45, <i>Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions</i>, which changes the way the Authority records and reports OPEB liabilities and expenses.</p> <p>There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.</p>

Area	Comments
<p><b>Disagreements with Management</b></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><b>Management Representations</b></p>	<p>We have requested certain representations from management that are included in their letter to us.</p>
<p><b>Management Consultations with Other Independent Accountants</b></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 CARF'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><b>Serious Difficulties Encountered in Performing the Audit</b></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><b>Management Judgments and Accounting Estimates</b></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 accounts receivable, selection to useful lives of property and equipment, and the liability associated with other post employment benefits. We found the judgments used to be appropriate.</p>

Area	Comments
<p><b>Other Audit Findings or Issues</b></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 CARF'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>We identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses. We included those findings in a separate letter addressed to Management and the Board of Directors.</p>
<p><b>Significant Adjustments or Disclosures Not Reflected in the Financial Statements</b></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>The attached schedule (Summary of Passed Adjustments) summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.</p>

CARF  
Summary of Passed Adjustments  
December 31, 2009

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**Proposed JE # 1**  
To accrue for a legal liability at December 31, 2009.

LEGAL EXPENSE	8,000.00	
ACCOUNTS PAYABLE		8,000.00

**Proposed JE # 2**  
To properly adjust the value of LAIF to fair market value at December 31, 2009.

LAIF	11,750.00	
LAIF FMV		11,750.00

**CALIFORNIA AUTHORITY OF RACING FAIRS**

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

**FOR THE YEARS ENDED  
DECEMBER 31, 2009 AND 2008**

# CALIFORNIA AUTHORITY OF RACING FAIRS

## TABLE OF CONTENTS DECEMBER 31, 2009 AND 2008

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	<u>PAGE</u>
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Balance Sheets	10
Statements of Revenues, Expenses, and Changes in Net Assets	12
Statements of Cash Flows	13
Notes to the Financial Statements	14
<b>SUPPLEMENTAL INFORMATION</b>	
Schedule of Funding Progress of Other Postemployment Benefits	27
<b>ADDITIONAL INFORMATION:</b>	
Combining Statement of Revenues, Expenses, and Changes in Net Assets	28
ADW Racing Activity	29





**Gilbert Associates, Inc.**  
CPAs and Advisors

## **INDEPENDENT AUDITOR'S REPORT**

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

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, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the activity as disclosed in Note 7. That activity was audited by other auditors whose report dated August 7, 2009 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 the other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were unable to apply auditing procedures supporting the financial activities of the advance deposit wagering (ADW). The ADW Racing Activity schedule on page 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. This schedule summarizes the activity related to the ADW to which we were unable to apply audit procedures. We did not audit the schedule and express no opinion on it.

As described in Note 1, the Authority implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended December 31, 2009.

In our opinion, 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 referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 9 and the Schedule of Funding Progress of Other Post Employment Benefits on page 26 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Combining Statement of Revenues, Expenses, and Changes in Net Assets on page 27 is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Authority. The Combining Statement of Revenues, Expenses, and Changes in Net Assets has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Gilbert Associates, Inc.*

GILBERT ASSOCIATES, INC.  
Sacramento, California

August 27, 2010

# CALIFORNIA AUTHORITY OF RACING FAIRS

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009

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

### Financial Highlights, December 31, 2009

- Total operating revenues were \$6,317,587 an increase of 44.99% or \$1,960,282. This increase is due mainly to the new area of Leased Facilities Commissions. Operating revenues in the areas of Administrative fee and Construction Projects decreased approximately \$935,000 due to the timing of completed projects during the year.
- Total non-operating revenues were \$73,102 a decrease of 64.48% or \$132,703. This decrease is due to recorded decreases in investment income from the Local Investment Fund (LAIF) and investments held at Madison Investment Advisors.
- Total operating expenses were \$7,386,152, an increase of 66.63% or \$2,953,437. This increase is due mainly to the new area of Leased Facilities Expenses. The other factors that contributed to the increase in expenses were in the areas of Construction projects, which were affected by the timing of completed projects, and the Salaries and Benefits expense, which includes the payment for GASB 45 (OPEB).
- 2009 resulted in a decrease in Net Assets of \$995,463 due to two factors, the agency expense of OPEB and the loss from the Leased Facilities.

### 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 Assets, and the Statement of Cash Flows are included along with Notes to Financial Statements to clarify unique accounting policies and financial information.

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

CARF's accounting system is organized so that each program can be accounted for and evaluated independently. Separate governmental enterprise funds are operated for Equipment Replacement, Capital Improvements, Satellite Facility Improvements, Track Safety and Maintenance and other Letters of Understanding (LOU) funds. The assets, liabilities, revenues and expenses for all funds are reported on a full accrual basis. There were no significant accounting changes during the year.

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

# CALIFORNIA AUTHORITY OF RACING FAIRS

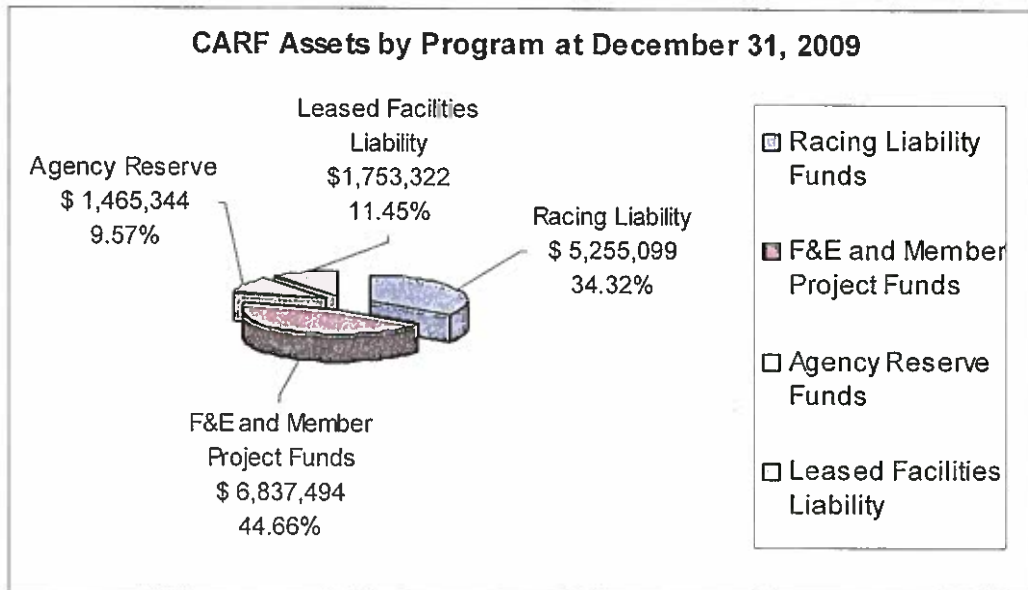
## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009

### Agency Wide Financial Analysis

#### CARF's Combined Balance Sheet

	12/31/2009	Percentage	12/31/2008	Percentage	12/31/2007	Percentage
Current Assets	\$11,129,623	72.69%	\$8,190,098	69.92%	\$11,357,134	98.45%
Non-Current Assets	4,181,635	27.31%	3,522,867	30.08%	178,308	1.55%
Total Assets	\$15,311,258	100.00%	\$11,712,965	100.00%	\$11,535,442	100.00%
Current Liabilities	\$10,870,026	74.65%	\$6,092,463	61.13%	\$6,589,679	66.43%
Non-Current Liabilities	\$3,690,854	25.35%	\$3,874,661	38.87%	\$3,330,317	33.57%
Total Liabilities	\$14,560,880	100.00%	\$9,967,124	100.00%	\$9,919,996	100.00%
Net Assets	\$750,378	100.00%	\$1,745,841	100.00%	\$1,615,446	100.00%
Total Liabilities and Net Assets	\$15,311,258	100.00%	\$11,712,965	100.00%	\$11,535,442	100.00%

#### CARF Agency and Program Assets

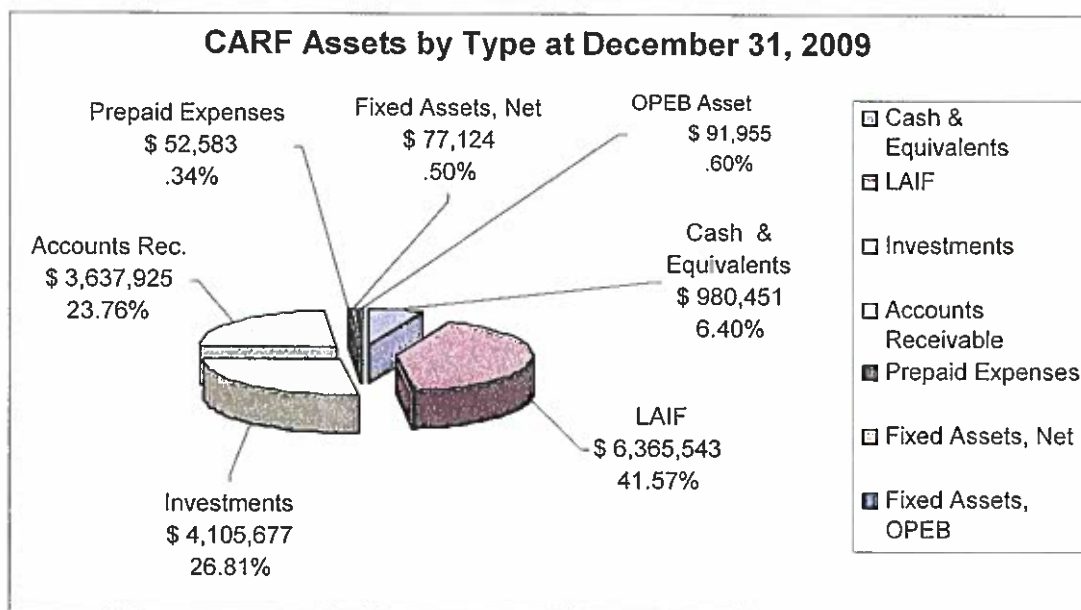


Total agency and program assets, as reflected in the Liabilities and Net Assets section of the Balance Sheet, increased \$3,598,293 from \$11,712,965 as of December 31, 2008 to \$15,311,258 at December 31, 2009. This increase is mainly due to the funds being held for the Leased Facilities that were distributed in 2010. Non-current or fixed assets were decreased by \$39,320 due to normal depreciation of fixed assets, which is recorded as an expense in accordance with generally accepted accounting principles.

# CALIFORNIA AUTHORITY OF RACING FAIRS

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009

Investment revenues are used to offset agency costs wherever possible and reduce the required member contributions. CARF invests those funds not immediately necessary for the payment of racing or project expenses in order to optimize the rate of return. Funds are invested in a manner that will protect principal, allow for cash flow needs and optimize returns, and are in conformity with all federal, state, and local statutes governing such investment of public funds. Funds available for investing are divided between the Local Agency Investment Fund (LAIF) and Madison Investment Advisors. At December 31, 2009 LAIF held approximately 60% of CARF's total invested cash while Madison Investment Advisors held approximately 40%.



The equities investment market in 2009 saw a slight recovery from a historically bad year in 2008. The bond market held its own through the first two quarters of 2009 but ended the year down significantly, as was seen by very low returns from LAIF. The ability of these funds to earn investment income has an indirect effect on program rates, as this income is used to offset overhead costs thereby lowering the amount needed in the form of member contributions.

### CARF Program Liabilities

Accrued liabilities increased from \$9,967,124 of December 31, 2008 to \$14,560,880 as of December 31, 2009. This increase is mainly due to the timing of deferred revenue and the accrual for the Leased Facilities accounts payable. 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, Equipment replacement projects, Construction projects, Marketing Reimbursements and Leased Facilities Commissions. These revenues increased from \$4,357,305 in 2008 to \$6,317,587 in 2009, primarily as a result of the Leased Facilities Commissions. Operating expenses exceeded operating revenues by \$1,068,565 in 2009. The net loss in Net Assets for 2009 is the result of OPEB and the loss incurred from the Leased Facilities.

# CALIFORNIA AUTHORITY OF RACING FAIRS

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009

The effect on net revenues is due to three main areas of revenue; the addition of the Leased Facilities Commissions, the decrease in Administrative Fees and Construction Projects which were primarily affected by the timing of completed projects.

The effect on net expenses is due to three main areas of expenses; the addition of Leased Facilities Expenses, a decrease in Construction Projects (due to the timing of completed projects), and an increase in Salaries and Benefits due to the payment of OPEB expense.

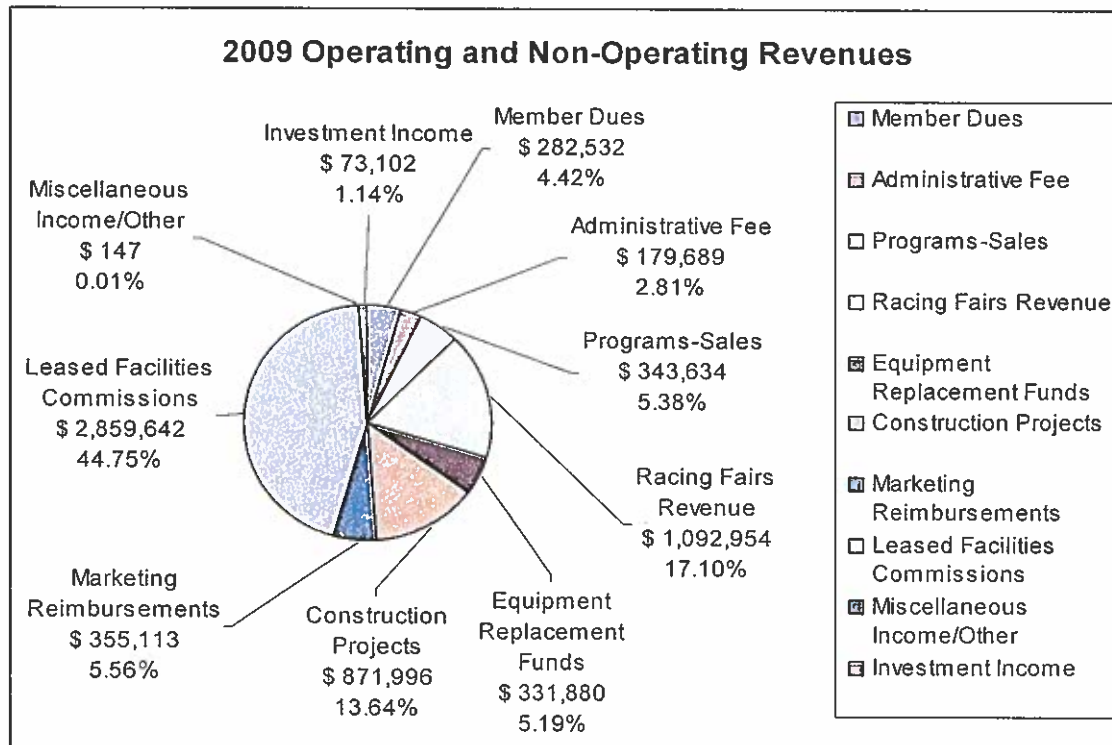
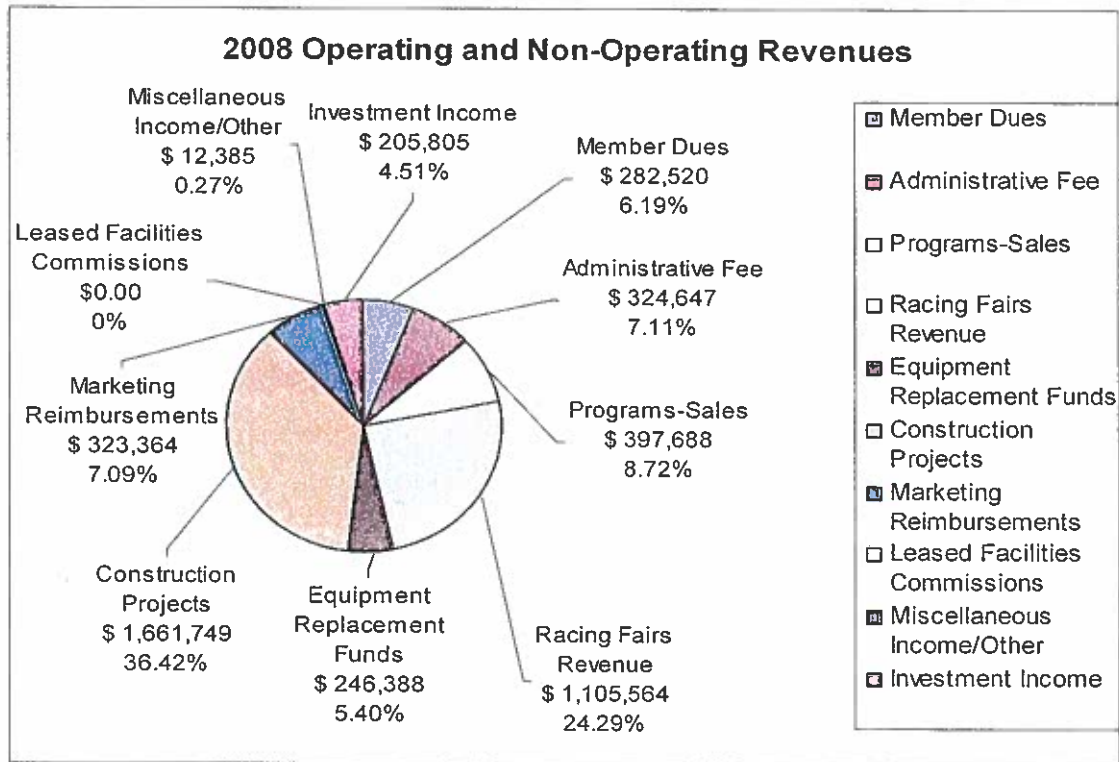
### CARF Statements of Revenue, Expenses, and Changes in Net Assets

	Year Ended 12/31/2009	Year Ended 12/31/2008	Percentage Change	Year Ended 12/31/2007	Percentage Change
<b>Operating Revenues</b>					
Member Dues	\$282,532	\$282,520	0.00%	\$257,268	9.82%
Administrative Fee	179,689	324,647	-44.65%	313,610	3.52%
Programs	343,634	397,688	-13.59%	463,076	-14.12%
Racing Fairs Revenue	1,092,954	1,108,564	-1.41%	1,153,876	-3.93%
Equipment Replacement Funds	331,880	246,388	34.70%	469,836	-47.56%
Construction Projects	871,996	1,661,749	-47.53%	2,596,340	-36.00%
Marketing Reimbursements	355,113	323,364	9.82%	332,525	0.00%
Leased Facilities Commissions	2,859,642	0	0.00%	0	0.00%
Miscellaneous Income/Other	147	12,385	-98.81%	13,563	-8.69%
<b>Total Operating Revenues</b>	<b>\$6,317,587</b>	<b>\$4,357,305</b>	<b>44.99%</b>	<b>\$5,600,094</b>	<b>-22.19%</b>
<b>Operating Expenses</b>					
Construction Projects	\$798,259	\$1,703,241	-53.13%	\$2,624,160	-35.09%
Equipment Replacement Funds	331,880	246,388	34.70%	469,836	-47.56%
Programs- (Host royalties)	311,141	358,703	-13.26%	411,359	-12.80%
Live Racing Fairs	607,056	654,528	-7.25%	618,407	5.84%
Marketing Expense	355,113	323,364	9.82%	332,525	0.00%
Leased Facilities Expenses	3,170,811	0	0.00%	0	0.00%
Salaries and Benefits	1,285,262	627,213	104.92%	532,405	17.81%
Accounting and Legal	113,622	93,679	21.29%	117,615	-20.35%
Travel and Meetings	82,097	90,977	-9.76%	96,117	-5.35%
Other Operating	330,911	334,622	-1.11%	462,788	-27.69%
<b>Total Operating Expenses</b>	<b>\$7,386,152</b>	<b>\$4,432,715</b>	<b>66.63%</b>	<b>\$5,665,212</b>	<b>-21.76%</b>
<b>Operating Gain/Loss</b>	<b>(\$1,068,565)</b>	<b>(\$75,410)</b>	<b>-1317.01%</b>	<b>(\$65,118)</b>	<b>-15.80%</b>
Investment Income	\$73,102	\$205,805	-64.48%	\$274,070	-24.91%
<b>Increase in net assets</b>	<b>(\$995,463)</b>	<b>\$130,395</b>	<b>-863.42%</b>	<b>\$208,952</b>	<b>-37.60%</b>
<b>Beginning Net Assets</b>	<b>\$1,745,841</b>	<b>\$1,615,446</b>	<b>8.07%</b>	<b>\$1,406,494</b>	<b>14.86%</b>
<b>Ending Net Assets</b>	<b>\$750,378</b>	<b>\$1,745,841</b>	<b>-57.02%</b>	<b>\$1,615,446</b>	<b>8.07%</b>



# CALIFORNIA AUTHORITY OF RACING FAIRS

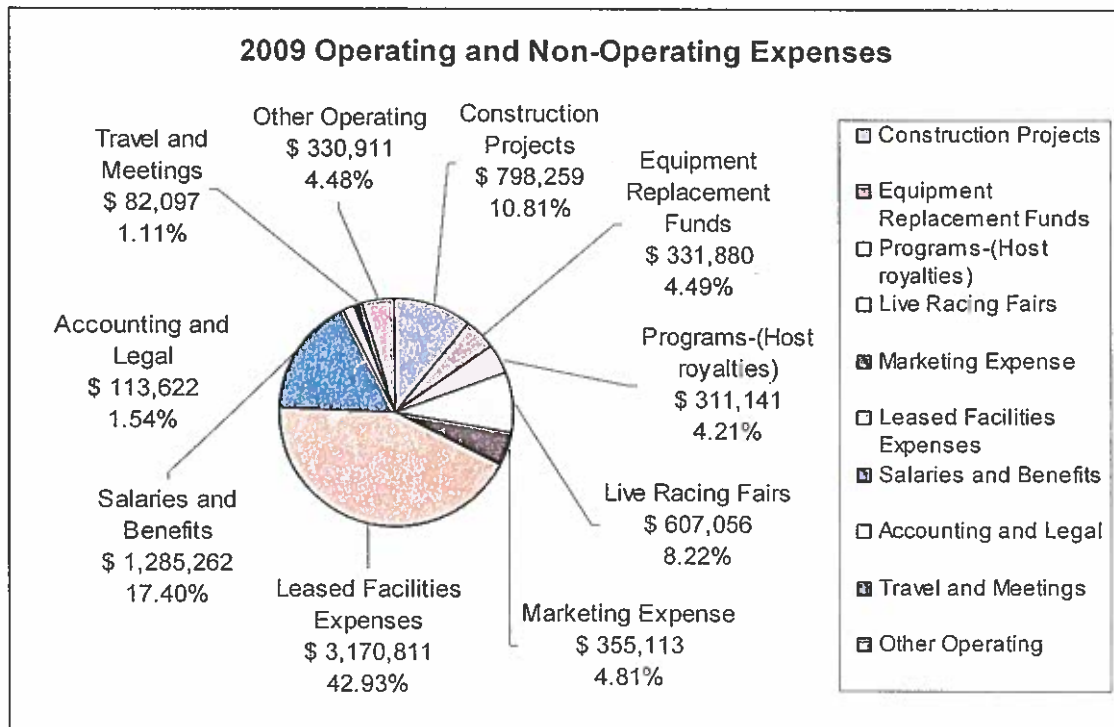
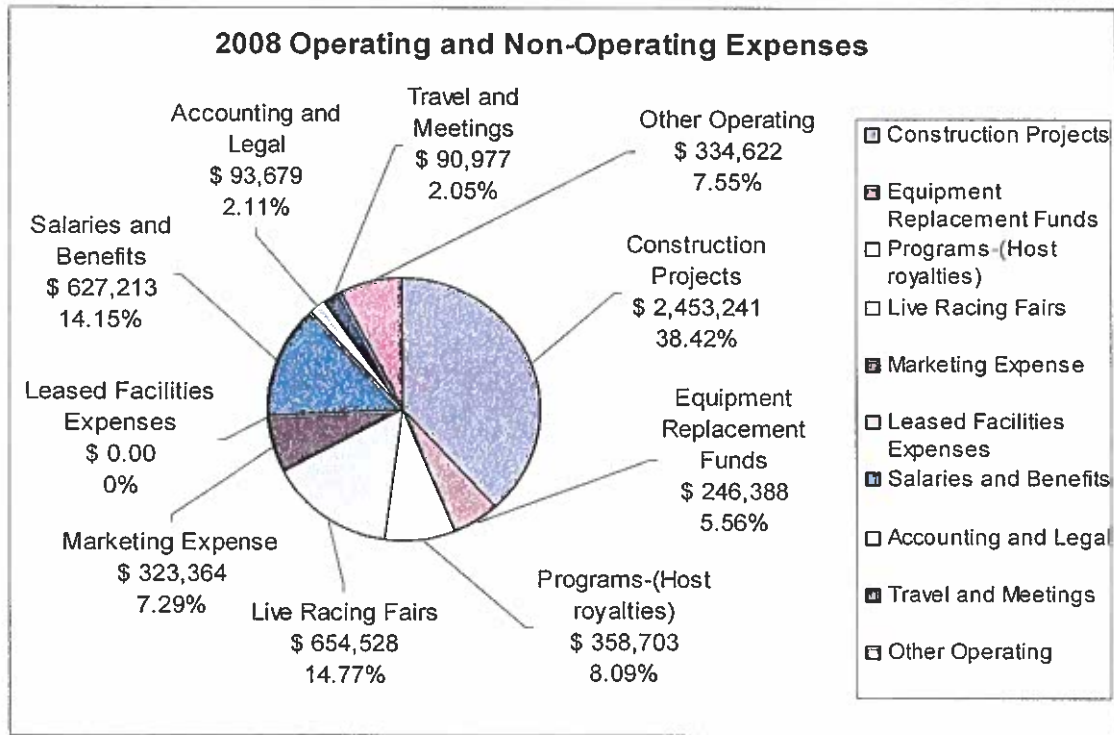
## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009





# CALIFORNIA AUTHORITY OF RACING FAIRS

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009



# **CALIFORNIA AUTHORITY OF RACING FAIRS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009**

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### **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 administrative fees were approximately 31% of budget due to several projects not being completed and revenue not being recognized in 2009.
- Program printing revenues and expenses (host royalties) were down equally from budget due to a slight decrease in program orders due to a decline in attendance and racing days.
- The Racing fairs revenue and expenses were down approximately 10% from budget due to a decrease in total Racing Support Service contracts.
- The variance in operating expenses versus budget occurred mainly due to an unfilled Agency budgeted government relations/development position.
- 2009 resulted in an Agency Net Loss of approximately \$691 thousand over budget due to the agency expensing the full cost of OPEB.
- During 2009 the agency incurred a Net Loss of approximately \$311 thousand for two Leased Facilities horse racing meets operated at Golden Gate Fields.

### **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, 2009 AND 2008

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	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 7,345,994	\$ 4,159,095
Investments	693,121	1,370,469
Accounts receivable	2,351,443	2,042,765
San Mateo F&E loan receivable	75,000	75,000
Outstanding/refund tickets	611,482	489,707
Prepaid expenses and deposits	<u>52,583</u>	<u>53,062</u>
Total current assets	<u>11,129,623</u>	<u>8,190,098</u>
Noncurrent assets:		
Investments	3,412,556	2,731,423
Net OPEB asset	91,955	
San Mateo F&E loan receivable	600,000	675,000
Fixed assets, net	<u>77,124</u>	<u>116,444</u>
Total noncurrent assets	<u>4,181,635</u>	<u>3,522,867</u>
Total assets	<u>\$ 15,311,258</u>	<u>\$ 11,712,965</u>

# CALIFORNIA AUTHORITY OF RACING FAIRS

## BALANCE SHEETS - CONTINUED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accruals	\$ 4,366,576	\$ 1,715,355
Unredeemed winning tickets	621,318	497,679
Advanced deposit wagering liability	248,764	41,147
Purse liability	1,405,690	1,718,853
San Mateo F&E loan liability	75,000	75,000
Deferred revenue funds from F&E	<u>4,152,678</u>	<u>2,044,429</u>
Total current liabilities	<u>10,870,026</u>	<u>6,092,463</u>
Noncurrent liabilities:		
CHRIMS payable	89,313	87,827
Member equipment replacement fund	1,987,541	2,097,834
San Mateo F&E loan liability	600,000	675,000
Change fund liability	<u>1,014,000</u>	<u>1,014,000</u>
Total noncurrent liabilities	<u>3,690,854</u>	<u>3,874,661</u>
Total liabilities	<u>14,560,880</u>	<u>9,967,124</u>
Net assets:		
Invested in capital assets	77,124	116,444
Restricted	91,955	
Unrestricted	<u>581,299</u>	<u>1,629,397</u>
Total net assets	<u>750,378</u>	<u>1,745,841</u>
Total liabilities and net assets	<u>\$ 15,311,258</u>	<u>\$ 11,712,965</u>

# CALIFORNIA AUTHORITY OF RACING FAIRS

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

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES:</b>		
Member dues	\$ 282,532	\$ 282,520
Administration fees	179,689	324,647
Racing program reimbursements	343,634	397,688
Live racing reimbursements	1,092,954	1,108,564
Equipment replacement	331,880	246,388
Construction projects	871,996	1,661,749
Marketing reimbursements	355,113	323,364
Leased facilities commissions	2,859,642	
Miscellaneous income	147	12,385
Total operating revenue	<u>6,317,587</u>	<u>4,357,305</u>
<b>OPERATING EXPENSES:</b>		
Construction projects	798,259	1,703,241
Equipment replacement	331,880	246,388
Racing programs	311,141	358,703
Live racing	607,056	654,528
Marketing expense	355,113	323,364
Leased facilities expenses	3,170,811	
Salaries and benefits	1,285,262	627,213
Accounting and legal	113,622	93,679
Travel and meetings	82,097	90,977
Other operating	330,911	334,622
Total operating expenses	<u>7,386,152</u>	<u>4,432,715</u>
Operating loss	(1,068,565)	(75,410)
<b>NON-OPERATING INCOME:</b>		
Investment income	<u>73,102</u>	<u>205,805</u>
Increase (decrease) in net assets	(995,463)	130,395
<b>NET ASSETS, Beginning of Year</b>	<u>1,745,841</u>	<u>1,615,446</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 750,378</u>	<u>\$ 1,745,841</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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from members, member activities, and member support	\$ 5,257,516	\$ 4,536,861
Payments to members, member activities, and member support	(1,344,114)	(2,655,938)
Receipts from racing activities	2,859,642	
Payments for racing activities	(1,721,222)	
Payments to employees	(1,377,217)	(627,213)
Other operating payments	<u>(552,762)</u>	<u>(1,864,432)</u>
Net cash provided (used) by operating activities	<u>3,121,843</u>	<u>(610,722)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(1,599,768)	(1,206,124)
Purchases of fixed assets	(4,261)	(9,775)
Proceeds from sale or maturity of investments	1,517,176	1,086,002
Investment income	<u>151,909</u>	<u>113,228</u>
Net cash provided (used) by investing activities	<u>65,056</u>	<u>(16,669)</u>
Increase (decrease) in cash equivalents	3,186,899	(627,391)
Cash and equivalents – beginning of year	<u>4,159,095</u>	<u>4,786,486</u>
Cash and equivalents – end of year	<u>\$ 7,345,994</u>	<u>\$ 4,159,095</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (1,068,565)	\$ (75,410)
Reconciliation to net cash used by operating activities:		
Depreciation expense	43,581	71,639
Changes in:		
Accounts receivable	(308,678)	75,157
Outstanding/refund tickets	(121,775)	12,307
Prepaid expenses and deposits	479	8,457
Net OPEB asset	(91,955)	
Accounts payable and accruals	2,651,221	(92,558)
Unredeemed winning tickets	123,639	37,693
Advanced deposit wagering liability	207,617	5,100
Purse liability	(313,163)	123,150
Deferred revenue	2,108,249	(645,601)
CHRIMS liability	1,486	3,903
Member equipment replacement fund	<u>(110,293)</u>	<u>(134,559)</u>
Net cash provided (used) by operating activities	<u>\$ 3,121,843</u>	<u>\$ (610,722)</u>

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

# CALIFORNIA AUTHORITY OF RACING FAIRS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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### 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 the Equipment Exchange Program in conjunction with various fair service programs under letters of understanding with the Division of Fairs and Expositions (F&E) and member fairs.

#### 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.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, all Financial Accounting Standards Board (FASB) statements and authoritative pronouncements issued before November 30, 1989 are applied unless they conflict with GASB pronouncements. The Authority has elected not to apply FASB statements issued subsequent to November 30, 1989.

#### 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, 2009 AND 2008

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### 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 assets.

### DEFERRED REVENUE

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

### GASB STATEMENT IMPLEMENTATION

In July of 2004, the GASB issued GASB Statement 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, with required implementation for the Authority during the 2009 fiscal year. The new standard significantly changes the way state and local governments report their "other postemployment benefits" (OPEB) to the public. As a result of GASB 45, state and local governments are be required to (1) recognize the cost of these benefits in periods when the related services were rendered to the employer, (2) provide information about the actuarial accrued liabilities for promised benefits associated with past services and to what extent those benefits have been funded, (3) and provide information useful in assessing potential demands on the employer's cash flow. As a result, the Authority has recorded its net OPEB obligation and included financial statement disclosures in Note 6 regarding the OPEB plan. The Authority adopted GASB 45 prospectively.

# CALIFORNIA AUTHORITY OF RACING FAIRS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

### 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents		
Deposits with financial institutions	\$ 504,569	\$ 29,651
Money market	645,809	230,234
Deposits in LAIF	6,195,616	3,899,210
Total cash and cash equivalents	<u>7,345,994</u>	<u>4,159,095</u>
Investments	<u>4,105,677</u>	<u>4,101,892</u>
Total cash, cash equivalents and investments	<u>\$ 11,451,671</u>	<u>\$ 8,260,987</u>

#### 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, 915 Capital Mall C-15, 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 Agency'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%

# CALIFORNIA AUTHORITY OF RACING FAIRS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

<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>
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 Agency's pool is approximately 2.11 years.

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

<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	\$ 1,257,335	\$ 238,874	\$ 161,225	\$ 857,236	
Government Bonds	2,848,342	454,247	490,335	1,903,760	
Total	<u>\$ 4,105,677</u>	<u>\$ 693,121</u>	<u>\$ 651,560</u>	<u>\$ 2,760,996</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 minimum rating required by (where applicable) the California Government Code or the Agency's investment policy, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>AAA to AA</u>	<u>AA- to A-</u>
Corporate Bonds	\$ 1,257,335		\$ 284,974	\$ 972,361
Government Bonds	2,848,342	\$ 2,848,342		
Money Market	645,809	645,809		
LAIF	6,195,616	6,195,616		
Total	<u>\$ 10,947,102</u>	<u>\$ 9,689,767</u>	<u>\$ 284,974</u>	<u>\$ 972,361</u>

# CALIFORNIA AUTHORITY OF RACING FAIRS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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### 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. The Authority does not have investments in any one issuer that represent 5% or more of the total investment.

### 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.

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

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

The Authority maintains deposits with financial institutions in excess of federal depository insurance limits that are held in accounts that are collateralized with securities held by the financial institutions. The amount of such deposits was \$910,691 at December 31, 2009.

# CALIFORNIA AUTHORITY OF RACING FAIRS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

### 3. FIXED ASSETS

Fixed assets activity consisted of the following during the year ended December 31, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Vehicles	\$ 282,904			\$ 282,904
Furniture and equipment	126,645			126,645
Computers	87,680	\$ 4,261		91,941
Total	497,229	4,261		501,490
Less accumulated depreciation	(380,785)	(43,581)		(424,366)
Fixed assets - net	<u>\$ 116,444</u>	<u>\$ (39,320)</u>	<u>\$</u>	<u>\$ 77,124</u>

### 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 Group of the California Public Employees' Retirement System, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California.

# CALIFORNIA AUTHORITY OF RACING FAIRS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

### Funding Policy

Active Authority employees are required to contribute 7% of their annual covered salary. The Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its employees. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the years ended December 31, 2009 and 2008 was 0.0%. The contribution requirements of the employees 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%.

### Annual Pension Cost

For the year ended December 31, 2009, the Authority's contribution amount was \$9,267 for the 2% contribution towards the employees required 7%. The required contribution was determined as part of the June 30, 2008 actuarial valuation using the entry age actuarial cost method with contributions determined as a percent of pay. The actuarial assumptions included (a) a 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by age, service, and type of employment, ranging from 3.25% to 14.45% annually for miscellaneous members, and (c) a 3.25% per year cost-of-living adjustment. Both (a) and (b) included an inflation component of 3.0%. 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 20, 2008 actuarial valuation, the Authority's side fund asset was \$302,807. The remaining amortization period at the June 30, 2008 actuarial valuation was 8 years.

# CALIFORNIA AUTHORITY OF RACING FAIRS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

### 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>
2007	\$ 8,381	100%	\$ 0
2008	\$ 8,346	100%	\$ 0
2009	\$ 9,267	100%	\$ 0

Amounts contributed to CalPERS are based on the actuarially determined annual contribution rates applied as a percentage of payroll costs. The amounts contributed will differ from the projected annual pension cost due to fluctuations between actual and projected payroll costs. The net pension asset as of December 31, 2009, is not significant and has not been accrued in the financial statements.

### 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>
6/30/2007	\$ 2,611,746,790	\$ 2,391,434,447	\$ 220,312,343	91.6%	\$ 665,522,859	33.1%
6/30/2008	\$ 2,780,280,768	\$ 2,547,323,278	\$ 232,957,490	91.6%	\$ 688,606,681	33.8%

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, 2009, 5 retirees met these eligibility requirements.

The Authority's annual 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.



# CALIFORNIA AUTHORITY OF RACING FAIRS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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.

During the year ended December 31, 2009, the Authority contributed \$721,335 to CERBT. The value of the accumulated assets in CERBT for the year ended December 31, 2009 was \$873,405. The adjustment to the ARC reduced the annual OPEB expense by \$152,070 to reflect the actual earnings of the accumulated plan assets in CERBT for the year ended December 31, 2009. The use of the ARC adjustment is intended to avoid misstatements of OPEB costs and to maintain consistency between actuarial and accounting measurements on an ongoing basis. When the actual amount of interest (and principal, if any) is known, the use of the known amount, instead of an amount derived from application of the estimation procedures, is consistent with the objective of the ARC adjustment and is encouraged.

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

Actuarial cost method	Entry normal cost method
Amortization method	Level % of projected payroll over 1 year
Interest rate assumption	7.75%
Health inflation assumption	10%
ARC	\$ 818,387
Interest on net OPEB obligation	(152,070)
Adjustment to ARC	
Annual OPEB expense	666,317
Contributions made	(758,272)
Increase (decrease) in OPEB obligation	(91,955)
Net OPEB obligation at January 01, 2009	-
Net OPEB obligation (asset) at December 31, 2009	\$ (91,955)



# CALIFORNIA AUTHORITY OF RACING FAIRS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

<u>Fiscal year ended</u>	<u>Annual OPEB expense</u>	<u>% of annual OPEB expense contributed</u>	<u>Net OPEB obligation (asset)</u>
12/31/09	\$ 66,317	114%	\$ (91,955)

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued 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>
01/01/08	\$ -	\$ 818,387	\$ 818,387	0%	\$ 457,779	179%

### 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 assets, and are detailed as follows for the year ended December 31, 2009:

Receipts:	
Takeout	\$ 38,510,207*
Supplemental purses	932,014
Programs	194,916
Overlap/redistribute	55,616
Intra outs/refunds	216,814
Rights fees	261,115
Misc. revenue	57,756
Decoder revenue	249,315
Share on track expenses	(17,095)
Total receipts	<u>\$ 40,460,658</u>
Expenses:	
License fees	\$ 564,024*
F&E Recapture	38,155*
Intrastate/interstate fees	12,210,238*
Location fees	1,934,045*
Promotion	416,359*
City/county fees	402,427*
Offsite stabling	1,249,077*
Equine lab	121,950*
Owners/breeders	761,498*
Host commission/horsemen	22,270,303*
CHRB Support	492,582*
Total expenses	<u>\$ 40,460,658</u>

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

# CALIFORNIA AUTHORITY OF RACING FAIRS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

### 8. FAIRS AND EXPOSITION FUNDS

The Authority receives advances from the California Department of Food & Agriculture, Division of Fairs and Expositions (F&E). 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 balance of the funds is classified as deferred revenue. Funds with a negative balance due to timing differences are classified as accounts receivable.

The following table summarizes the transactions for the year ended December 31, 2009:

<u>F&amp;E Funds</u>	<u>Beginning Balance</u>	<u>Funds Received</u>	<u>Interest and Other</u>	<u>Disbursed</u>	<u>Ending Balance</u>
Track safety and maintenance	\$ 232,638	\$ 1,200,000	\$ 5,106	\$ (553,944)	\$ 883,800
Infotext upgrade	155,774		2,637		158,411
LOU-4	759,450	500,000	10,364	(331,880)	937,934
LOU-5	4,247				4,247
Facility improvements	755,603		(213,682)	(29,231)	512,690
Backstretch improvements	136,717	1,500,000	313,162	(294,283)	1,655,596
Total F&E	<u>\$ 2,044,429</u>	<u>\$ 3,200,000</u>	<u>\$ 117,587</u>	<u>\$ (1,209,338)</u>	<u>\$ 4,152,678</u>

The following table summarizes the transactions for the year ended December 31, 2008:

<u>F&amp;E Funds</u>	<u>Beginning Balance</u>	<u>Funds Received</u>	<u>Interest and Other</u>	<u>Disbursed</u>	<u>Ending Balance</u>
Track safety and maintenance	\$ 129,693	\$ 550,000	\$ 22,228	\$ (469,283)	\$ 232,638
Infotext upgrade	149,536		6,929	(691)	155,774
Miscellaneous project fund	598		(598)		
LOU-1	125,852		(125,852)		
LOU-2	981		(981)		
LOU-3	86,181		(86,181)		
LOU-4	33,472	450,000	522,366	(246,388)	759,450
LOU-5	8,097		250	(4,100)	4,247
Facility improvements	1,224,735		(456,655)	(12,477)	755,603
Backstretch improvements	930,884	1,000,000	240,131	(2,034,298)	136,717
Total F&E	<u>\$ 2,690,029</u>	<u>\$ 2,000,000</u>	<u>\$ 121,637</u>	<u>\$ (2,767,237)</u>	<u>\$ 2,044,429</u>

### 9. SAN MATEO F&E 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 Fairs as directed by the F&E and the CARF Funding Committee.

# CALIFORNIA AUTHORITY OF RACING FAIRS

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

### 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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Construction project funds interest	\$ 42,587	\$ 109,100
Other interest	<u>30,515</u>	<u>96,705</u>
Total	<u>\$ 73,102</u>	<u>\$ 205,805</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, 2009, the Authority used the State Compensation Insurance Fund (SCIF) for Workers' Compensation; Allied World National Assurance 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 risks at repair or replacement value
3. Liability  
Deductibles: \$10,000 for employment practices liability  
\$1,000 for all other coverages  
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, 2009 AND 2008**

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### **12. SUBSEQUENT EVENT**

In April 2010, F&E and the Authority established a Funding Committee (the Committee) to review and approve grants, loans and funding of infrastructure projects at satellite wagering and live horse racing facilities. These functions were formerly performed solely by the Authority. The Committee consists of members of the Authority's Board of Directors, Authority's Management, F&E representatives, and Member Fair's Management. The Authority could potentially be viewed as only a cash conduit of the F&E funds because the Authority might be merely transmitting the F&E funds without having administrative or direct financial involvement in the program. This could eliminate the recognition of F&E revenues and expenses in the Statement of Revenues, Expenditures, and Changes in Net Assets and the balance of the F&E funds could be classified as an agency liability, rather than deferred revenue on the Balance Sheet.

## **SUPPLEMENTARY INFORMATION**

# CALIFORNIA AUTHORITY OF RACING FAIRS

## SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS DECEMBER 31, 2009

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
01/01/08	\$ -	\$ 818,387	\$ 818,387	0%	\$ 457,779	179%

## **ADDITIONAL INFORMATION**

# CALIFORNIA AUTHORITY OF RACING FAIRS

## COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2009

	<u>Agency</u>	<u>Programs</u>	<u>Live Racing</u>	<u>Construction Projects</u>	<u>Equipment Replacement</u>	<u>Racing</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>							
Member dues	\$ 282,532						\$ 282,532
Administration fees	179,689						179,689
Racing program reimbursements		\$ 343,634					343,634
Live racing reimbursements			\$ 1,092,954				1,092,954
Equipment replacement					\$ 331,880		331,880
Construction projects				\$ 871,996			871,996
Marketing reimbursements	355,113						355,113
Leased facilities commissions						\$ 2,859,642	2,859,642
Miscellaneous income	147						147
Total operating revenue	<u>817,481</u>	<u>343,634</u>	<u>1,092,954</u>	<u>871,996</u>	<u>331,880</u>	<u>2,859,642</u>	<u>6,317,587</u>
<b>OPERATING EXPENSES:</b>							
Construction projects				798,259			798,259
Equipment replacement					331,880		331,880
Racing programs		311,141					311,141
Live racing			607,056				607,056
Marketing expense	355,113						355,113
Salaries and benefits	929,189		287,231	68,842			1,285,262
Accounting and legal	35,747		68,825	9,050			113,622
Travel and meetings	31,113		50,942	42			82,097
Leased facilities expenses						3,170,811	3,170,811
Other operating	220,288		79,657	30,966			330,911
Total operating expenses	<u>1,571,450</u>	<u>311,141</u>	<u>1,093,711</u>	<u>907,159</u>	<u>331,880</u>	<u>3,170,811</u>	<u>7,386,152</u>
Operating income (loss)	(753,969)	32,493	(757)	(35,163)		(311,169)	(1,068,565)
<b>NON-OPERATING INCOME:</b>							
Investment income	30,515			42,587			73,102
Increase (decrease) in net assets	<u>\$ (723,454)</u>	<u>\$ 32,493</u>	<u>\$ (757)</u>	<u>\$ 7,424</u>	<u>\$ 0</u>	<u>\$ (311,169)</u>	<u>\$ (995,463)</u>



# CALIFORNIA AUTHORITY OF RACING FAIRS

## ADW RACING ACTIVITY YEAR ENDED DECEMBER 31, 2009

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ADW distributions payable at December 31, 2008	\$ 33,602
Receipts:	
Net market access fees	4,392,987
Host Fees	394,136
Worker's comp	18,149
Total receipts	4,805,272
Disbursements:	
License fees	2,084
CHRB Support & F&E Fund	13,516
Host commissions/horsemen	3,683,903
Breeders	178,188
Worker's Comp to Horsemen	69,000
Equine	36,231
Backstretch	54,346
Location Fees	492,756
AB480	88,479
Retirement Fund	98,752
DIR	9,881
Total disbursements	4,727,136
ADW distributions payable at December 31, 2009	\$ 111,738

**CALIFORNIA AUTHORITY  
OF RACING FAIRS**

**ACCOUNTANT'S  
AGREED-UPON PROCEDURES REPORT**

**FOR THE PERIODS  
AUGUST 12, 2009 TO AUGUST 23, 2009  
AND SEPTEMBER 9, 2009 TO OCTOBER 4, 2009**



**Gilbert Associates, Inc.**  
CPAs and Advisors

### **Independent Accountant's Report On Applying Agreed-Upon Procedures**

We have performed the procedures detailed on the attached schedule, which were agreed to by the management of California Authority of Racing Fairs (CARF) and Golden Gate Fields (collectively, the specified parties), solely to assist you in evaluating the accompanying information of CARF's two race meets from August 12, 2009 to August 23, 2009 and from September 9, 2009 to October 4, 2009. CARF's and Golden Gate Field's management is responsible for the accompanying information. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attached schedules either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the accompanying information. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and management of CARF and the management of Golden Gate Fields and is not intended to be and should not be used by anyone other than those specified parties.

*Gilbert Associates, Inc.*

GILBERT ASSOCIATES, INC.  
Sacramento, California

May 24, 2010

Prepared by CARF			Prepared by Golden Gate (GG)			Prepared by Gilbert Associates Inc. (GAI)		
Item #	Account Description	Amount	Direct or Indirect	Allocation Method	Source for Testing	Testing Procedures	Results	Exceptions and Conclusions
CARF 1 @GG - Pacific Racing Association Detail Departmental Income Statement								
					GG Internal Financial Statements and supporting documentation organized in binders by month. Golden Gate Financial Statements provided to CARF. Note that GAI compared the 2 sources as deemed necessary and noted that the balances agreed within an immaterial difference. Note that GAI selected the Non-CARF months the day of testing and watched GG pull the CARF month and Non-CARF months binders from GG bookshelves.	Test 1 - GAI obtained the racing calendar and compared to the revenue earned by day to ensure that CARF was allocated 100% of the revenue earned that day, excluding "Night Revenue."	Test 1 - CARF appeared to be properly allocated 100% of the revenue earned during the 15 days allocated to CARF, excluding "Night Revenue."	No exceptions noted
1	F&B Revenue - Turf Club	15,445	Direct	Allocated 100% of the revenue earned during the 15 days dedicated to CARF. No allocation for "Night Revenue."		Test 2 - GAI compared the total \$ earned per attendee for CARF 1- Aug 09 F&B Revenue to the following: CARF 2- Sept 09, Non-CARF- Sept 08, Non-CARF-Oct 09.	Test 2 - Based on discussion Njaa, F&B average per person is lower for CARF racing days primarily because the Turf Club was closed Wed-Fri during the CARF racing days so it was only open 4 of the 10 days during CARF 1 and 9 of the 15 days during CARF 2. The average price for a meal at the Turf Club is approx \$12, which is significantly higher than other food at GGF. GAI reviewed the income statement by department for each month tested and noted that the Turf Club revenue as a % of total F&B revenue was significantly higher during the Non-CARF months. Note that the fact that the gross profit % are comparable provides additional assurance. Pass on further investigation. Based on the procedures performed, it appears that CARF 1 F&B revenue appear to be fairly stated.	No exceptions noted
						Test 3 - GAI compared CARF 1 gross profit percentage (F&B Cost of Sales divided by F&B Revenue) to CARF 2- Sept 09, Non-CARF- Sept 08, Non-CARF-Oct 09.		No exceptions noted
2	F&B Revenue -Concessions/Bars	79,508	Direct			Combined with F&B Revenue - Turf Club		No exceptions noted
						Test 1 - GAI obtained the racing calendar and compared to the revenue earned by day to ensure that CARF was allocated 100% of the revenue earned that day, excluding "Night Revenue."	Test 1 - CARF appeared to be properly allocated 100% of the revenue earned during the 22 days allocated to CARF, excluding "Night Revenue."	No exceptions noted
3	Admissions	35,964	Direct			Test 2 - GAI compared the total \$ earned per attendee for CARF 1- Aug 09 admissions to the following: CARF 2- Sept 09, Non-CARF-Sept 08, Non-CARF-Oct 09. GAI further broke out the comparison to show \$ earned per attendee for the Total Month and Racing Days only for each month selected.	Test 2 - Based on the procedures performed, it appears that CARF 1 Admission revenue is comparable to CARF 2 and other Non-CARF racing months as expected. Per discussion with Njaa, the reason the \$ per attendee average of \$1.87 is primarily due to the following: 1) Sunday is \$1 day and there is high attendance on this day. 2) The "regulars" get major discounts on admissions and many of them get their admission compensated, and 3) There are a lot of promotions for free admissions.	No exceptions noted
						Test 1 - GAI obtained the racing calendar and compared to the revenue earned by day to ensure that CARF was allocated 100% of the revenue earned that day, excluding "Night Revenue."	Test 1 - CARF appeared to be properly allocated 100% of the revenue earned during the 15 days allocated to CARF, excluding "Night Revenue."	No exceptions noted
4	Parking	27,363	Direct					No exceptions noted



Prepared by CARF			Prepared by Golden Gate (GG)		Source for Testing		Testing Procedures		Results		Exceptions and Conclusions	
Item #	Account Description	Amount	Direct or Indirect	Allocation Method								
								Test 2 - GAI compared the total \$ earned per attendee for CARF 1- Aug 09 parking to the following: CARF 2- Sept 09, Non-CARF-Sept 08, Non-CARF-Oct 09. GAI further broke out the comparison to show \$ earned per attendee for the Total Month and Racing Days only for each month selected.	Test 2 - Based on the procedures performed, it appears that CARF 1 Parking revenue is comparable to other CARF 2 and Non-CARF racing months as expected. Per discussion with Njaa, the reason the \$ per attendee average is \$1.45 is primarily due to the following: 1) Sunday is \$1 day and there is high attendance on this day, 2) The "regulars" get major discounts on parking and many of them get their parking compensated, 3) There are a lot of promotions for free/discount parking, and 4) There is a shuttle that buses attendees from the Bart station to GGF; therefore, they do not pay for parking. 5) GAI also noted that there were bikes parked outside of the GGF and there is no charge for parking a bike. Note that Oct 09 \$ per attendee was lower than average, but GAI is primarily concerned with the understatement of revenue and because this is a Non-CARF racing month, GAI will pass on further investigation.		No exceptions noted	
5	Publications	55,447	Direct					Test 1 - GAI obtained the racing calendar and compared to the revenue earned by day to ensure that CARF was allocated 100% of the revenue earned that day, excluding "Night Revenue."	Test 1 - CARF appeared to be properly allocated 100% of the revenue earned during the 15 days allocated to CARF, excluding "Night Revenue."		No exceptions noted	
6	ATM Surcharges	8,575	Direct					Test 2 - GAI compared the total \$ earned per attendee for CARF 1- Aug 09 publications to the following: CARF 2- Sept 09, Non-CARF-Sept 08, Non-CARF-Oct 09.	Test 2 - Based on the procedures performed, it appears that CARF 1 are publication revenue is comparable to CARF 2 other Non-CARF racing months as expected.		No exceptions noted	
	TOTAL REVENUE	222,302						Not deemed a high risk and comparable to Non-CARF months tested. Pass on further testing.	Not deemed a high risk and comparable to Non-CARF months tested. Pass on further testing.		No exceptions noted	
7	F&B Cost of Sales - Food	15,972	Direct	N/A				GAI compared CARF 1 gross profit percentage (F&B Cost of Sales divided by F&B Revenue) to CARF 2- Sept 09, Non-CARF-Sept 08, Non-CARF-Oct 09.	Based on the testing of the related revenue and results of the gross profit percentage analysis, Cost of Sales appears reasonable and comparable to CARF 2 and Non-CARF racing months as expected.		No exceptions noted	
8	F&B Cost of Sales - Liquor	1,712	Direct	N/A								
9	F&B Cost of Sales - Beer	8,806	Direct	N/A								
10	F&B Cost of Sales - Wine	802	Direct	N/A								
11	F&B Cost of Sales - Non-Alcoholic	8,405	Direct	N/A								
	DEPARTMENTAL EXPENSES											
							GG Internal Financial Statements and supporting documentation organized in binders by month. Golden Gate Financial Statements provided to CARF. Note that GAI compared the 2 sources as deemed necessary and noted that the balances agreed within an immaterial difference. Note that GAI selected the Non-CARF months the day of testing and watched GG pull the CARF month and Non-CARF months binders from his bookshelves. Detailed general ledger for all expenses during CARF 1 month.	Test 1 - GAI reviewed the contract between CARF & GG and the racing calendar to ensure CARF was allocated the correct number of days. GAI recalculated each expense line item based on the allocation method to CARF.	Test 1 - GAI noted that CARF should have been allocated 15 days rather than 17 days. Once GG corrected, GAI recalculated expense allocation without exception.	CARF was overcharged \$56,220. GGF adjusted the income statement accordingly.		
12	Salaries & Wages - Leased/Temp Labor	10,566	Indirect	CARF				Test 2 - GAI obtained the detailed general ledger for all expenses during CARF 1 month. GAI scanned the detailed general ledger and judgmentally selected a sample 8 expenses to test. For each selection, GAI obtained supporting documentation to ensure it was a valid expense and appeared reasonable to be allocated or direct charged to CARF.	Test 2 - No significant unusual items noted in the detailed general ledger and no exceptions noted during the testing of the selections.		No exceptions noted	
								Test 3 - GAI compared Aug 09, Sept 09, Oct 09 expenses and investigated any significant and unusual variances.	Test 2 - Based on the procedures performed, there were no significant and unusual variances between Aug 09, Sept 09, Oct 09 expenses to resulted in any concern.		No exceptions noted	

Prepared by CARF			Prepared by Golden Gate (GG)			Prepared by Gilbert Associates Inc. (GAI)		
Item #	Account Description	Amount	Direct or Indirect	Allocation Method	Source for Testing	Testing Procedures	Results	Exceptions and Conclusions
13	Outside Services	27,181	Indirect					
14	Meals & Entertainment	4,428	Indirect					
15	Travel	4,267	Indirect					
16	Operating Supplies	17,498	Indirect					
17	Repairs & Maintenance	43,887	Indirect					
18	Equipment Rental	9,426	Indirect					
19	Utilities	64,316	Indirect					
20	Taxes & Licenses	108,938	Indirect					
21	Insurance	60,257	Indirect					
22	MARKETING		Indirect					
23	Media - Television	31,876	Indirect					
24	Media - Radio	24,455	Indirect					
25	Creative production materials	9,690	Indirect					
26	Promotions	1,437	Indirect					
27	Direct mail	13,686	Indirect					
28	Special event	1,533	Indirect					
29	Player rewards	200	Indirect					
30	Group Sales	1,250	Indirect					
31	NTRA	4,939	Indirect					
32	Publicity		Indirect					
33	Communications	5,234	Indirect					
34	Publications Cost of Sales	11,523	Indirect					
35	PROFESSIONAL SERVICES	956	Indirect					
36	Professional Services - IT	1,088	Indirect					
37	Professional Services - other	914	Indirect					
38	Shipping	729	Indirect					
39	Cash Shortages	123	Indirect					
40	Other G&A Expenses	268	Indirect					
41	Depreciation	138,206	Indirect	N/A	Do not test per CARF	Do not test per CARF	Do not test per CARF	Do not test per CARF
	TOTAL EXPENSES	634,368						
	DIRECT COSTS (EXPENSES)							
40	Labor	508,050	Direct	N/A		GAI traced and agreed the charged labor amount to the summary schedule which footed with out exception. GAI obtained the check register for each payroll period and traced the ending balance to the check detail total. GAI then selected 25 people throughout each payroll period and vouched the existence and validity of the expense by tracing the charge to a signed timecard.	Backlog detail tied to amounts charged to CARF. The only questionable cost for payroll was amounts charged between 8/3/09-9/9/09. As the contract started 8/10/09 it appears the \$1,002 was improperly charged to CARF. All other amounts appear proper.	\$1,002 appears improperly charged. GG DID NOT adjust the income statement for this exception. GG represented to GAI that CARF agreed to pass because GG discovered other areas where CARF was undercharged and they felt it would cancel out.
41	Benefits - SUI and FUI	230,796	Direct	N/A	Summary schedule of the payroll related expenses for each payroll period charged during the race period.	GAI reviewed the amounts charged to CARF for reasonableness based on the amount of payroll incurred during the race period.	Amounts charged were deemed insignificant as expected. Amounts charged between CARF 1 and CARF 2 appeared comparable and amounts increased from CARF 1 to CARF 2 due to increased payroll, as expected. No concerns noted over amounts charged to CARF.	No exceptions noted
	Benefits - FICA				Summary schedule of the payroll related expenses for each payroll period charged during the race period.	Recalculated FICA charged based on 7.65% FICA rate and payroll charged during the race period and compared to amount charged to CARF.	Recalculated amount agreed to amounts charged to CARF without exception. Note that 6.2% (social security portion) of the 7.65% charged is capped on salaries that exceed 106,800. GAI did not test for salaries exceeding this amount. Any amounts exceeding this amount should be allocated to CARF and thus reducing their expenses; however any amounts would appear to be insignificant and the time to track and account for such a reduction would appear to be burdensome.	No exceptions noted



Item #	Prepared by CARF		Prepared by Golden Gate (GG)		Prepared by Gilbert Associates Inc. (GAI)		Exceptions and Conclusions
	Account Description	Amount	Direct or Indirect	Allocation Method	Source for Testing	Testing Procedures	Results
	Benefits - Union Dues				Summary schedule of the payroll related expenses for each payroll period charged during the race period, detail schedule of each union's dues charged to CARF, payroll activity reports and detail of union charges during a non-CARF race period.	Agree amount charged to CARF to backup schedules and select a sample of charges and obtain proper supporting backup to ensure reasonableness of the charge to CARF.	Amount charged to CARF agreed to supporting schedules without exception. GAI noted that the amounts charged are based on actual hours worked or days worked multiplied by the union dues rates. GAI noted that the sample of payroll reports for the time periods during CARF race periods agreed to the hours/days used to calculate the expense charged to CARF without exception. GAI then selected a non-CARF month of racing and obtained the expense calculations and noted that the rates between a non-CARF month and the CARF months were the same; therefore it appears they are being charged correctly. The expenses for these is calculated monthly. GAI noted that Golden Gate Fields calculated CARF's portion based on the ratio of the number of weeks their racos occupied in the month. Calculations and amounts charged appears reasonable. No exceptions noted
	Benefits - other benefits (pensions)				Summary schedule of the payroll related expenses for each payroll period charged during the race period, detail schedule of each union's dues charged to CARF, and premium invoices for 2009 and 2010.	Agree amount charged to CARF to backup schedules and select a sample of charges and obtain proper supporting backup to ensure reasonableness of the charge to CARF.	GAI noted that for most of these expenses, the premium for a given year is based on the number of race days a track had in the PY based on the % of the total race days for the PY for all the tracks the benefit fund covers. GAI noted that the Field is billed annually for which they allocate the yearly cost to each month based on the number of race days in that month. As the premium is based on race days it appears appropriate that the Field allocated the yearly cost to each month based on race days in the month. Then the Field takes the expense amount allocated to the month in which the CARF races are and allocates it based on total weeks in that month and the number of weeks the CARF races occupied that month. However, per payroll, noted that they estimated the yearly expense for 2009 based on the race days in 2009, which in essence they billed based on what they estimated their 2010 premiums were. But as the organization is billed for 2009 premiums based on 2008, it appear that CARF should be billed in the same manner. Based on comparison of the actual base amount used to bill CARF on to the actual 2009 premiums and 2010 premiums charged to Golden Gate, noted that CARF appears to have been overbilled. CARF was overcharged \$1,081. GGF adjusted the income statements accordingly.
42	Workers Compensation	50,805	Direct	N/A	Internal financial statements for Golden Gate Field and summary schedule of payroll related expenses for each payroll period charged during the race period	GAI obtained total amount of payroll and workers' expenses incurred by Golden Gate fields for 2009. GAI calculated the % of workers' comp to total payroll and compared the amount being charged to CARF for reasonableness.	GAI noted yearly salaries and wages for all of Golden Gate Fields of \$12,524,224 and workers' comp of \$613,738. The ratio of workers' comp to total salary is ~4.9%. As CARF is being charged a 10% rate, it appears they are being overcharged.
43	Charitable Donations	4,000	Direct	N/A	Do not test per CARF. CARF has already reviewed invoices supporting these expenses.	Do not test per CARF. CARF has already reviewed invoices supporting these expenses.	Do not test per CARF. CARF has already reviewed invoices supporting these expenses.
44	Cost of Sales - Other	1,020	Direct	N/A			
45	Cost of Sales - Publications	35,753	Direct	N/A			
46	Marketing	19,138	Direct	N/A			
47	Outside Services	35,033	Direct	N/A			
48	Repair & Maintenance	1,200	Direct	N/A			
49	State Auditor	2,500	Direct	N/A			
50	Travel	250	Direct	N/A			
	TOTAL DIRECT COSTS	90,894					



Prepared by CARF			Prepared by Golden Gate (GG)			Prepared by Gilbert Associates Inc. (GAI)		
Item #	Account Description	Amount	Direct or Indirect	Allocation Method	Source for Testing	Testing Procedures	Results	Exceptions and Conclusions
CARF 2 @GG - Pacific Racing Association Detail Departmental Income Statement								
1	F&B Revenue - Turf Club	26,676	Direct	Allocated 100% of the revenue earned during the 22 days dedicated to CARF. No allocation for "Night Revenue."	GG Internal Financial Statements and supporting documentation organized in binders by month. Golden Gate Financial Statements provided to CARF. Note that GAI compared the 2 sources as deemed necessary and noted that the balances agreed within an immaterial difference. Note that GAI selected the Non-CARF months the day of testing and watched GG pull the CARF month and Non-CARF months binders from their bookshelves.	Test 1 - GAI obtained the racing calendar and compared to the revenue earned by day to ensure that CARF was allocated 100% of the revenue earned that day, excluding "Night Revenue."  Test 2 - Based on discussion Njaa, F&B average per person is lower for CARF racing days primarily because the Turf Club was closed Wed-Fri during the CARF racing days so it was only open 4 of the 10 days during CARF 1 and 9 of the 15 days during CARF II. The average price for a meal at the Turf Club is approx \$12, which is significantly higher than other food at GGF. GAI reviewed the income statement by department for each month tested and noted that the Turf Club revenue as a % of total F&B revenue was significantly higher during the Non-CARF months. Note that the fact that the gross profit % are comparable provides additional assurance. Pass on further investigation. Based on the procedures performed, it appears that CARF 1 F&B revenue appear to be fairly stated.	Test 1 - 9/7/09 revenue was improperly excluded from CARF allocation. The remaining days were properly included in CARF allocation.  Test 2 - Based on discussion Njaa, F&B average per person is lower for CARF racing days primarily because the Turf Club was closed Wed-Fri during the CARF racing days so it was only open 4 of the 10 days during CARF 1 and 9 of the 15 days during CARF II. The average price for a meal at the Turf Club is approx \$12, which is significantly higher than other food at GGF. GAI reviewed the income statement by department for each month tested and noted that the Turf Club revenue as a % of total F&B revenue was significantly higher during the Non-CARF months. Note that the fact that the gross profit % are comparable provides additional assurance. Pass on further investigation. Based on the procedures performed, it appears that CARF 1 F&B revenue appear to be fairly stated.	\$1,909 was improperly excluded from CARF revenue. GGF adjusted the income statement accordingly.
2	F&B Revenue -Concessions/Bars	87,495	Direct			Test 3 - GAI compared CARF 2 gross profit percentage (F&B Cost of Sales divided by F&B Revenue) to CARF 1- Aug 09, Non-CARF-Sept 08, Non-CARF-Oct 09.  Combined with F&B Revenue - Turf Club	Test 1 - CARF appeared to be properly allocated 100% of the revenue earned during the 22 days allocated to CARF, excluding "Night Revenue."  Test 2 - Based on the procedures performed, it appears that CARF 2 Admission revenue is comparable to CARF 1 and other Non-CARF racing months as expected. Per discussion with Njaa, the reason the \$ per attendee average of \$1.87 is primarily due to the following: 1) Sunday is \$1 day and there is high attendance on this day, 2) The "regulars" get major discounts on admissions and many of them get their admission compensated, and 3) There are a lot of promotions for free admissions.	No exceptions noted  No exceptions noted  No exceptions noted
3	Admissions	38,559	Direct			Test 1 - GAI obtained the racing calendar and compared to the revenue earned by day to ensure that CARF was allocated 100% of the revenue earned that day, excluding "Night Revenue."  Test 2 - GAI compared the total \$ earned per attendee for CARF 2- Sept 09 admissions to the following: CARF 1- Aug09, Non-CARF-Sept 08, Non-CARF-Oct 09. GAI further broke out the comparison to show \$ earned per attendee for the Total Month and Racing Days only for each month selected.	Test 1 - 9/7/09 revenue was improperly excluded from CARF allocation. The remaining days were properly included in CARF allocation.	No exceptions noted
4	Parking	29,571	Direct			Test 1 - GAI obtained the racing calendar and compared to the revenue earned by day to ensure that CARF was allocated 100% of the revenue earned that day, excluding "Night Revenue."	Test 1 - 9/7/09 revenue was improperly excluded from CARF allocation. The remaining days were properly included in CARF allocation.	\$1,764 was improperly excluded from CARF revenue. GGF adjusted the income statement accordingly.

Prepared by CARF			Prepared by Golden Gate (GG)		Prepared by Gilbert Associates Inc. (GAI)			
Item #	Account Description	Amount	Direct or Indirect	Allocation Method	Source for Testing	Testing Procedures	Results	Exceptions and Conclusions
						<p>Test 2 - GAI compared the total \$ earned per attendee for CARF 2- Sept 09 parking to the following: CARF 1- Aug 09, Non-CARF-Sept 08, Non-CARF-Oct 09. GAI further broke out the comparison to show \$ earned per attendee for the Total Month and Racing Days only for each month selected</p> <p>Test 1 - GAI obtained the racing calendar and compared to the revenue earned by day to ensure that CARF was allocated 100% of the revenue earned that day, excluding "Night Revenue "</p> <p>Test 2 - GAI compared the total \$ earned per attendee for CARF 2- Sept 09 publications to the following: CARF 1- Aug 09, Non-CARF-Sept 08, Non-CARF-Oct 09.</p> <p>Not deemed a high risk and comparable to Non-CARF-months tested. Pass on further testing.</p> <p>Not deemed a high risk and comparable to Non-CARF-months tested. Pass on further testing.</p> <p>Not deemed a high risk and comparable to Non-CARF-months tested. Pass on further testing.</p> <p>GAI compared CARF 2 gross profit percentage (F&amp;B Cost of Sales divided by F&amp;B Revenue) to CARF 1- Aug09, Non-CARF-Sept 08, Non-CARF-Oct 09.</p>	<p>Test 2 - Based on the procedures performed, it appears that CARF 2 Parking revenue is comparable to other CARF 1 and Non-CARF racing months as expected. Per discussion with Njaa, the reason the \$ per attendee average is \$1.45 is primarily due to the following: 1) Sunday is \$1 day and there is high attendance on this day, 2) The "regulars" get major discounts on parking and many of them get their parking compensated, 3) There are a lot of promotions for freediscount parking, and 4) There is a shuttle that buses attendees from the Bart station to GGF; therefore, the do not pay for parking. 5) GAI also noted that there were bikes parked outside of the GGF and there is no charge for parking a bike. Note that Oct 09 \$ per attendee was lower than average, but GAI is primarily concerned with the understatement of revenue and because this is a Non-CARF racing month, GAI will pass on further investigation.</p>	<p>No exceptions noted</p> <p>\$2,480 was improperly excluded from CARF revenue. GGF adjusted the income statement accordingly</p>
5	Publications	36,018	Direct				<p>Test 1 - 9/7/09 revenue was improperly excluded from CARF allocation. The remaining days were properly included in CARF allocation.</p>	<p>No exceptions noted</p>
6	ATM Surcharges	9,054	Direct					
	TOTAL REVENUE	227,373						<p>No exceptions noted</p>
7	Tote Expense	4,634	Indirect					<p>No exceptions noted</p>
8	F&B Cost of Sales - Food	12,818	Direct					
9	F&B Cost of Sales - Liquor	2,225	Direct					
10	F&B Cost of Sales - Beer	13,812	Direct					
11	F&B Cost of Sales - Wine	1,371	Direct					
12	F&B Cost of Sales - Non-Alcoholic	4,848	Direct					
13	F&B Cost of Sales - Other	654						<p>No exceptions noted</p>
14	DEPARTMENTAL EXPENSES							
						<p>GG Internal Financial Statements and supporting documentation organized in binders by month. Golden Gate Financial Statements provided to CARF. Note that GAI compared the 2 sources as deemed necessary and noted that the balances agreed within an immaterial difference. Note that GAI selected the Non-CARF months the day of testing and watched GG pull the CARF month and Non-CARF months binders from his bookshelves. Detailed general ledger for all expenses during CARF 1 month</p>		<p>CARF was undercharged \$28,704 due to the day difference. CARF was overcharged \$1,603 due to the allocation error. GGF adjusted the income statement accordingly</p>
15	Salaries & Wages - Leased/Temp Labor	12,541	Indirect				<p>Test 1 - GAI noted that CARF should have been allocated 22 days rather than 21 days. GAI also discovered an allocation error in one of the accounts. Once GG corrected, GAI recalculated expense allocation without exception</p>	



Prepared by CARF			Prepared by Golden Gate (GG)		Prepared by Gilbert Associates Inc. (GAI)			
Item #	Account Description	Amount	Direct or Indirect	Allocation Method	Source for Testing	Testing Procedures	Results	Exceptions and Conclusions
						Test 2 - GAI obtained the detailed general ledger for all expenses during CARF 1 month. GAI scanned the detailed general ledger and judgmentally selected a sample 6 expenses to test. For each selection, GAI obtained supporting documentation to ensure it was a valid expense and appeared reasonable to be allocated or direct charged to CARF.		CARF was overcharged \$12,623. GG DID NOT adjust the income statement for this exception. GG represented to GAI that CARF agreed to pass because GG discovered other areas where CARF was undercharged and they felt it would cancel out.
						Test 3 - GAI compared Aug 09, Sept 09, Oct 09 expenses and investigated any significant and unusual variances.	Test 2 - Based on the procedures performed, there were no significant and unusual variances between Aug 09, Sept 09, Oct 09 expenses to resulted in any concern.	No exceptions noted
16	Outside Services	33,176	Indirect					
17	Meals & Entertainment	4,151	Indirect					
18	Travel	5,907	Indirect					
19	Operating Supplies	12,420	Indirect					
20	Repairs & Maintenance	59,490	Indirect					
21	Equipment Rental	15,811	Indirect					
22	Utilities	78,436	Indirect					
23	Taxes & Licenses	131,372	Indirect					
24	Insurance	76,326	Indirect					
	MARKETING		Indirect					
25	Media - Television	58,688	Indirect					
26	Media - Radio	25,033	Indirect					
27	Creative production materials	5,551	Indirect					
28	Promotions	8,501	Indirect					
29	Direct mail		Indirect					
30	Special event		Indirect					
31	Player rewards	250	Indirect					
32	Group Sales		Indirect					
33	NTRA	6,101	Indirect					
34	Publicity	5,230	Indirect					
35	Communications	11,981	Indirect					
36	Publications Cost of Sales	41,526	Indirect					
	PROFESSIONAL SERVICES		Indirect					
37	Professional Services - IT	4,472	Indirect					
38	Professional Services - other	767	Indirect					
39	Charitable Donations	8,000	Indirect					
40	Shipping	945	Indirect					
41	Cash Shortages	3,111	Indirect					
42	Depreciation	170,857	Indirect					
	TOTAL EXPENSES	821,005		N/A	Do not test per CARF	Do not test per CARF	Do not test per CARF	Do not test per CARF
	DIRECT COSTS (EXPENSES)							
						GAI traced and agreed the charged labor amount to the summary schedule which footed w/o/e. GAI obtained the check register for each payroll period and traced the ending balance to the check detail total. GAI then selected 25 people throughout each payroll period and vouched the existence and validity of the expense by tracing the charge to a signed timescard.	Backup detail tied to amounts charged to CARF. There were no instances of unsupported time worked during this period from the sample selected. All labor charged appears appropriate	No exceptions noted
43	Labor	676,046	Direct	N/A	Payroll check registers, timescards, summary schedule of the payroll for each payroll period charged during the race period			



Prepared by CARE			Prepared by Golden Gate (GG)			Prepared by Gilbert Associates Inc. (GAI)		
Item #	Account Description	Amount	Direct or Indirect	Allocation Method	Source for Testing	Testing Procedures	Results	Exceptions and Conclusions
44	Benefits - SUI and FUI	316,343	Direct	N/A	Summary schedule of the payroll related expenses for each payroll period charged during the race period.	GAI reviewed the amounts charged to CARE for reasonableness based on the amount of payroll incurred during the race period.	Amounts charged were deemed insignificant as expected. Amounts charged between CARE 1 and CARE 2 appeared comparable and amounts increased from CARE 1 to CARE 2 due to increased payroll, as expected. No concerns noted over amounts charged to CARE.	No exceptions noted
	Benefits - FICA				Summary schedule of the payroll related expenses for each payroll period charged during the race period.	Recalculated FICA charged based on 7.65% FICA rate and payroll charged during the race period and compared to amount charged to CARE.	Recalculated amount agreed to amounts charged to CARE wife. Note that 6.2% (social security portion) of the 7.65% charged is capped on salaries that exceed 106,800. GAI did not test for salaries exceeding this amount. Any amounts exceeding this amount should be allocated to CARE and thus reducing their expenses; however any amounts would appear to be insignificant and the time to track and account for such a reduction would appear to be burdensome.	No exceptions noted
	Benefits - Union Dues				Summary schedule of the payroll related expenses for each payroll period charged during the race period, detail schedule of each union's dues charged to CARE, payroll activity reports and detail of union charges during a non-CARE race period.	Agree amount charged to CARE to backup schedules and select a sample of charges and obtain proper supporting backup to ensure reasonableness of the charge to CARE.	Amount charged to CARE agreed to supporting schedules wife. GAI noted that the amounts charged are based on actual hours worked or days worked multiplied by the union dues rates. GAI noted that the sample of payroll reports for the time periods during CARE race periods agreed to the hours/days used to calculate the expense charged to CARE wife. GAI then selected a non-CARE month of racing and obtained the expense calculations and noted that the rates between a non-CARE month and the CARE months were the same; therefore it appears they are being charged correctly. The expenses for these is calculated monthly. GAI noted that Golden Gate Fields calculated CARE's portion based on the ratio of the number of weeks their races occupied in the month. Calculations and amounts charged appears reasonable.	No exceptions noted
	Benefits - other benefits (pensions)				Summary schedule of the payroll related expenses for each payroll period charged during the race period, detail schedule of each union's dues charged to CARE, and premium invoices for 2009 and 2010.	Agree amount charged to CARE to backup schedules and select a sample of charges and obtain proper supporting backup to ensure reasonableness of the charge to CARE.	GAI noted that for most of these expenses, the premium for a given year is based on the number of race days for a track had in the PY based on the % of the total race days for the PY for all the tracks the benefit fund covers. GAI noted that the Field is billed annually for which they allocate the yearly cost to each month based on the number of race days in that month. As the premium is based on race days it appears appropriate that the Field allocated the yearly cost to each month based on race days in the month. Then the Field takes the expense amount allocated to the month in which the CARE races are and allocates it based on total weeks in that month and the number of weeks the CARE races occupied that month. However, per payroll, noted that they estimated the yearly expense for 2009 based on the race days in 2009, which in essence they billed based on what they estimated their 2010 premiums were. But as the organization is billed for 2009 premiums based on 2008, it appear that CARE should be billed in the same manner. Based on comparison of the actual base amount used to bill CARE on to the actual 2009 premiums and 2010 premiums charged to Golden Gate, noted that CARE appears to have been overbilled.	CARE was overcharged \$3,950. GGF adjusted the income statements accordingly.
45	Workers Compensation	67,605	Direct	N/A	Internal financial statements for Golden Gate Field and summary schedule of payroll related expenses for each payroll period charged during the race period	GAI obtained total amount of payroll and workers' expenses incurred by Golden Gate fields for 2009. GAI calculated the % of workers' comp to total payroll and compared the amount being charged to CARE for reasonableness.	GAI noted yearly salaries and wages for all of Golden Gate Fields of \$12,624,224 and workers' comp of \$613,738. The ratio of workers' comp to total salary is ~4.9%. As CARE is being charged a 10% rate, it appears they are being overcharged.	CARE was overcharged \$33,802. GGF adjusted the income statements accordingly.
46	Equipment Rental	850	Direct	N/A	Do not test per CARE. CARE has already reviewed invoices supporting these expenses.	Do not test per CARE. CARE has already reviewed invoices supporting these expenses.	Do not test per CARE. CARE has already reviewed invoices supporting these expenses.	Do not test per CARE. CARE has already reviewed invoices supporting these expenses.

Prepared by CARF			Prepared by Golden Gate (GG)			Prepared by Gilbert Associates Inc. (GAI)		
Item #	Account Description	Amount	Direct or Indirect	Allocation Method	Source for Testing	Testing Procedures	Results	Exceptions and Conclusions
47	Cost of Sales - Publications	11,911	Direct	N/A				
48	Operating Supplies	3,329	Direct	N/A				
49	Outside Services	56,916	Direct	N/A				
50	Repair & Maintenance		Direct	N/A				
51	State Auditor		Direct	N/A				
52	Travel		Direct	N/A				
TOTAL DIRECT COSTS		73,006						

**Christopher Korby**

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**From:** "Christopher Korby" <korby@calfairs.net>  
**To:** "Schell, Thomas J." <TJSchell@bryancave.com>; "Amy L. Casias" <ACasias@calexpo.com>; <buncelaw@aol.com>; "Thurman, Bernie" <BernieThurman@hollywoodpark.com>; <bsnyder@losalamitos.com>; <ckelly@viejas.com>; <Craig@dmtd.com>; <doleary@sdfair.com>; <glamothe@toconline.com>; <jackliebaw@yahoo.com>; <LContreras@calexpo.com>; <Mike@dmtd.com>; <pmackey@cabazonindians-nsn.gov>; <Ray@thefair.org>; <rrogers@fantasysprings.net>; "Mike Seder" <seder@fairplex.com>; <tbigknife@viejas-nsn.gov>; "Tom Varela" <tvarela@chrims.com>; "Alkire, John" <jalkire@fresnofair.com>  
**Cc:** "Drew J. Couto" <drew@deposet.com>; "McMahon, Michelle K." <Michelle.McMahon@bryancave.com>  
**Sent:** October 12, 2010 9:05 AM  
**Attach:** Term Sheet.pdf  
**Subject:** Re: Magna-SCOTWINC - Amendment to Term Sheet

Tom,

Please confirm that the settlement amounts for California Fair satellite wagering facilities will still be consistent with the amounts shown in the Term Sheet Exhibit A, signed April 2010, attached. Thanks.

Best regards,  
 --Chris

Christopher Korby  
 Executive Director  
 California Authority of Racing Fairs

----- Original Message -----

**From:** [Schell, Thomas J.](#)  
**To:** ['Amy L. Casias'](#) ; ['buncelaw@aol.com'](#) ; [Thurman, Bernie](#) ; ['bsnyder@losalamitos.com'](#) ; ['ckelly@viejas.com'](#) ; ['Craig@dmtd.com'](#) ; ['doleary@sdfair.com'](#) ; ['glamothe@toconline.com'](#) ; ['jackliebaw@yahoo.com'](#) ; ['Christopher Korby'](#) ; ['LContreras@calexpo.com'](#) ; ['Mike@dmtd.com'](#) ; ['pmackey@cabazonindians-nsn.gov'](#) ; ['Ray@thefair.org'](#) ; ['rrogers@fantasysprings.net'](#) ; ['Mike Seder'](#) ; ['tbigknife@viejas-nsn.gov'](#) ; ['Tom Varela'](#)  
**Cc:** ['Drew J. Couto'](#) ; [McMahon, Michelle K.](#)  
**Sent:** October 07, 2010 5:36 PM  
**Subject:** Magna-SCOTWINC - Amendment to Term Sheet

Hello, everyone.

After much negotiation with opposing counsel, we have reached agreement on the amendment to the term sheet (subject to the Plan Administrator's approval). Attached hereto are both the revised Amendment and the original Term Sheet which is being amended. Also attached are three exhibits. Exhibit 1 is the set of escrow instructions. Exhibit 2 lists the proofs of claim that are not being expunged or assigned. Exhibit 3 lists the proofs of claim that were settled in the litigation and are being assigned to MID (this does not affect any of the payments to you or any of your obligations).

As before, all proofs of claim that were filed by your organization against Los Angeles Turf Club, Inc., Pacific Racing Association, Inc., The Santa Anita Companies, Inc., MEC Land Holdings (California), Inc. and Magna Entertainment Corp. on or before April 30, 2010 -- except those listed in Exhibit 2 -- will be expunged or assigned to MID.

Please respond "AGREED" to confirm your agreement to this amendment and the term sheet (as amended) by 5 pm Pacific time on October 12, 2010.

Please let me know if you have any questions either by e-mail or at (212) 541-2115.  
Thanks.

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This electronic message is from a law firm. It may contain confidential or privileged information. If you received this transmission in error, please reply to the sender to advise of the error and delete this transmission and any attachments.

IRS Circular 230 Disclosure: To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein.  
bcllp2010

## **AMENDMENT AND CLARIFICATION TO TERM SHEET**

This Amendment and Clarification (“Amendment”) to the Term Sheet, dated as of April 16, 2010 and authorized by the Bankruptcy Court by Order dated April 27, 2010 (“Term Sheet”), is entered into by and among the following parties (collectively, the “Settling Parties”) in order to further clarify and implement the settlement memorialized in the Term Sheet:

- (i) Magna Entertainment Corp., Pacific Racing Association, Inc., Los Angeles Turf Club, Inc. (“LATC”), MEC Land Holdings (California), Inc., and The Santa Anita Companies, Inc. (collectively, the “Reorganized Debtors”);
- (ii) Alameda County Agricultural Fair Association, Bay Meadows Racing Association, East Valley Tourist Development Authority, California Exposition And State Fair Association, California Marketing Committee, California Thoroughbred Business League, Del Mar Thoroughbred Club, 9th District Agricultural Association, 21st District Agricultural Association, Hollywood Park Racing Association, 15th District Agricultural Association, 50th District Agricultural Association, Los Alamitos Race Course, Los Angeles County Fair Association, 7th District Agricultural Association, Riverside County Fair And National Date Festival, National Orange Show Citrus Fruit Festival, Oak Tree Racing Association, 46th District Agricultural Association, 2nd District Agricultural Association, San Mateo County Fair, 19th District Agricultural Association, 37th District Agricultural Association, Sonoma County Fair, 27th District Agricultural Association, 24th District Agricultural Association, Solano County Fair Association, Southern California Off Track Wagering, Inc. (“SCOTWINC”), 38th District Agricultural Association, 31st District Agricultural Association, 28th District Agricultural Association, 22nd District Agricultural Association, Viejas Enterprises, Santa Clara County Fairgrounds Management Corp., Barona Valley Ranch Resort and Casino, and Los Alamitos Quarter Horse Racing Association (collectively, the “Settling Claimants”);<sup>1</sup> and
- (iii) MI Developments Inc. (“MI Developments”) and MI Developments US Financing Inc. (“MID Transferee”, and together with MI Developments, collectively, “MID”).
- (iv) William Ford, the Reorganized Debtors’ Plan Administrator

### **General and Parties to the Term Sheet**

1. Unless otherwise defined herein, capitalized terms shall have the meaning ascribed to them in the Term Sheet, or if not defined therein, in *Second Modified Third Amended*

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<sup>1</sup> The term “AES Parties” in the Term Sheet inadvertently included the California Thoroughbred Trainers Backstretch Employees Cash Balance Pension Plan and the California Race Track Pension Plan, which are not and were not intended to be parties to this settlement.



*Joint Plan of Affiliated Debtors, the Official Committee of Unsecured Creditors, MI Developments Inc. and MI Developments US Financing Inc. Pursuant to Chapter 11 of the United States Code*, dated April 29, 2010 (the “Plan”) [Dkt. No. 2458]

2. The Settling Parties agree (i) that the term “AES Parties” in the Term Sheet inadvertently included the California Thoroughbred Trainers Backstretch Employees Cash Balance Pension Plan and the California Race Track Pension Plan, which are not parties to the Term Sheet and were not intended to be parties to this settlement; (ii) that Santa Clara County Fairgrounds Management Corp., Barona Valley Ranch Resort and Casino, and Los Alamitos Quarter Horse Racing Association, which are listed on Exhibit A to the Term Sheet, are and were intended to be parties to this settlement; and (iii) that certain formal names should be substituted for certain names used in paragraph 1(a) of the Term Sheet. Accordingly, the Settling Parties agree that the term “AES Parties” in the Term Sheet shall refer to, and only to, the Settling Claimants as defined herein, except SCOTWINC.

**Escrow Accounts and Deposits Into Those Accounts**

3. The Settling Parties agree that the Escrow Agent defined in paragraph 8 of the Term Sheet shall be California attorney Drew J. Couto.

4. The Setting Parties agree that the Escrow Agent shall establish within his Client Trust Account two subaccounts, which shall represent the two escrow accounts defined in paragraph 8 of the Term Sheet as the Debtors Escrow and the AES Escrow, and shall distribute monies deposited into each in accord with the terms of the Term Sheet, and in the manner specified under the Escrow Instructions attached hereto as Exhibit 1. The Settling Parties further agree that (i) the Escrow Agent shall determine and/or estimate the costs of administering the escrow subaccounts and the transactions involving those subaccounts, including the costs of wire or other transfers and banking related fees, if any (collectively, the “Escrow Costs”), and (ii)

50% (fifty percent) of the Escrow Costs shall be deducted from distributions to the Debtors and 50% (fifty percent) of the Escrow Costs shall be deducted from distributions to the Settling Claimants. In accordance with paragraph 9(a) of the Term Sheet, the amount to be distributed to the Settling Claimants shall be released to SCOTWINC for distribution to the AES Parties, and SCOTWINC shall make the distribution to the AES Parties after the deduction of attorneys', legal, and other appropriate fees/cost incurred by the AES Parties as a result of pursuing their claims and the filing of the adversary action.

5. The Settling Parties acknowledge and agree that (i) the Escrow Agent has also served as counsel for SCOTWINC and other parties whose interests may have been adverse to the Reorganized Debtors and/or MID, and (ii) the Reorganized Debtors and MID have each been represented by independent counsel of their own choosing. The Reorganized Debtors and MID each acknowledge that (i) they have consulted with and been represented by such independent legal and other counsel of their choice in connection with all matters relating to the escrow accounts described herein, and all contemplated transactions thereunder and as specified herein; and (ii) they have sought and used all such counsel fully to the extent they deemed it necessary and/or desirable to do so.

#### **Failure To Make Payments**

6. The Settling Parties agree that the date of May 15, 2010 set forth in paragraph 11 of the Term Sheet has been extended to October 20, 2010.

#### **Assignment of Claims**

7. The Settling Parties agree that the proofs of claim listed on Exhibit 3 and the Claims (as defined in section 101(5) of the Bankruptcy Code) contained therein (collectively, the "Assigned Claims") filed by the Settling Claimants against the Debtors (as defined in the Term Sheet) shall not be deemed disallowed and expunged, but shall be irrevocably transferred and

assigned to MID Transferee, and the Settling Claimants hereby irrevocably transfer and assign the Assigned Claims to MID Transferee, and MID Transferee shall be entitled to receive any and all distributions under the Plan on account of such Assigned Claims. Notwithstanding the foregoing, nothing herein shall be deemed a waiver of any right of the Reorganized Debtors' Plan Administrator or any other party in interest, including the Creditors' Committee (as defined in the Plan) to object to the allowance of such Assigned Claims. Further, notwithstanding the foregoing, nothing herein shall be deemed to require any of the Settling Claimants to assist in the defense or prosecution of any of the Assigned Claims or to require any of the Settling Claimants to take any other action or to refrain from taking any action, other than as expressly set forth herein.

#### **Change to Paragraph 9.b of Term Sheet**

8. The Settling Parties agree that the phrase "as of April 30, 2010" shall be substituted for the phrase "as of the Final Funding Date" in paragraph 9.b of the Term Sheet.

#### **Retention of Certain Claims**

9. The Settling Parties agree that the proofs of claim listed in Exhibit 2 ("Retained Proofs of Claim") hereto shall not be deemed disallowed and expunged under the Term Sheet or hereunder. All Settling Parties reserve all rights with respect to the Retained Proofs of Claim, and nothing herein shall be deemed a waiver of any right of the Reorganized Debtors' Plan Administrator or any other party in interest to object to such Retained Proofs of Claim on any grounds.

10. The Settling Parties agree that the issue of entitlement to receive the satellite wagering commissions distributed to Golden State Fields for redistribution by Golden Gate Fields (estimated to be approximately \$170,000 in aggregate) under California horse racing law

and regulations will be referred to the California Horse Racing Board for determination by that Board.

11. Lastly, nothing contained herein shall be deemed a waiver of the release and injunction provisions contained in Article XXXV of the Plan, which are binding on the Settling Claimants.

### **Miscellaneous**

12. Each party who executes this Amendment hereby covenants and warrants to the other parties that it has the authority to execute this document on behalf of his or her respective client(s) and is fully authorized to bind his or her client(s) to all the terms of this Amendment.

13. This Amendment may be executed in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument, and it shall constitute sufficient proof of this Amendment to present any copy, copies or facsimiles signed by the party hereto to be charged.

14. Each of the parties hereto agrees to execute and deliver, or to cause to be executed and delivered, all such instruments, and to take all such action as the other parties may reasonably request in order to effectuate the intent and purposes of, and to carry out the terms of, the settlement agreement memorialized by this Amendment.

15. This Amendment will be binding on the parties and their successors and assigns.

16. The headings of the sections, paragraphs and subsections of this Amendment are inserted for convenience only and are not part of this Agreement and do not in any way limit or modify the terms or provisions of this Amendment and shall not affect the interpretation hereof.

17. This Amendment shall be governed by and construed in accordance with the internal laws of the State of California, without giving effect to any principles of conflicts of law and applicable federal law.

18. Except as stated herein, the terms and obligations of the Term Sheet shall continue to apply

### Term Sheet

#### 1) Definitions:

- a) The term "**Adversary Proceeding**" means the proceeding brought in the United States Bankruptcy Court for the District of Delaware ("Bankruptcy Court") on February 8, 2010 by Alameda County Agricultural Fair Association, Bay Meadows Racing Association, East Valley Tourist Development Authority, California Authority Of Racing Fairs ("**CARF**"), California Exposition And State Fair Association, California Marketing Committee, California Thoroughbred Business League, California Thoroughbred Trainers Backstretch Employees Cash Balance Pension Plan, California Race Track Pension Plan, Del Mar Thoroughbred Club, 9th District Agricultural Association, 21st District Agricultural Association, Hollywood Park Racing Association, 15th District Agricultural Association, 50th District Agricultural Association, Los Alamitos Race Course, Los Angeles County Fair Association, 7th District Agricultural Association, Riverside County Fair And National Date Festival, National Orange Show Citrus Fruit Festival, Oak Tree Racing Association, 46th District Agricultural Association, 2nd District Agricultural Association, San Mateo County Fair, 19th District Agricultural Association, 37th District Agricultural Association, Sonoma County Fair, 27th District Agricultural Association, 24th District Agricultural Association, Solano County Fair Association, Southern California Off Track Wagering, Inc. ("**SCOTWINC**"), 38th District Agricultural Association, 31st District Agricultural Association, 28th District Agricultural Association, 22nd District Agricultural Association, and Viejas Enterprises (collectively, "**Plaintiffs**") against Magna Entertainment Corp , Pacific Racing Association, Inc , MEC Land Holdings (California), Inc , Los Angeles Turf Club, Inc and The Santa Anita Companies, Inc. seeking, among other things, a declaratory judgment that Plaintiffs were entitled to certain funds from the Debtors and that SCOTWINC has a valid right to setoff certain amounts owed by LATC to SCOTWINC against amounts owed by SCOTWINC to LATC.
- b) The term "**AES Parties**" means all the Plaintiffs in the adversary proceeding except SCOTWINC, Northern California Off-Track Wagering, Inc. ("**NCOTWINC**") and CARF.
- c) The term "**Debtors**" means Los Angeles Turf Club, Inc , Pacific Racing Association, Inc , The Santa Anita Companies, Inc., MEC Land Holdings (California), Inc and Magna Entertainment Corp.
- d) The term "**LATC Shortfall Agreement**" means the agreement dated December 21, 2009 by and between Los Angeles Turf Club, Inc and Thoroughbred Owners of California, intended to be an interim solution to the imminent threat to continued racing in California resulting from the recurring revenue shortfalls and cash flow shortages experienced by SCOTWINC. The LATC Shortfall Agreement is incorporated herein by reference to the extent applicable.



- e) The term "LATC" means Los Angeles Turf Club, Inc. or its successors and assigns through the Plan or otherwise
  - f) The term "MID" means MI Developments Inc. and MI Developments US Financing Inc.
  - g) The term "Plan" means Third Amended Joint Plan of Affiliated Debtors, the Official Committee of Unsecured Creditors, MI Developments Inc., and MI Developments US Financing Inc. Pursuant to Chapter 11 of the United States Bankruptcy Code, dated March 24, 2010 [Docket No. 2157].
- 2) Final Terms and Effective Date. This Term Sheet sets forth the final and binding terms of a settlement that will become effective upon entry of a final, nonappealable order approving the settlement contemplated herein by the Delaware Bankruptcy Court (the "Settlement Effective Date").
- 3) AES Amounts. The Debtors and the AES Parties agree that they owe to each other the respective amounts set forth in the attached spreadsheet, Exhibit A. The amounts set forth on Exhibit A represent balances up to March 7, 2010, less any payments made since March 7, 2010 to the date of this Term Sheet.
- 4) On-Track Expenses. The Debtors and SCOTWINC agree that SCOTWINC owes the Debtors an estimated amount for reimbursement of on-track expenses through April 18, 2010 as set forth in Exhibit B ("Estimated Expense Reimbursement Due"). As the actual amount of expenses cannot be finally determined until after the 2009-2010 Winter/Spring race meet at Santa Anita is over, LATC agrees that it will calculate the actual amounts owed for reimbursement of on-track expenses in May 2010. LATC and SCOTWINC agree that any variance between the estimated amounts set forth in Exhibit B and the actual expenses calculated by LATC in May 2010 will be settled no later than June 15, 2010.
- 5) Shortfall Amounts
- (a) LATC and SCOTWINC agree that the projected shortfalls due from LATC to SCOTWINC through April 18, 2010, net of payments previously distributed by LATC to SCOTWINC pursuant to the LATC Shortfall Agreement, are set forth in Exhibit B (the "Estimated Remaining Shortfall Amount").
  - (b) It is acknowledged between the parties that (i) under the LATC Shortfall Agreement, SCOTWINC has a right to receive payment of shortfalls LATC owes to SCOTWINC from deposits LATC has made or makes into the LATC Race Meeting Trust ("Shortfall Payment Right"), and (ii) in consideration for SCOTWINC deducting the Estimated Remaining Shortfall Amount from the Estimated Expense Reimbursement Due pursuant to paragraph 8(b) herein, SCOTWINC assigns to LATC its Shortfall Payment Right in the amount of the Estimated Remaining Shortfall Amount from the LATC Race Meeting Trust. Accordingly, LATC is entitled to payments out of the LATC Race Meeting Trust as provided for in Paragraph 12 below.



(c) LATC and SCOTWINC agree that the remaining balance of the projected shortfall set forth on Exhibit B will be satisfied in accordance with the terms under which payments are made in accordance with the LATC Shortfall Agreement. LATC and SCOTWINC acknowledge that after December 31, 2010, SCOTWINC will determine whether there is an operating shortfall or surplus for 2010 for LATC in accordance with the manner in which shortfalls were determined and allocated to LATC in 2008 and 2009. To the extent there is a shortfall, funds will be distributed in accordance with clause 3 (ii) of the LATC Shortfall Agreement. If there are insufficient funds available to cover the shortfall, LATC will satisfy any shortfall within 30 days of being notified of such shortfall. To the extent there is a surplus, such surplus funds will be paid by SCOTWINC directly to LATC in a manner and at a time consistent with past practices

- 6) Other SCOTWINC Obligations. The Debtors, SCOTWINC, and the AES Parties agree that they shall pay each other for all other obligations incurred in the ordinary course of business that are not expressly covered by this agreement, including obligations based on the LATC Shortfall Agreement, on a timely basis.
- 7) This agreement does not in any way relate to any claims asserted by or against NCOTWINC or CARF, and all of the rights with respect to such claims are expressly reserved by the Debtors, NCOTWINC, CARF and any party to this agreement.
- 8) Escrow Accounts and Payments. Two escrow accounts will be established, one for the benefit of LATC and the other Debtors (the "**Debtors Escrow**") and one for the benefit of the AES Parties (the "**AES Escrow**"), both of which are to be administered by an escrow agent agreed to by all parties ("**Escrow Agent**")
  - a) The AES Parties will deposit into the Debtors Escrow the amounts owed to the Debtors as set out in Exhibit A, as soon as practicable after the Settlement Effective Date.
  - b) SCOTWINC will deposit into the Debtors Escrow the **Estimated Expense Reimbursement Due**, less the Estimated Remaining Shortfall Amount, as set out in Exhibit B, as soon as practicable after the Settlement Effective Date.
- 9) Release of Escrow Funds. Once the amount to be deposited by SCOTWINC per Paragraph 8(b) above and all monies owed by the AES Parties per Paragraph 8(a) above have been deposited into the Debtors Escrow, the Escrow Agent will notify the Debtors in a manner mutually agreeable to the parties. No later than one business day after receiving this notice (the "**Final Funding Date**"), the Debtors will cause to be deposited into the AES Escrow the amounts owed to each of the AES Parties as set forth in Exhibit A.

If and once all aforesaid deposits have been made, then immediately following such deposits:

- a) the Escrow Agent will release to the appropriate parties the funds in both the Debtors Escrow and the AES Escrow; provided, however, that all parties hereto



agree that the AES Parties' monies shall be released to SCOTWINC for distribution to the AES Parties and that such distribution shall occur after the deduction of attorneys', legal, and other appropriate fees/cost incurred by the AES Parties as a result of pursuing their claims and the filing of the adversary action;

- b) as of the Final Funding Date, any and all proofs of claim filed by any of the AES Parties and SCOTWINC against any of the Debtors shall be deemed disallowed and expunged in their entirety, and the AES Parties and SCOTWINC forever waive any claims or causes of action they may have against the Debtors related to the subject matter contained herein.
- 10) Release. Except as otherwise set forth in this Term Sheet, as of the date on which all deposits in the Debtors Escrow and all deposits into the AES Escrow are made, the Debtors, SCOTWINC and the AES Parties shall be deemed to have released each other for all claims expressly listed on Exhibits A and B.
  - 11) Failure to Make Payments. If any of the aforesaid deposits in Paragraphs 8 and 9 have not been made by May 15, 2010 or if the Debtors have not made their deposit into the AES Escrow by the end of the day on the Final Funding Date:
    - a) the agreement memorialized by this Term Sheet will be deemed null and void;
    - b) the Escrow Agent is directed to return to each party the amounts that each party deposited; and
    - c) an answer or response to the complaint in the Adversary Proceeding will be due within fourteen (14) days of the date on which the Escrow Agent has completed the return of such amounts.
  - 12) SCOTWINC further agrees that on or before the Final Funding Date an irrevocable direction will be executed and delivered by SCOTWINC whereby once LATC deposits into the LATC Race Meeting Trust account amounts owed under the LATC Shortfall Agreement, such amounts will be paid immediately by the LATC Race Meeting Trust to LATC, until LATC has recovered an amount equal to the Estimated Remaining Shortfall Amount.
  - 13) MID agrees to support the terms and conditions set forth in this Term Sheet, including, without limitation, expressing its formal support of this Term Sheet by filing a statement of support with the Bankruptcy Court.
  - 14) Each of the AES Parties and SCOTWINC agrees to support the Plan by, including but not limited to, (i) voting to accept the Plan, (ii) not objecting to confirmation of the Plan and (iii) not soliciting any other party to vote against, or object to, the Plan. Each of the AES Parties and SCOTWINC consents to, and agrees to be bound by, the releases and injunctions contained in Article 34 of the Plan, notwithstanding any prior election that may have been made in any ballot or notice to opt-out of the release provisions.

- 15) Attorneys Fees. Each party to this agreement shall bear its own attorneys' fees and costs
- 16) Approval by Bankruptcy Court. Upon execution of this Term Sheet, the Debtors shall within one business day file a Motion (the "Approval Motion") with the Bankruptcy Court seeking approval of the settlement agreement memorialized by this Term Sheet pursuant to Rule 9019 of the Bankruptcy Rules. The Debtors shall also file an appropriate motion seeking authority to shorten notice of the Approval Motion and to schedule the Approval Motion for hearing on April 20, 2010.
- 17) No Admission of Liability. The execution of this Term Sheet is not intended to be, nor shall it be construed as, an admission or evidence in any pending or subsequent suit, action, proceeding or dispute of any liability, wrongdoing, or obligation whatsoever (including as to the merits of any claim or defence) by any party to any other party or any other Person with respect to any of the matters addressed in this agreement and this Term Sheet may not be used as an admission or evidence of the validity of any claim or constructive or other trust, or any allegation made in the actions or of any wrongdoing or liability of any Party in the Adversary Proceeding.
- 18) Miscellaneous.
  - a) This Term Sheet constitutes the entire agreement between the parties concerning the matters set forth herein, and supersedes any and all prior agreements between them concerning the matters set forth herein.
  - b) This Term Sheet may not be modified other than by a signed writing executed by the parties hereto, their authorized representatives, or by further order of the Bankruptcy Court.
  - c) Each party who executes this Term Sheet hereby covenants and warrants to the other parties that it has the authority to execute this document on behalf of his or her respective client(s) and is fully authorized to bind his or her client(s) to all the terms of this agreement.
  - d) This Term Sheet may be executed in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument, and it shall constitute sufficient proof of this Term Sheet to present any copy, copies or facsimiles signed by the Party hereto to be charged.
  - e) Each of the parties hereto agrees to execute and deliver, or to cause to be executed and delivered, all such instruments, and to take all such action as the other Parties may reasonably request in order to effectuate the intent and purposes of, and to carry out the terms of, the settlement agreement memorialized by this Term Sheet.
  - f) This Agreement will be binding on the parties and their successors and assigns.



- g) The headings of the sections, paragraphs and subsections of this Agreement are inserted for convenience only and are not part of this Agreement and do not in any way limit or modify the terms or provisions of this Agreement and shall not affect the interpretation hereof.
- h) This Agreement shall be governed by and construed in accordance with the internal laws of the State of California, without giving effect to any principles of conflicts of law and applicable federal law.
- i) The Bankruptcy Court retains jurisdiction as to all matters arising from or related to the implementation and/or enforcement of this Term Sheet and each of the Parties submit to the jurisdiction of the Bankruptcy Court.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed as of the date set forth below.

Dated: April \_\_, 2008

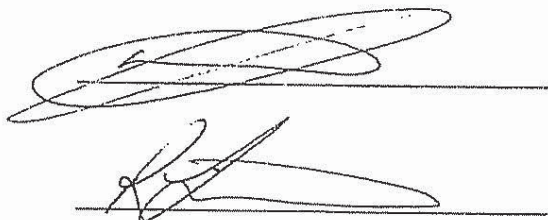


For the Debtors (as defined above):

For SCOTWINC (as defined above):

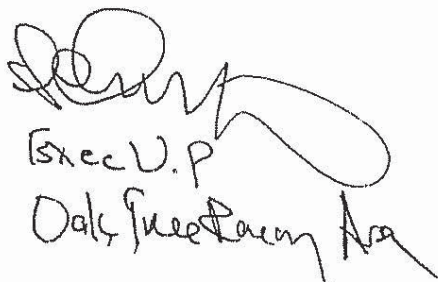
For MID (as defined above):

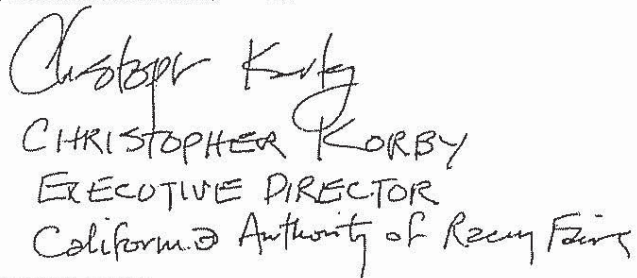
For the AES Parties (as defined above):



\* See Below

Craig R. Fravel, President  
Del Mar  
Craig R. Fravel

  
Exec V.P.  
Oak, Free Press, Inc.

  
CHRISTOPHER KORBY  
EXECUTIVE DIRECTOR  
California Authority of Recy Fair

- g) The headings of the sections, paragraphs and subsections of this Agreement are inserted for convenience only and are not part of this Agreement and do not in any way limit or modify the terms or provisions of this Agreement and shall not affect the interpretation hereof.
- h) This Agreement shall be governed by and construed in accordance with the internal laws of the State of California, without giving effect to any principles of conflicts of law and applicable federal law.
- i) The Bankruptcy Court retains jurisdiction as to all matters arising from or related to the implementation and/or enforcement of this Term Sheet and each of the Parties submit to the jurisdiction of the Bankruptcy Court.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed as of the date set forth below.

Dated: April 16, 2010

For the Debtors (as defined above):

\_\_\_\_\_

For SCOTWINC (as defined above):

Thomas M. Varela  
THOMAS M. VARELA  
GENERAL MANAGER

For MID (as defined above):

\_\_\_\_\_

\_\_\_\_\_

For the AES Parties (as defined above):

\_\_\_\_\_

\_\_\_\_\_

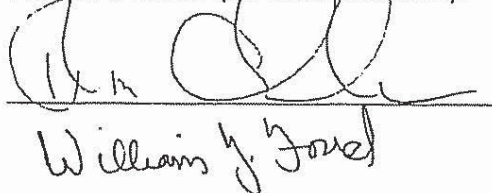
\_\_\_\_\_

- g) The headings of the sections, paragraphs and subsections of this Agreement are inserted for convenience only and are not part of this Agreement and do not in any way limit or modify the terms or provisions of this Agreement and shall not affect the interpretation hereof.
- h) This Agreement shall be governed by and construed in accordance with the internal laws of the State of California, without giving effect to any principles of conflicts of law and applicable federal law.
- i) The Bankruptcy Court retains jurisdiction as to all matters arising from or related to the implementation and/or enforcement of this Term Sheet and each of the Parties submit to the jurisdiction of the Bankruptcy Court.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed as of the date set forth below.

Dated: April \_\_, 2009

For the Debtors (as defined above):



William J. Ford

For MID (as defined above):

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For SCOTWINC (as defined above):

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For the AES Parties (as defined above):

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## EXHIBIT A

## AMOUNTS DUE FROM DEBTORS:

ALAMEDA COUNTY FAIR ASSN - PLEASANTON	92,004.42	
BARONA	35,161.94	
BAY MEADOWS	102,569.97	
CABAZON	30,400.98	
CAL EXPO HARNESS	843.71	
CALIFORNIA EXPOSITION & STATE FAIR - SACRAMENTO	86,345.59	
CALIFORNIA MARKETING COMMITTEE	123,300.16	
CALIFORNIA THOROUGHBRED BUSINESS LEAGUE	235,555.81	
DEL MAR THOROUGHBRED CLUB	4,471.27	
DEL MAR-22ND DAA (Surfside Race Place)	150,572.26	
EUREKA REDWOOD ACRES	6,160.30	
FRESNO FAIR	18,802.68	
FRESNO FAIR - FRESNO CLUB ONE	7,690.79	
HOLLYWOOD PARK	304,762.85	
KERN COUNTY FAIR - BAKERSFIELD	24,841.63	
LANCASTER-ANTELOPE VALLEY	30,148.36	
LOS ALAMITOS	473,625.57	
MONTEREY COUNTY FAIR	25,233.36	
OAK TREE RACING ASSOCIATION	3,129.89	
PERRIS-HEMET 46 DISTRICT	33,149.12	
POMONA-L A COUNTY FAIR	90,478.12	
SAN BERNARDINO-NATIONAL ORANGE SHOW	62,118.81	
SAN JOAQUIN COUNTY FAIR - STOCKTON	46,956.86	
SAN MATEO COUNTY FAIR	89,588.04	
SANTA BARBARA-EARL WARREN	12,354.64	
SANTA CLARA COUNTY FAIR - SAN JOSE	87,210.82	
SANTA MARIA-SANTA BARBARA FAIR	12,954.64	
SHALIMAR-NATIONAL DATE FESTIVAL	18,036.07	
SHASTA DISTRICT FAIR - ANDERSON	7,271.55	
SOLANO COUNTY FAIR - VALLEJO	38,445.99	
SONOMA COUNTY FAIR - SANTA ROSA	34,273.85	
SOUTHERN CALIFORNIA STABING AND VANNING FUND	206,959.95	
STANISLAUS COUNTY FAIR - TURLOCK	19,021.61	
TULARE 24TH DIST FAIR	7,841.62	
VENTURA	55,754.40	
VICTORVILLE-SAN BERNARDINO FAIR	20,298.68	
VIEJAS	23,969.22	
TOTAL AMOUNTS DUE FROM DEBTORS		2,622,305.53

## AMOUNTS DUE TO DEBTORS:

CAL EXPO HARNESS	28,394.48	
CALIFORNIA EXPOSITION & STATE FAIR	150.00	
CALIFORNIA MARKETING COMMITTEE	123,300.16	
DEL MAR THOROUGHBRED CLUB	9,466.10	
HOLLYWOOD PARK	403,625.01	
LOS ALAMITOS	515,490.66	
POMONA - LA COUNTY FAIR	22,804.63	
SOUTHERN CALIFORNIA STABLING & VANNING	210,172.00	
VIEJAS	2,929.50	
TOTAL AMOUNTS DUE TO DEBTORS		1,316,332.54



## EXHIBIT B

## AMOUNTS DUE FROM DEBTORS:

SCOTWINC 2008-2009 SHORTFALLS	1,339,021.00
SCOTWINC ESTIMATED 2010 SHORTFALLS THROUGH 3/7/2010	626,483.00
SCOTWINC ESTIMATED 2010 SHORTFALLS FROM 3/8 THROUGH 4/18/2010	663,381.00
LESS AMOUNTS RECEIVED PER LATC SHORTFALL AGREEMENT	(1,333,000.00)
TOTAL ESTIMATED REMAINING SHORTFALL DUE TO SCOTWINC THROUGH 4/18/2010	1,295,885.00
= <i>"Estimated Remaining Shortfall Amount"</i>	

## AMOUNTS DUE TO DEBTORS:

SCOTWINC EXPENSE REIMBURSEMENTS FROM 2009 LATC MEET	1,263,377.95
ESTIMATED SCOTWINC 2010 EXPENSE REIMBURSEMENTS THROUGH 3/7/10	637,093.00
ESTIMATED SCOTWINC 2010 EXPENSE REIMBURSEMENTS FROM 3/8 THROUGH 4/18/2010	420,000.00
TOTAL PROJECTED EXPENSE REIMBURSEMENTS DUE TO DEBTORS THROUGH 4/18/2010	2,320,470.95
= <i>"Estimated Expense Reimbursement Due"</i>	

ESTIMATED AMOUNT DUE TO DEBTORS LESS ESTIMATED REMAINING SHORTFALL DUE TO SCOTWINC	1,024,585.95
= <i>amount that SCOTWINC will deposit into Debtors escrow</i>	

# California Authority of Racing Fairs Agency Income Statement September 30, 2010

	2008	2009	2008	2009	2010	2010	2010	2010
	Year End Actual	Year End Actual	YTD Actual	YTD Actual	YTD Actual	Annual Budget	Budget Variance	% Budget
<b>Revenue:</b>								
Other Revenue	12,384	148	964	30	60	500	(440)	12%
Interest Income	96,705	30,515	33,042	25,449	14,584	30,000	(15,416)	49%
Member Dues	282,520	282,532	218,203	211,899	219,685	292,913	(73,228)	75%
CARF South Programs Admin Fee	29,295	25,351	23,164	19,968	16,913	26,250	(9,337)	64%
CARF Projects Admin Fee	175,639	66,063	150,678	43,956	58,429	195,000	(136,571)	30%
CARF Live Racing Admin Fee	149,334	112,869	108,044	99,621	90,956	136,723	(45,767)	67%
CARF @ Leased Facility Revenue	0	(311,170)	0	162,490	0	0	0	0%
Total Revenue	745,876	206,308	534,095	563,413	400,627	681,386	(280,759)	59%
<b>Expenses:</b>								
Salaries	245,914	226,671	164,584	165,082	163,238	304,423	141,185	54%
Employee Benefits	26,800	23,714	20,746	19,204	13,442	30,000	16,558	45%
Post Retirement Benefits	31,614	666,317	23,694	751,009	25,852	32,896	7,044	79%
Payroll Taxes	12,509	12,487	9,898	9,530	9,405	13,500	4,095	70%
Accounting Costs	16,337	17,209	12,275	13,142	12,655	18,750	6,095	67%
Audit Services	6,188	7,125	5,640	5,250	5,750	6,500	750	88%
Automobile Expense	3,236	435	3,229	435	3,792	4,000	208	95%
Contracted Services	659	543	502	429	6,483	2,000	(4,483)	324%
Depreciation	13,729	13,881	2,034	3,558	3,394	13,500	10,106	25%
Dues & Subscriptions	14,388	36,048	10,918	22,562	9,325	37,000	27,675	25%
Insurance Expense	40,542	37,784	30,096	28,497	27,850	41,000	13,150	68%
Legal Expenses	1,740	11,413	1,740	7,435	16,412	10,000	(6,412)	164%
Legislative Expenses	54,869	53,508	41,440	40,194	36,110	60,000	23,890	60%
Meetings Expense	3,758	5,398	2,741	3,950	2,419	5,000	2,581	48%
Misc. (Ag Day Sponsor)	204	2,482	194	2,419	2,010	2,500	490	80%
Office Supplies	19,576	23,754	15,085	19,018	20,741	20,000	(741)	104%
Postage & Shipping	4,343	5,987	3,170	5,066	2,114	6,000	3,886	35%
Rent (Tribute Road)	39,413	38,916	26,827	28,980	29,323	39,744	10,421	74%
Repairs & Maintenance	0	0	0	0	674	1,000	326	67%
Telephone Expense	8,132	7,390	5,306	5,430	6,984	10,000	3,016	70%
Training	0	0	0	0	895	2,500	1,605	36%
Travel Expense	23,216	25,280	19,761	20,015	20,683	27,500	6,817	75%
Total Expenses	567,165	1,216,340	399,881	1,151,207	419,553	687,813	268,260	61%
Agency Income (Loss)	178,712	(1,010,031)	134,214	(587,794)	(18,927)	(6,427)	(12,500)	
Southern Program Income (Loss)	9,592	7,142	6,785	5,507	3,994	5,250	(19,930)	
Total Balance Sheet Net Income (Loss)	188,304	(1,002,890)	140,999	(582,287)	(14,933)	(1,177)	(32,430)	
Total Restricted Reserves CARF @ Leased Facility								
	0	0	0	0	0	0	0	



**California Authority of Racing Fairs**  
**Southern Region Income Statement**  
**September 30, 2010**

	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>
	<b>Year End</b>	<b>Year End</b>	<b>YTD</b>	<b>YTD</b>	<b>YTD</b>	<b>Annual</b>	<b>Budget</b>	<b>% Budget</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>	
<b>Program Revenue:</b>								
Program Sales	397,688	343,634	308,852	266,246	205,508	350,000	(144,492)	59%
Other Revenue	0	0	0	0	0	0	0	0%
Royalties/Fees Due Host	(358,703)	(311,141)	(278,805)	(240,772)	(184,601)	(318,500)	133,899	58%
<b>Total Revenue</b>	<b>38,985</b>	<b>32,493</b>	<b>30,047</b>	<b>25,475</b>	<b>20,907</b>	<b>31,500</b>	<b>(10,593)</b>	<b>66%</b>
<b>Expenses:</b>								
Legal Expenses	0	0	0	0	0	0	0	0%
Meetings Expense	98	0	98	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%
<b>Total Expenses</b>	<b>98</b>	<b>0</b>	<b>98</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0%</b>
Operating Income (Loss)	38,887	32,493	29,949	25,475	20,907	31,500	(10,593)	66%
CARF Admin Fee	29,295	25,351	23,164	19,968	16,913	26,250	9,337	64%
Rebate								
<b>Income (Loss)</b>	<b>9,592</b>	<b>7,142</b>	<b>6,785</b>	<b>5,507</b>	<b>3,994</b>	<b>5,250</b>	<b>(19,930)</b>	<b>76%</b>

**California Authority of Racing Fairs  
Project Management Income Statement  
September 30, 2010**

	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>
	<b>Year End</b>	<b>Year End</b>	<b>YTD</b>	<b>YTD</b>	<b>YTD</b>	<b>Annual</b>	<b>Budget</b>	<b>% Budget</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>	
<b>Revenue:</b>								
CARF Admin Fee	175,639	66,063	150,678	43,988	58,429	195,000	(136,571)	30%
Project Management	67,608	79,199	43,726	56,509	57,756	77,191	(19,435)	75%
<b>Total Revenue</b>	<b>243,247</b>	<b>145,262</b>	<b>194,404</b>	<b>100,498</b>	<b>116,185</b>	<b>272,191</b>	<b>(156,006)</b>	<b>43%</b>
<b>Expenses:</b>								
Salaries Expense	49,043	58,723	30,042	39,992	41,439	56,341	14,902	74%
Employee Benefits	6,150	7,287	4,000	6,328	6,294	8,000	1,706	79%
Payroll Taxes	2,204	2,832	1,490	2,113	2,200	3,000	800	73%
Accounting Costs	6,500	6,500	4,875	4,875	4,875	8,000	3,125	61%
Audit Services	2,475	2,550	2,256	2,100	2,300	0	(2,300)	0%
Automobile Expense	0	0	0	0	0	0	0	0%
Contracted Services	0	0	0	0	0	0	0	0%
Telephone Expense	678	708	505	534	580	1,000	420	58%
Travel Expense	0	42	0	42	68	250	182	27%
Misc. Storage	558	558	558	558	0	600	600	0%
<b>Total Expenses</b>	<b>67,608</b>	<b>79,199</b>	<b>43,726</b>	<b>56,541</b>	<b>57,756</b>	<b>77,191</b>	<b>19,435</b>	<b>75%</b>
<b>CARF Admin Fee</b>	<b>175,639</b>	<b>66,063</b>	<b>150,678</b>	<b>43,956</b>	<b>58,429</b>	<b>195,000</b>	<b>136,571</b>	<b>30%</b>

**California Authority of Racing Fairs  
Live Racing Income Statement  
September 30, 2010**

	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>
	<b>Year End</b>	<b>Year End</b>	<b>YTD</b>	<b>YTD</b>	<b>YTD</b>	<b>Annual</b>	<b>Budget</b>	<b>% Budget</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>	
<b>Revenues:</b>								
Change Fund Admin Fee	46,470	17,065	26,751	15,435	10,014	20,000	(9,986)	50%
Racing Fairs Admin Fee	80,538	74,561	59,222	62,185	58,942	94,723	(35,781)	62%
Supplemental Purses Admin Fee	22,000	22,000	22,000	22,000	22,000	22,000	0	100%
NCOTWINC Reimbursement	29,000	29,000	29,000	29,000	29,000	29,000	0	100%
Racing Fairs Reimbursement	1,074,554	1,059,854	790,344	839,349	794,454	1,262,971	(468,517)	63%
Advertising Revenue	5,010	4,100	0	4,100	4,550	4,000	550	114%
<b>Total</b>	<b>1,257,573</b>	<b>1,206,580</b>	<b>927,317</b>	<b>972,070</b>	<b>918,960</b>	<b>1,432,694</b>	<b>(513,734)</b>	<b>64%</b>
<b>Expenses:</b>								
Salaries	201,995	230,562	126,494	158,175	171,271	227,483	56,212	75%
Employee Benefits	40,160	44,792	29,464	34,392	35,003	46,000	10,997	76%
Payroll Taxes	10,824	11,877	8,148	9,188	9,849	13,500	3,651	73%
Accounting Costs	42,250	52,250	31,687	31,687	31,687	48,000	16,313	66%
Audit Services	16,088	16,575	14,664	13,650	23,698	16,088	(7,610)	147%
Automobile Expense	742	1,182	742	145	3,703	5,100	1,397	73%
Depreciation	0	0	0	0	0	0	0	0%
Dues & Subscriptions, NTRA	13,596	12,286	10,141	6,136	7,582	17,000	9,418	45%
Insurance Expense	0	0	0	0	0	0	0	0%
Legal Expenses	2,101	0	2,101	0	15,909	10,000	(5,909)	159%
Meetings Expense	1,803	1,111	1,030	587	2,995	5,000	2,005	60%
Misc. Exp (Harness,Storage,Bank fee)	0	58	0	58	1,524	0	(1,524)	0%
Telephone Expense	1,773	3,363	1,083	2,255	2,970	3,000	30	99%
Travel Expense	55,224	45,184	44,407	32,059	21,174	45,000	23,826	47%
<b>Sub-Totals</b>	<b>386,555</b>	<b>419,240</b>	<b>269,961</b>	<b>288,331</b>	<b>327,366</b>	<b>436,171</b>	<b>108,805</b>	<b>75%</b>
<b>Racing Support Services:</b>								
Announcer	26,000	26,596	20,500	20,575	17,443	36,800	19,357	47%
Condition Bk/Program Cover	27,509	22,491	25,642	20,398	47,642	30,500	(17,142)	156%
Courier Service (Pgm Distribution)	0	0	0	0	0	0	0	0%
Racing Operations Support	103,242	79,601	87,540	71,588	62,996	105,000	42,004	60%
TC02 Testing	60,010	54,880	38,655	47,310	7,259	72,000	64,741	10%
Marketing	3,225	1,783	1,669	1,629	3,353	20,000	16,647	17%
Network Management	3,105	3,321	2,484	2,498	1,188	6,000	4,812	20%
Paymaster	10,825	20,298	6,566	14,701	6,761	11,500	4,739	59%
Program Production	191,389	178,814	144,371	146,678	114,452	205,000	90,548	56%
Racing Office System	55,840	53,156	37,619	43,126	29,554	68,000	38,446	43%
Recruitment	17,970	22,721	17,970	20,322	28,293	15,000	(13,293)	189%
Jumbo Screen	137,700	125,000	109,650	125,000	126,250	181,000	54,750	70%
Supplies	15,478	19,158	5,136	9,851	6,711	20,000	13,289	34%
Tattooing	17,057	20,469	11,984	18,072	9,982	19,000	9,018	53%
Timing/Clocker	21,851	22,430	19,022	19,218	20,018	30,000	9,982	67%
Transportation	2,900	3,465	2,000	3,015	1,650	5,000	3,350	33%
TV Production/Simulcast	27,582	20,288	18,505	20,138	17,088	35,000	17,913	49%
<b>Sub-Totals</b>	<b>721,684</b>	<b>674,471</b>	<b>549,311</b>	<b>584,118</b>	<b>500,638</b>	<b>859,800</b>	<b>359,162</b>	<b>58%</b>
<b>Total Expenses</b>	<b>1,108,239</b>	<b>1,093,711</b>	<b>819,273</b>	<b>872,449</b>	<b>828,004</b>	<b>1,295,971</b>	<b>467,967</b>	<b>64%</b>
<b>CARF Admin Fee</b>	<b>149,334</b>	<b>112,869</b>	<b>108,044</b>	<b>99,621</b>	<b>90,956</b>	<b>136,723</b>	<b>45,767</b>	<b>67%</b>

**California Authority of Racing Fairs**

**CARF @ Leased Facility**

**September 30, 2010**

	2008	2009	2008	2009	2010	2010	2010	2010
	Year End	Year End	YTD	YTD	YTD	Annual	Budget	% Budget
	Actual	Actual	Actual	Actual	Actual	Budget	Variance	
<b>Revenues:</b>								
Commissions - CARF@GG	0	2,859,642	0	1,249,779	0	0	0	0%
Non Wagering Revenue - CARF@GG	0	0	0	0	0	0	0	0%
<b>Total</b>	0	2,859,642	0	1,249,779	0	0	0	0%
<b>Expenses:</b>								
PRA - Labor (Sal,Bene,Tax)	0	96,106	0	41,413	0	0	0	0%
PRA - COGS	0	0	0	0	0	0	0	0%
PRA - Financial Dept. Allocation	0	0	0	0	0	0	0	0%
PRA - Direct Invoices	0	2,998,791	0	1,028,311	0	0	0	0%
CARF Direct Invoices	0	18,531	0	17,564	0	0	0	0%
CARF Billback Allocation	0	57,383	0	0	0	0	0	0%
<b>Sub-Totals</b>	0	3,170,811	0	1,087,289	0	0	0	0%
<b>CARF @ Leased Facility Net Income</b>	0	-311,170	0	162,490	0	0	0	0%

**CALIFORNIA AUTHORITY OF RACING FAIRS**  
**BALANCE SHEET**  
**September 30, 2010**

**ASSETS**

	<b>CURRENT YTD</b>	<b>PRIOR YTD</b>
	<b>9/30/10</b>	<b>9/30/09</b>
<b>Current Assets</b>		
CASH - LAIF & INVESTMENTS	2,791,705	4,914,479
CASH - OPERATING	23,043	2,464,942
CHECKING - TOC PURSE	249,114	69,212
CHECKING - RACING TRUST	1,928,941	0
MARKETABLE SECURITIES	4,177,471	4,041,727
A/R - DUES	77,999	(6,890)
A/R - PROGRAMS	70,610	143,857
A/R - RACING FAIRS	435,819	499,871
A/R - F&E/OTHER A/R	1,924,684	107,899
PREPAIDS/DEPOSITS	74,020	67,199
OPEB ASSETS	91,955	0
<b>Total Current Assets</b>	<b>11,845,360</b>	<b>12,302,297</b>
<b>Fixed Assets</b>		
AUTOMOBILE	4,018	10,906
FURNITURE & EQUIPMENT	2,239	3,259
COMPUTER HARDWARE/SOFTWARE	10,071	13,202
TRACK EQUIPMENT	59,400	89,100
<b>Total Fixed Assets (Net of Depr.)</b>	<b>75,728</b>	<b>116,467</b>
<b>TOTAL ASSETS</b>	<b>11,921,088</b>	<b>12,418,764</b>

**LIABILITIES & NET ASSETS**

<b>Current Liabilities</b>		
A/P & WITHHOLDINGS	172,666	822,316
A/P - PROGRAM ROYALTIES TO HOST	67,089	58,678
RACING DISTRIBUTIONS	1,929,344	2,955,727
PURSES	574,070	214,413
TRACK SAFETY/MAINT.	473,004	500,728
INFOTEXT UPGRADE	159,979	158,157
MISC PROJECT FUNDS	0	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	1,184,057	1,088,498
LOU-5 - SYMPOSIUM	3,805	4,248
FACILITY IMPROVEMENTS & UPGRADES	517,765	758,864
CAPITAL IMPROVEMENT FUND	2,992,453	1,464,630
<b>Total Current Liabilities</b>	<b>8,074,232</b>	<b>8,026,259</b>
<b>Non-Current Liabilities</b>		
CHRIMS FUNDS	90,197	89,170
CHANGE FUND	1,014,000	1,014,000
FAIRS - EQUIP REPLACEMENT FUNDS	2,007,217	2,125,782
<b>Total Non-Current Liabilities</b>	<b>3,111,413</b>	<b>3,228,952</b>
<b>TOTAL LIABILITIES</b>	<b>11,185,645</b>	<b>11,255,211</b>
<b>Net Assets</b>		
FUND EQUITY	728,101	1,730,990
F&E Net Assets	22,275	14,850
CARF@GG	0	162,490
RETIREMENT CONTINGENCY	0	0
NET INCOME/LOSS	(14,933)	(744,778)
<b>Total Net Assets</b>	<b>735,443</b>	<b>1,163,553</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>11,921,088</b>	<b>12,418,764</b>