

**STATE OF NEW MEXICO
STATE FAIR COMMISSION**

**Financial Statements
for the Year Ended
June 30, 2008,
and Independent
Auditors' Report**

STATE OF NEW MEXICO
STATE FAIR COMMISSION

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STATE OF NEW MEXICO
STATE FAIR COMMISSION

Official Roster

June 30, 2008

Commissioner

Luke Otero
Bob Frost
Nerissa Whittington
Benny Roybal
Jack Duffey
Ruth Grant Bitsui
Frank Tabet

Position

Chairman
Vice-Chairman
Secretary/Treasurer
Member
Member
Member
Member

Administrative Officials

Judith M. Espinosa
Joe McIntyre

Position

General Manager
Director of Finance

INDEPENDENT AUDITORS' REPORT

Mr. Hector H. Balderas
New Mexico State Auditor, and
State of New Mexico State Fair Commission
Albuquerque, New Mexico

We have audited the accompanying financial statements of the business-type activities of the State of New Mexico State Fair Commission (Fair) as of and for the year ended June 30, 2008, which collectively comprise the Fair's basic financial statements, as listed in the table of contents. We have also audited the Schedule of Revenues and Expenses – Budget and Actual referred to as supplemental information in the accompanying table of contents. These financial statements are the responsibility of the Fair's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the business-type activities of the Fair and do not purport to, and do not, present fairly the financial position of the Fair as of June 30, 2008, and the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the State of New Mexico State Fair Commission as of June 30, 2008, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the Schedule of Revenues and Expenses – Budget to Actual referred to above presents fairly, in all material respects, the budgetary comparisons for the year ended June 30, 2008, in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, as described in Note 1.



Mr. Hector H. Balderas
New Mexico State Auditor, and
State of New Mexico State Fair Commission
Albuquerque, New Mexico

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2008, on our consideration of the Fair's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The Management's Discussion and Analysis presented on pages 4 through 9 is not a required part of the basic financial statements of the Fair, but is required 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 conducted for the purpose of forming opinions on the financial statements that comprise the Fair's basic financial statements. The other supplementary information as referred to in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information in those schedules 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.

Meyers + Company, LLC

December 9, 2008

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The State of New Mexico State Fair Commission's (Fair) basic financial statements are prepared on the basis of accounting principles generally accepted in the United State of America for governmental entities that act as a business-type operation.

- **Statement of Net Assets**

This statement presents information reflecting the Fair's assets, liabilities and net assets. Net assets represent the amount of total assets less total liabilities. The balance sheet is categorized as to current and non-current assets and liabilities. For the purposes of the basic financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within twelve months of the statement date.

- **Statement of Revenues, Expenses and Changes in Net Assets**

This statement reflects the Fair's operating revenues and expenses, as well as non-operating revenues during the year. The major source of operating revenues is the Annual Event (State Fair) held in September, rentals, concessions, parking and gaming and racing income. Major operating expenses include salaries and employee benefits, depreciation, contractual services and utilities. The change in net assets for an enterprise fund is similar to net profit or loss for a company.

- **Statement of Cash Flows**

The statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, non-capital financing, capital and related financing and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the fiscal year.

- **Statement of Revenues and Expenses – Budget and Actual (Non-GAAP Basis)**

This statement represents the Fair's 2008 actual results in comparison to the Fair's FY08 budget.

- **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

- **Other Information**

In addition to the basic financial statements and accompanying notes, this report also contains certain other supplementary information, including a Schedule of Deposit Accounts and a Schedule of Pledged Collateral, as required by the New Mexico Office of the State Auditor NMAC 2.2.2.

**STATE OF NEW MEXICO
STATE FAIR COMMISSION**

**Management's Discussion and Analysis - continued
Year Ended June 30, 2008**

THE FAIR'S NET ASSETS

The statement of net assets presents information on the Fair's assets and liabilities, with the difference between the two reported as net assets. As of June 30, 2008 and 2007, the Fair has a negative balance in unrestricted net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Fair is improving or deteriorating. The following is condensed financial information.

As of June 30,	2008	2007
ASSETS:		
Current assets	\$ 5,356,272	9,281,619
Non-current assets	626,482	606,998
Capital assets, net	<u>45,222,897</u>	<u>40,284,385</u>
TOTAL ASSETS	\$ <u>51,205,651</u>	<u>50,173,002</u>
LIABILITIES AND NET ASSETS:		
Current liabilities	\$ 3,349,981	2,342,748
Non-current liabilities	<u>3,720,014</u>	<u>4,274,436</u>
Total liabilities	7,069,995	6,617,184
Net assets:		
Invested in capital assets, net of related debt	40,948,461	35,212,911
Restricted for current debt service	554,422	684,594
Restricted for capital improvement projects	3,588,028	7,901,182
Restricted for bond escrow	626,482	606,998
Unrestricted (deficit)	<u>(1,581,737)</u>	<u>(1,361,041)</u>
Total net assets	<u>44,135,656</u>	<u>43,555,818</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>51,205,651</u>	<u>50,173,002</u>

The increase in current assets includes the increase in cash restricted for capital improvements. The increase in capital assets is a result of continuing renovation and development. Current year development was funded from State general fund appropriations, pari-mutuel tax proceeds and severance tax proceeds. The decrease in total liabilities is a result of scheduled debt payments, reduction in deferred revenue and accounts payable due to timing of transactions. The Fair plans to reduce the deficit balance in the unrestricted net assets by focusing on maintaining and increasing operating revenues and monitoring expenses. The deficit will take a number of years to eliminate solely relying on operations.

**STATE OF NEW MEXICO
STATE FAIR COMMISSION**

**Management's Discussion and Analysis - continued
Year Ended June 30, 2008**

THE FAIR'S CHANGE IN NET ASSETS

Year ended June 30,	2008	2007
OPERATING REVENUES:		
Admissions, rides, entry fees	\$ 3,989,499	3,728,570
Rentals	2,790,093	2,784,101
Sponsorship in-kind	2,231,420	2,140,290
Racing and gaming rent	2,000,000	2,000,000
Concessions	1,971,672	1,953,412
All other operating revenues	1,812,285	1,412,193
Parking	<u>1,572,167</u>	<u>1,613,300</u>
TOTAL OPERATING REVENUES	16,367,136	15,631,866
OPERATING EXPENSES:		
Salaries and employee benefits	7,632,830	6,821,715
All other expenses	4,340,529	3,312,289
Sponsorship in-kind expense	2,231,420	2,140,290
Depreciation and amortization expenses	2,196,485	2,100,001
Other professional services	2,032,497	2,196,485
Utilities	<u>1,203,840</u>	<u>1,055,443</u>
TOTAL OPERATING EXPENSES	<u>19,637,601</u>	<u>17,626,223</u>
OPERATING LOSS	<u>(3,270,465)</u>	<u>(1,994,357)</u>
NON-OPERATING REVENUE AND EXPENSES, NET	<u>3,850,303</u>	<u>12,616,438</u>
CHANGE IN NET ASSETS	579,838	10,822,655
BEGINNING NET ASSETS, restated	<u>43,555,818</u>	<u>32,733,163</u>
ENDING NET ASSETS	\$ <u>44,135,656</u>	<u>43,555,818</u>

**STATE OF NEW MEXICO
STATE FAIR COMMISSION**

**Management's Discussion and Analysis - continued
Year Ended June 30, 2008**

THE FAIR'S CHANGE IN NET ASSETS - continued

Operating revenues in 2008 were approximately \$735,000 greater than 2007 levels. The increase is the result of an approximately \$261,000 increase in Admission fees for the Annual State Fair. Admission for adults was increased by \$2.00 per person from FY 2007 to FY 2008. The Fair also increased rental rates for most of its facilities during FY 2008. Sponsorship In Kind revenues increased by approximately \$91,000 over 2007 levels. All other operating revenues increased by approximately \$383,000 over 2007 amounts. This was primarily due to an increase in Pass Through costs related to facility rentals. Finally, there was an increase in concession revenues of approximately \$18,000 over 2007 results. Operating expenses in 2008 were approximately \$2,011,000 greater than 2007. Salaries and benefits increased by approximately \$811,000. This is primarily due to annual increases received by permanent employees, minimum wage increases in the City of Albuquerque, and increased risk management premiums. Sponsorship In Kind expense increased by approximately \$91,000 over 2007 levels. Depreciation expense increased by approximately \$96,000 over 2007, since the AAPAC facility and other improvements were put into service. Utility costs increased by approximately \$148,000. All other costs increased by approximately \$865,000. Other cost increases were primarily related to increases in Fair time expenditures.

BUSINESS-TYPE ACTIVITIES BUDGETARY HIGHLIGHTS

As indicated in the Statement of Revenues, Expenditures – Budget and Actual (Non-GAAP Basis) on page 30, final budgeted revenue in the business-type activities increased over the original budgeted revenue by \$300,000. The increase was due to increased Pari-mutuel tax revenue over originally budgeted amounts. Actual revenue exceeded the final approved amount by approximately \$1,247,000.

	Original Budget	Revenue Final Approved Budget	Actual
\$	15,043,400	15,343,400	16,590,499

Final budgeted expenditures in the business-type activities also increased by \$300,000, following the anticipated increase in revenues. Actual revenues exceeded actual expenditures in the period by approximately \$408,000.

	Original Budget	Expenditures Final Approved Budget	Actual
\$	15,043,400	15,343,400	15,751,145

STATE OF NEW MEXICO
STATE FAIR COMMISSION

Management's Discussion and Analysis - continued
Year Ended June 30, 2008

HIGHLIGHTS

The New Mexico State Fair is the premier entertainment venue in New Mexico for the month of September, which generates 53% of Expo New Mexico's operating revenue, with the remaining revenue generated from year-round events. Expo New Mexico staff has worked diligently to increase the year-round operating profit margin to 29% by lowering expenses and continuing to operate more efficiently. The above percentage reflects operating at the most efficient level possible.

Expo New Mexico has had to compete with other venues for entertainment during the State Fair and year-round. We are now competing with casinos throughout the state that are booking quality artists, as well as with the addition of new facilities, including the Sandia Resort and Casino, the Santa Ana Star Arena and the Journal Pavilion, in addition to the new \$60M equestrian facility in Tulsa, Oklahoma. We have to differentiate ourselves from the rest and the only way to do this is to promote ourselves as a place for inexpensive family entertainment, with more than you can do in one day at the Fair, and continue to remain competitive for year-round events. With increasing competition, the potential loss of revenue continues to be a concern requiring new and innovative marketing strategies.

The operation of the Expo New Mexico 236-acre grounds requires a significant labor force, from executives, professionals and skilled trades to grounds labor year-round, with personnel levels increasing 400% during the "Annual State Fair". Many factors contribute to the increase in personnel services and benefits. In September 2006, we increased the hourly rate by \$0.50 for all temporary/seasonal workers to better compete with the local private sector service-industry. Our permanently assigned New Mexico Department of Labor workforce specialists advised us in July 2006 that our ready labor pool was down by over 50% from past years, and we were looking at a severe shortage of workers for the Fair in September of 2006. One of the largest contributing factors to the labor pool shortage was the persistently low unemployment rate in this area, leading to an increase in the average hourly rates in the local services industry. The City of Albuquerque's new minimum hourly wage increased to \$6.75 effective January 2007, with an additional increase to \$7.15 effective January 2008. Though legally we are not compelled to pay this wage, economically we must, and this means another across-the-board increase for our temporary/seasonal workers. Otherwise, we will not be able to attract quality workers in sufficient quantities to staff all events throughout the year. A review of our organizational structure surfaced many misclassifications that led management to do a much-needed reorganization of this agency's permanent staff in March 2007, with the final reclassifications completed in FY2008. This includes properly classifying positions so that their incumbents can be properly compensated for the work that they do. We have analyzed the costs associated with the reorganization and they will have a significant impact on the FY2008 budget. Potential FY2008 cost of living salary increases will also have a significant impact on the FY2008 budget. In an effort to compensate for the significant raise in personnel rates in FY2008, the 2007 "Annual State Fair" admission rates were increased 38%, which generated an additional \$500,000, a 27% increase over 2006 admission revenue.

**STATE OF NEW MEXICO
STATE FAIR COMMISSION**

**Management's Discussion and Analysis - continued
Year Ended June 30, 2008**

HIGHLIGHTS - continued

The aging buildings and infrastructure also have a tremendous effect on the operation of Expo New Mexico as an entertainment venue. The New Mexico State Fair is almost 70 years old. Most of the buildings and facilities are over 20 years old, and the flagship Tingley Coliseum is almost 50 years old. For years, the State Fair deferred maintenance and upgrade to facilities and infrastructure due to a lack of capital. With the dedication of a fraction of the tax on pari-mutuel betting in 2003, the State Fair has been able to fund some critical capital projects, especially related to life-safety and accessibility concerns. However, this revenue stream is not adequate to address the longer-range needs of Expo New Mexico. Though the State Fair is an enterprise agency and fully funds its operations from internal revenues, the State Fair depends on capital appropriations from the State for its facilities and infrastructure. The local and regional markets for entertainment, exposition and equestrian facilities are becoming more competitive. The State Fair also needs to update and expand its venues and services to fulfill its historic mission to educate the citizens of New Mexico about advancing science and technology, and better align the programs of the State Fair with the economic development initiatives of the State. To fulfill these needs, we project a need of \$25M in capital investments over the next five years for building and infrastructure renewal and replacements, and another \$35M for new buildings and facilities to compete in today's environment.

As Expo New Mexico continues to show a profit despite the raise in personnel rates, material costs, fuel costs, utility costs; and aging buildings and infrastructure requiring constant maintenance and repairs; and potential loss of revenue due to competing venues and weather conditions that negatively affect the Open-Air Flea Market, we continue to take a proactive approach to address these budgetary issues, along with meeting all required State and Federal codes. The increased costs must be absorbed in the current operating budget at a possible lower revenue level. With operational and overhead expenses cut to minimal, to offset the cost increases and potential loss revenue, we will need to selectively raise some of our rental rates while remaining competitive. These increases may place Expo New Mexico at a competitive disadvantage for future growth.

FINANCIAL CONTACT

The Fair's financial statements are designed to present users with the general overview of its finances and to demonstrate its accountability. If you have any questions about the report or need additional financial information, contact the Director of Finance at PO Box 8546, Albuquerque, New Mexico 87198.

AS OF JUNE 30, 2008

ASSETS:

CURRENT ASSETS:

Cash and cash equivalents	\$	535,101
Restricted cash		3,538,028
Investment in the State Treasurer Investment Pool		50,000
Accounts and other receivables, net of allowance for doubtful accounts		1,184,728
Inventories		48,137
Other current assets		<u>278</u>

TOTAL CURRENT ASSETS 5,356,272

NON-CURRENT ASSETS:

Restricted cash		<u>626,482</u>
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TOTAL NON-CURRENT ASSETS 626,482

CAPITAL ASSETS:

Land		819,340
Buildings		58,018,171
Improvements, other than buildings		9,746,737
Vehicles and equipment		4,129,418
Office furniture and fixtures		1,411,254
Construction in progress		<u>3,797,073</u>

TOTAL CAPITAL ASSETS 77,921,993

LESS ACCUMULATED DEPRECIATION 32,699,096

NET CAPITAL ASSETS 45,222,897

TOTAL ASSETS \$ 51,205,651

STATE OF NEW MEXICO
STATE FAIR COMMISSION

Statement of Net Assets

AS OF JUNE 30, 2008

LIABILITIES AND NET ASSETS:

CURRENT LIABILITIES:

Accounts payable	\$	1,732,144
Accrued liabilities:		
Payroll and related expenses		292,228
Interest payable		22,892
Deposits		151,272
Deferred revenue		377,003
Compensated absences		220,020
Current portion of bond payable		<u>554,422</u>

TOTAL CURRENT LIABILITIES 3,349,981

NON-CURRENT LIABILITIES:

Bond payable, excluding current portion		<u>3,720,014</u>
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TOTAL LIABILITIES 7,069,995

NET ASSETS:

Invested in capital assets, net of related debt		40,948,461
Restricted for debt service		554,422
Restricted for capital improvement projects		3,588,028
Restricted for bond escrow		626,482
Unrestricted		<u>(1,581,737)</u>

TOTAL NET ASSETS 44,135,656

TOTAL LIABILITIES AND NET ASSETS \$ 51,205,651

STATE OF NEW MEXICO
STATE FAIR COMMISSION

Statement of Revenues, Expenses and Changes in Net Assets

YEAR ENDED JUNE 30, 2008

OPERATING REVENUES:

Admissions, rides, entry fees	\$	3,989,499
Rentals		2,790,093
Sponsorship in-kind revenues		2,231,420
Racing and gaming rent		2,000,000
Concessions		1,971,672
Parking		1,572,167
Service and fee income		764,712
Sponsorship and advertising		498,436
Feed store sales		401,651
Commissions		111,623
Other		<u>35,863</u>

TOTAL OPERATING REVENUES

16,367,136

OPERATING EXPENSES:

Salaries and employee benefits	7,632,830
Sponsorship in-kind expense	2,231,420
Depreciation and amortization expense	2,196,485
Other professional services	2,032,497
Contractual security	1,341,351
Utilities	1,203,840
Repairs and maintenance	635,735
Supplies	512,151
Advertising	468,234
Entertainment services and events expenses	315,904
Premiums and awards	292,567
Equipment rental	277,673
Other	409,724
Insurance	<u>87,190</u>

TOTAL OPERATING EXPENSES

19,637,601

OPERATING LOSS

(3,270,465)

STATE OF NEW MEXICO
STATE FAIR COMMISSION

Statement of Revenues, Expenses and Changes in Net Assets - continued

YEAR ENDED JUNE 30, 2008

NON-OPERATING REVENUES (EXPENSES):

Interest income	\$	250,687
Interest expense		(141,490)
Contributed capital revenue		<u>3,741,106</u>

TOTAL NON-OPERATING REVENUES

3,850,303

CHANGE IN NET ASSETS

579,838

NET ASSETS, BEGINNING OF YEAR

43,300,233

RESTATEMENTS (Note 17)

255,585

NET ASSETS, BEGINNING OF YEAR, restated

43,555,818

NET ASSETS, END OF YEAR

\$ 44,135,656

STATE OF NEW MEXICO
STATE FAIR COMMISSION

Statement of Cash Flows

YEAR ENDED JUNE 30, 2008

INCREASE IN CASH AND CASH EQUIVALENTS:

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$	17,460,199
Cash payments to suppliers of goods and services		(10,545,139)
Cash payments to employees for services		<u>(7,632,830)</u>

NET CASH USED BY OPERATING ACTIVITIES (717,770)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of property and equipment		(7,134,997)
Principal payments on revenue bonds		(541,449)
Proceeds from contributed capital		3,741,106
Interest paid on bonds and capital leases		<u>(141,490)</u>

NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES (4,076,830)

CASH FLOWS INVESTING ACTIVITIES:

Interest received on bank deposits and investments		<u>250,687</u>
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NET DECREASE IN CASH (4,543,913)

CASH AND RESTRICTED CASH, BEGINNING OF YEAR 9,293,524

CASH AND RESTRICTED CASH, CASH INVESTED IN THE STATE TREASURER INVESTMENT POOL, END OF YEAR \$ 4,749,611

STATE OF NEW MEXICO
STATE FAIR COMMISSION

Statement of Cash Flows - continued

YEAR ENDED JUNE 30, 2008

**RECONCILIATION OF CASH, END OF YEAR TO CASH
REPORTED IN THE STATEMENT OF ASSETS:**

Current assets - cash	\$	535,101
Investment in State General Fund Pool		50,000
Cash restricted for debt service and capital projects		<u>4,114,510</u>

**TOTAL CASH AND RESTRICTED CASH REPORTED IN
THE STATEMENT OF NET ASSETS**

\$ 4,699,611

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES:**

Operating loss	\$	(3,270,465)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization expense		2,196,485
Changes in assets and liabilities:		
Accounts and other receivables		(594,865)
Other assets		(43,185)
Accounts payable		894,916
Accrued payroll and related expenses		187,447
Deferred revenues		(84,067)
Deposits		<u>(4,036)</u>

**NET CASH USED BY OPERATING ACTIVITIES IN
THE STATEMENT OF NET ASSETS**

\$ (717,770)

NATURE OF ORGANIZATION

The purpose of the State Fair Commission (Fair) is to hold an annual state fair for the conduct of horse racing and the exhibit of poultry, livestock, vegetables, fruits, grains, grasses and other farm products; minerals, ores and other mining exhibits; mining machinery and farm implements; and all other things that the Fair deems compatible with the advancement of agriculture, horticulture, stock raising, mining, mechanical and industrial pursuits in the State of New Mexico.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- **Reporting Entity**

Chapter 69, Laws of 1935, established the State Fair Commission. Its activities are as provided for by Sections 16-6-1 to 16-6-21, NMSA 1978. The Fair is governed by a seven member State Fair Commission appointed by the Governor to staggered terms of five years.

- **Basis of Presentation**

The financial statements of the Fair have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Fair's accounting policies are described below.

These financial statements include all activities over which the Fair has oversight responsibility, including decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability in fiscal matters. There are no organizations that meet the definition of a component unit that should be included in these financial statements. Under GASB Statement 14, the Fair is part of the primary government of the State of New Mexico, and its financial data should be included with the financial data of the State.

- **Measurement Focus and Basis of Accounting**

The accounting policies of the Fair, an enterprise fund of the State of New Mexico, as reflected in the accompanying financial statements, conform to GAAP accounting principles for enterprise funds. Enterprise fund accounting is used to account for activities similar to those found in the private sector. Here, the determination of net income is necessary or useful to sound financial administration. Funds are accounted for on the flow of economic resources measurement focus. The measurement focus is on the determination of net income, financial position, and cash flows. As allowed in GASB Statement 20, the Fair has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Fair has elected not to apply FASB pronouncements issued after the applicable date. The Fair does not receive any general fund state appropriations and, therefore, is a non-reverting fund. (Section 16-6-18 NMSA 1978)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

• **Measurement Focus and Basis of Accounting - continued**

The accompanying financial statements are prepared on the full accrual basis. Transactions not included as operating activities for the statement of the cash flows are classified as non-operating revenues and expenses in the statement of revenues, expenses and changes in net assets. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Revenues received and direct expenses incurred relating to the annual fair occurring in the next fiscal year are deferred.

• **Budgetary Process**

The Budget is prepared on a budgetary basis and submitted annually for approval to the New Mexico Department of Finance and Administration (DFA). Line item expenditures within budget appropriation units may legally exceed amounts budgeted; however, the budget appropriation unit expenditures may not legally exceed the approved budget amount. Monthly reports of receipts and expenditures are required to be submitted to the DFA Budget Division. Budget amendments must be approved by DFA. The budget is adopted on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

• **Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the Fair has defined cash and cash equivalents to include cash on deposit with banks, on demand deposits and repurchase agreements, money market mutual funds that invest 100% in U.S. Treasuries and cash retained in cash drawer and petty cash funds.

Cash in bank accounts is insured up to \$100,000 per bank. As required by state law, 50% of the uninsured balance is secured by pledges of qualifying securities held by the depository.

Money market accounts are mutual funds that invest in short-term obligations of the U.S. government or its agencies or other governmental short-term investments, and are carried at the lower of cost or market.

• **Restricted Cash**

Restricted cash is used to account for the bond sinking fund and escrow and unused proceeds for the Series 2004 Revenue Bonds.

• **Repurchase Agreement**

State Statute Sections 6-10-44 and 6-10-10(f), NMSA 1978, authorizes the Fair to invest in U.S. Treasury certificates, U.S. Treasury bonds or negotiable securities of the United States and bonds or negotiable securities of the State of New Mexico or of any county, municipality or school district. Effective July 1, 1994, State statutes authorized the Fair to enter into yield maintenance repurchase agreements. State law requires that repurchase agreements be secured by collateral with a market value greater than 102% of the value of the agreement. The pledged securities are held by a third party in the Fair's name. The fair value of the repurchase agreement approximates its cost at June 30, 2008.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

- **Inventory**

Inventory is valued at cost using the first-in, first-out method. Inventory consists of various feed and supplies sold at the feed store during events held at Expo.

- **Property and Equipment**

Property and equipment are stated at cost. The Fair’s policy is below the \$5,000 threshold, as stated in the audit rule section 2.2.2.10.Y of NMAC, and as allowed by the New Mexico Office of the State Auditor in a prior year capitalization policy request to capitalize all assets with a purchase value of \$1,000 or more. Property and equipment under capital leases are stated at the present value of minimum lease payments at the inception of the lease. Assets contributed by other entities are recorded at the estimated fair market value at the time of receipt. Certain infrastructure assets (for example, site drainage improvement) are included in the category “Other improvements”. Software is included in the category “Data processing and equipment”. The Fair reviewed the infrastructure that had been recorded in previous years and determined that GASB 34 did not impact its financial statements. Depreciation is provided using the straight-line method over the useful lives of the assets, as follows:

Buildings	20 – 40 years
Other improvements	15 – 40 years
Tools, equipment, furniture and fixtures	5 – 10 years
Data processing and equipment	3 years

- **Deferred Revenue**

For cash receipts collected in advance of events from vendors or the general public, revenue is not recognized until the event occurs. Therefore, deferred revenue is recorded based upon payments received before events occur. In addition, when the Fair has entered into a long-term sponsorship or advertising agreement in exchange for cash or contributed assets, the revenue is amortized over the life of the agreement.

- **Compensated Absences**

Employees accumulate sick leave at a rate of 3.69 hours per pay period, and accumulate annual leave at a rate based on date of hire and length of service.

The Fair records accrued vacation, sick and compensatory time when earned by the employee. Vacation and sick leave earned and not taken is cumulative; however, sick pay up to 600 hours is forfeited upon termination of state service and vacation is limited to 240 hours, as required by State Personnel Board rules. Sick leave accumulated in excess of 600 hours, not to exceed 120 hours, is payable semi-annually to qualified employees at a rate equal to 50% of their hourly rate. Upon retirement, sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50% hourly rate. The Fair also allows certain employees to defer being paid overtime in exchange for compensatory time off. The Fair will pay up to 240 hours of compensatory time off to selected classes of employees upon termination.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

- **Net Assets Invested in Capital Assets, Net of Related Debt**

This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvements of these assets reduce the balance in this category.

- **Net Assets**

Net assets are reported as restricted when external or legal constraints are placed on their use. Unrestricted net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”. Net assets are categorized as:

Net Assets Restricted for Debt Service. This category represents funds used to account for the accumulation of resources for, and the payment of, long-term obligation principal payments.

Net Assets Restricted for Capital Projects. This category represents funds restricted for capital outlay.

Unrestricted Net Assets. This category represents net assets of the Fair, not restricted for any project or other purpose.

Restricted Resources: When an expense is incurred that can be paid using either restricted or unrestricted resources, the Fair’s policy is to first apply the expense towards restricted, and then unrestricted, resources.

- **Non-operating Revenue**

The Fair received State Severance Tax proceeds that were set aside by the State for the Fair to use on capital improvement projects. The Fair also received Pari Mutuel Tax proceeds to complete capital improvement projects. This contributed capital revenue is recognized when received by the Fair.

- **Advertising**

Non-direct advertising costs are expensed as incurred. Total advertising costs for the year ended June 30, 2008 were \$468,234.

- **Use of Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

2. CASH AND RESTRICTED CASH

Cash funds, other than cash drawers and petty cash are deposited with financial institutions. Money market mutual funds and repurchase agreements are also classified as cash equivalents. The reconciled balances at June 30, 2008 consisted of the following:

Unrestricted:	
Income account	\$ 523,263
Payroll account (deficit)	(317)
Premium account	270
Bond dividend account	2,598
Cash drawers (on hand)	8,000
Petty cash	<u>1,287</u>
	\$ <u>535,101</u>
Restricted cash and cash equivalents:	
General account (for capital projects)	\$ 3,538,028
Bond escrow money market fund	626,399
Bond sinking fund savings account	<u>83</u>
	\$ <u>4,164,510</u>

Custodial credit risk is defined as the risk that the Fair would not be able to recover the value of its collateral securities that are in the possession of an outside party in the event of the failure of the counterparty. Mutual funds, external investment pools and securities underlying reverse repurchase agreements are not exposed to custodial credit risk. The amount that was subject to custodial credit risk at June 30, 2008 is \$5,450,460. This amount is collateralized by securities held in the name of the bank.

There is no credit risk, concentration of credit risk, interest rate risk or foreign currency risk associated with the cash and cash equivalents.

The Fair has \$50,000 invested in the State Treasurer General Fund Investment Pool. Investments in the State Treasurer General Fund Investment Pool are considered to be cash equivalents. The State Treasurer has the authority to invest money held in demand deposits and not immediately needed for the operation of the state government in securities in accordance with Sections 6-10-10 I through O, NMSA 1978 as amended.

**STATE OF NEW MEXICO
STATE FAIR COMMISSION**

Notes to Financial Statements - continued

3. ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables consist of the following at June 30, 2008:

Various customer receivables and returned checks	\$ 1,291,514
Allowance for doubtful accounts	<u>(106,786)</u>
	\$ <u>1,184,728</u>

4. CAPITAL ASSETS

Capital asset additions and deletions during the fiscal year ended June 30, 2008, are as follows:

	June 30, 2007	Increase	Decrease	Adjustment	June 30, 2008
Land	\$ 819,340	-	-	-	819,340
Construction in progress	<u>5,381,796</u>	<u>7,088,569</u>	<u>8,833,478</u>	<u>160,186</u>	<u>3,797,073</u>
Total non-depreciable assets	6,201,136	7,088,569	8,833,478	160,186	4,616,413
Buildings	50,201,786	7,816,385	-	-	58,018,171
Other improvements	9,380,333	366,404	-	-	9,746,737
Motor vehicles	505,000	21,419	-	-	526,419
Data processing and equipment	1,428,637	104,163	-	-	1,532,800
Equipment and machinery	1,757,430	312,769	-	-	2,070,199
Office furniture and fixtures	<u>1,312,675</u>	<u>98,579</u>	-	-	<u>1,411,254</u>
Total depreciable assets	64,585,861	8,719,719	-	-	73,305,580
Less accumulated depreciation:					
Buildings	22,637,590	1,394,161	-	-	24,031,751
Other improvements	3,595,264	452,542	-	-	4,047,806
Motor vehicles	381,450	45,985	-	-	427,435
Data processing and equipment	1,375,062	48,130	-	-	1,423,192
Equipment and machinery	1,664,936	184,759	-	-	1,849,695
Office furniture and fixtures	<u>848,309</u>	<u>70,908</u>	-	-	<u>919,217</u>
Total accumulated depreciation	<u>30,502,611</u>	<u>2,196,485</u>	-	-	<u>32,699,096</u>
Net capital assets	\$ <u>40,284,386</u>	<u>13,611,803</u>	<u>8,833,478</u>	<u>160,186</u>	<u>45,222,897</u>

Depreciation expense for the year ended June 30, 2008 was \$2,196,485.

STATE OF NEW MEXICO
STATE FAIR COMMISSION

Notes to Financial Statements - continued

5. COMPENSATED ABSENCES PAYABLE

A summary of changes in compensated absences payable for the year ended June 30, 2007 is as follows:

	Balance June 30, 2007	Increase	Decrease	Balance June 30, 2008	Due Within One Year
Accrued vacation, sick leave and comp time	\$ <u>230,895</u>	<u>207,301</u>	<u>218,176</u>	<u>220,020</u>	<u>220,020</u>

The liability at June 30, 2008 of \$220,020 has been recorded in the basic financial statements and represents the Fair's commitment to fund accrued vacation, sick leave and comp time costs from future operations. This liability is presented as \$220,020 in the current portion of compensated absences in the basic financial statements.

6. BOND LIABILITIES

Long-term debt consists of the following at June 30, 2008:

Capital Improvement Bonds, Series 2004, annual maturities of \$530,000 to \$676,000 through November 1, 2014, interest rate from 1.26% to 3.67%.	\$ 4,274,436
Less current portion	<u>554,422</u>
Total	\$ <u>3,720,014</u>

The total annual principal and interest payments are as follows:

	Principal	Interest	Total
Years ending June 30,			
2009 (Due within one year)	\$ 554,422	130,338	684,760
2010	569,873	115,261	685,134
2011	587,470	98,238	685,708
2012	606,905	79,417	686,322
2013	628,199	58,813	687,012
2014 – 2015	<u>1,327,567</u>	<u>48,854</u>	<u>1,376,421</u>
	\$ <u>4,274,436</u>	<u>530,921</u>	<u>4,805,357</u>

**STATE OF NEW MEXICO
STATE FAIR COMMISSION**

Notes to Financial Statements - continued

6. BOND LIABILITIES

There were no issuance costs associated with the Series 2004 bonds, as all costs were subsidized by the New Mexico Finance Authority.

7. CHANGES IN LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2007 is as follows:

	Balance June 30, 2007	Increase	Decrease	Balance June 30, 2008
Bonds payable	\$ 4,815,885	-	(541,449)	4,274,436
Long-term liabilities	\$ 4,815,885	-	(541,449)	4,274,436

8. DEFERRED REVENUE

The Fair has collected deposits for the annual September fair and other events occurring in the next fiscal year. At June 30, 2008, the balance in deferred revenue of \$377,003 consists of admissions, concessions and exhibits for the fair.

9. PLEDGED REVENUES

The Fair has pledged revenues of the pari-mutuel tax appropriated to the Fair in the Laws of 2004 as collateral for the debt to New Mexico Finance Authority for the Series 2004 Bonds. The pari-mutuel tax earmarks fifty percent of the tax and three-sixteenths percent of the gross amount wagered each day at each location where horse racing is conducted by a State Fair association designated by law, that in good faith conducts a public fair and exhibition of stock and farming products, or where horse racing for profit is held, to the Fair for capital improvements.

10. SPONSORSHIP IN-KIND REVENUE AND EXPENSE

The Fair received goods and services provided by various businesses in exchange for advertising on the fairgrounds and other benefits. The estimated fair market value of the goods and services received are as follows at June 30, 2008:

Media, services and other	\$ 2,231,420
	\$ <u>2,231,420</u>

10. SPONSORSHIP IN-KIND REVENUE AND EXPENSE - continued

These transactions are reflected in the accompanying Statement of Revenues, Expenses and Changes in Net Assets. These transactions have no net effect on net income because the estimated fair market value of the goods and services received is considered to be equal to and, therefore, offset the amount of expense recorded.

11. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

• **Plan Description**

Substantially all of the Fair's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

• **Funding Policy**

Plan members are required to contribute 7.42% of their gross salary. The Fair is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Fair are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Fair's contributions to PERA for the fiscal years ending June 30, 2008, 2007 and 2006 were \$522,061, \$450,693, and \$401,903, respectively, which equal the amount of the required contributions for each fiscal year.

12. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

• **Plan Description**

The Fair contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

12. **POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN -
continued**

• **Plan Description - continued**

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

• **Funding Policy**

The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after January 1, 1998, are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Fair's contributions to the RHCA for the years ended June 30, 2008, 2007 and 2006 were \$38,060, \$34,739 and \$31,414, respectively, which equal the required contributions for each year.

13. CONTRIBUTED CAPITAL REVENUE

The following amounts were recorded as contributed capital revenues for capital improvement projects for the year ended June 30, 2008:

State of New Mexico Severance Tax Bond Proceeds	\$	2,144,096
General Fund Appropriation *		207,935
Pari Mutuel Tax Proceeds		1,219,909
Long-term Food Vendors		7,757
Other State Financing		<u>161,409</u>
	\$	<u>3,741,106</u>

* Funded by the 48th Legislature, 2nd Session, 2007

14. RISK MANAGEMENT

The Fair is subject to various legal proceedings claims and liabilities which arise in the ordinary course of the Fair's operations.

The State of New Mexico State Fair Commission, as a "State Agency" defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the State of New Mexico. Annual premiums are paid by the Office of Risk Management Division for coverage provided in the following areas:

1. Liability and civil rights protection for claims made by others against the State of New Mexico;
2. Coverage to protect the State of New Mexico's property and assets; and
3. Fringe benefit coverage for the State of New Mexico employees.

At June 30, 2008, the Fair had no claims which the Risk Management Division has returned as not covered that would become the responsibility of the Fair.

**STATE OF NEW MEXICO
STATE FAIR COMMISSION**

Notes to Financial Statements - continued

15. JOINT POWERS AGREEMENTS

The following is a list of Joint Powers Agreements the Fair has entered into:

Participants	Responsible Party	Dates of Agreements		Amount Applicable	Amount Contributed	Audit Responsibility
		Beginning	Ending			
NM Department of Public Safety: Contractor shall supply additional security during special events held on the grounds of the New Mexico State Fair.	Fair	9/14/06	6/30/08	\$38 per hour	\$110,086	Fair
NM Department of Public Safety: Contractor shall supply additional security during the 2007 New Mexico State Fair.	Fair	8/27/07	2/4/08	\$161,487	\$161,487	Fair
NM State Highway & Transportation Department: To provide for the transfer of Department property to the State Fair in exchange for an equivalent dollar value in respect to the New Mexico State Fair Booth Fees in the Manuel Lujan Building.	Fair	5/31/07	9/23/07	\$30,000	\$30,000	Fair
City of Albuquerque Police Department: To provide security during events held in the grounds of the New Mexico State Fair.	Fair	7/19/07	12/1/07	\$65,000	\$65,000	Fair

STATE OF NEW MEXICO
STATE FAIR COMMISSION

Notes to Financial Statements - continued

16. UNRESTRICTED NET ASSETS DEFICIT BALANCE

The Fair shows a deficit fund balance of \$1,581,737. The deficit occurred as operating losses accumulated throughout the past years. The Fair plans to maintain and increase revenues while strictly monitoring expenses in order to reduce the deficit in the coming years.

17. CORRECTION OF AN ERROR IN PREVIOUSLY ISSUED FINANCIAL STATEMENTS

During 2008, it was discovered that \$255,585 of severance tax drawdowns should have been recorded in 2007. Accordingly, an adjustment increasing net assets at the beginning of the year was recorded.

The effect of the adjustment in net assets and financial position as of and for the year ended June 30, 2007 was as follows:

	<u>As Previously Reported</u>	<u>Adjusted</u>
Due to/from other State agencies	\$ -	255,585
Contributed capital revenue	\$ 12,360,853	12,616,438
Change in net assets	\$ 10,567,070	10,822,655
Net assets invested in capital assets, net of related debt	\$ 35,468,500	35,724,085

SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
STATE FAIR COMMISSION**

Schedule of Revenues and Expenses - Budget and Actual (Non-GAAP Basis)

YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES:				
Admissions	\$ 3,700,000	3,700,000	3,989,499	289,499
Building rental	5,400,000	5,067,000	4,790,093	(276,907)
Other services (excluding in-kind)	2,850,000	2,930,000	3,384,452	454,452
Concessions and exhibits	2,197,400	2,077,400	1,971,672	(105,728)
Discounts and interest earned	200,000	240,000	250,687	10,687
Pari-Mutual Tax	696,000	1,229,000	2,144,096	915,096
Intra-state transfers	-	100,000	60,000	(40,000)
TOTAL REVENUES	\$ <u>15,043,400</u>	<u>15,343,400</u>	<u>16,590,499</u>	<u>1,247,099</u>
EXPENSES:				
Personal services	\$ 6,524,800	7,424,800	7,632,830	(208,030)
Contractual services	3,747,500	3,347,500	3,373,848	(26,348)
Other costs (excluding debt payments)	<u>4,771,100</u>	<u>4,571,100</u>	<u>4,744,467</u>	<u>(173,367)</u>
TOTAL EXPENSES	\$ <u>15,043,400</u>	<u>15,343,400</u>	<u>15,751,145</u>	<u>(407,745)</u>
EXCESS OF REVENUES OVER EXPENSES - BUDGETARY BASIS			\$ 839,354	
ADJUSTMENTS TO CONFORM TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:				
Debt principal payments recorded as a budgetary expense			541,449	
Depreciation and amortization expenses			(2,196,485)	
Plus in-kind contributions treated as revenue			2,231,420	
Less in-kind contributions treated as expenses			(2,231,420)	
Interest expense			(141,490)	
Other contributed capital revenue			<u>1,537,010</u>	
CHANGE IN NET ASSETS AS REPORTED ON STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS			\$ <u>579,838</u>	

OTHER SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
STATE FAIR COMMISSION**

Schedule of Pledged Collateral

YEAR ENDED JUNE 30, 2008

	Wells Fargo Bank Balance	Bank of Albuquerque Bank Balance
Total deposits	\$ 1,538,540	638,662
Repurchase agreement	3,473,258	-
Less FDIC insurance	<u>(100,000)</u>	<u>(100,000)</u>
TOTAL UNINSURED PUBLIC FUNDS	<u>4,911,798</u>	<u>538,662</u>
50% collateral requirement	719,270	269,331
102% collateral requirement (repurchase agreement)	<u>3,542,723</u>	<u>-</u>
TOTAL COLLATERAL REQUIREMENT	4,261,993	269,331
COLLATERAL AT MARKET VALUE:		
Collateralization at Wells Fargo *	8,156,694	-
Collateralization at Bank of Albuquerque **	<u>-</u>	<u>269,331</u>
OVER COLLATERALIZED	<u>\$ 3,894,701</u>	<u>-</u>

* The collateral is in the name of and held by Wells Fargo Bank, 200 Lomas Blvd. NW, Suite 100, Albuquerque, NM 87102.

The collateral is three securities:

CUSIPS 31411JZX7, 31411WCN5, and 31409YMC8

with market values at June 30, 2008 of \$1,559,428, \$3,542,724 and \$3,054,542, respectively.

All securities mature on April 1, 2036.

** The collateral is in the name of and held by Bank of Albuquerque at American Performance Funds, 201 3rd St. NW,

Albuquerque, NM, 87102.

The collateral is consolidated with all of the banks investment in one security: CUSIP 028846699

The market value of the total investment at June 30, 2008 was \$1,495,322,033.

There is no maturity date for this security.

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

Mr. Hector H. Balderas
New Mexico State Auditor, and
State of New Mexico State Fair Commission
Albuquerque, New Mexico

We have audited the financial statements of the business-type activities and the budgetary comparisons of the State of New Mexico State Fair Commission (Fair), as of and for the year ended June 30, 2008, which collectively comprise the Fair's basic financial statements, and have issued our report thereon dated December 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fair's internal control over financial reporting as a basis for designing our audit 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 Fair's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fair's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph, and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, significant deficiencies and control deficiencies.

A **control deficiency** 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 misstatements on a timely basis. A **significant deficiency** is a control deficiency, or a combination of control deficiencies, that adversely affects the Fair's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fair's financial statements that is more than



Mr. Hector H. Balderas
New Mexico State Auditor, and
State of New Mexico State Fair Commission
Albuquerque, New Mexico

Internal Control Over Financial Reporting - continued

inconsequential will not be prevented or detected by the Fair's internal control. We consider the deficiencies described in the accompanying schedule of findings and recommendations to be significant deficiencies in internal control over financial reporting (08-1 and 08-2).

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Fair's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did identify one significant deficiency in internal control over financial reporting that we considered to be material weaknesses, as defined above (07-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fair's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Fair's responses to the findings identified in our audit are described in the schedule of findings and recommendations. We did not audit the Fair's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the State Auditor, New Mexico Department of Finance and Administration, and the New Mexico Legislature, and is not intended to be and should not be used by anyone other than those specified parties.

Meyners + Company, LLC

December 9, 2008

YEAR ENDED JUNE 30, 2008

A. SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report expresses an unqualified opinion on the financial statements of the State of New Mexico State Fair Commission (Fair).
2. One material weakness (07-1) and two significant deficiencies (08-1, 08-2) relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Fair were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

07-1 MATERIAL WEAKNESS OVER THE CAPITALIZATION POLICY

Condition: The Fair's policy is to capitalize all assets with a purchase value of \$1,000 or more.

Criteria: The Audit Rule Section 2.2.2.10 Y of NMAC states that, "All agencies should update their capitalization policy in accordance with the law." The State's capitalization threshold amount is \$5,000.

Effect: The Fair is not in compliance with the law; depreciation calculations are not consistent with those of other State agencies.

Cause: The Fair's management believed that assets below \$5,000 could be capitalized.

Auditors' Recommendation: The Fair's management must change the policy for capitalization of assets in accordance to the Audit Rule as described above.

Agency's Response: Management concurs with this finding. The State Audit Rule is explicit that all state agencies must use \$5,000 as the threshold for its capitalization policy. The State Fair had significant management turnover, including the hiring of a new CFO in March of 2008. The \$1,000 threshold used for capitalization had been in place for many years. Effective July 1, 2008, the NM State Fair has changed its capitalization policy in accordance with the State Audit Rule.

Schedule of Findings and Recommendations

YEAR ENDED JUNE 30, 2008

B. FINDINGS – FINANCIAL STATEMENT AUDIT - continued

08-1 SIGNIFICANT DEFICIENCY OVER THE REVIEW AND APPROVAL PROCESSES

Condition: Four of 80 transactions tested were found to have incorrect or missing approvals. Certain transactions were recorded in the incorrect period or account. An internally prepared report was found to contain mathematical errors.

Criteria: All transactions and internally prepared financial information should be reviewed and approved by someone other than the preparer.

Effect: Possible misstatement of the financial statements and/or misappropriation of assets.

Cause: Established review and approval processes were not followed. Additionally, there was employee turnover in the accounting department during the year.

Auditors' Recommendation: Update and implement a review and approval process with significant participation from the General Manager and Director of Finance positions.

Agency's Response: Management accepts this finding. Turnover in key positions contributed to this finding. Two out of forty adjusting journal entries tested were not approved, indicating a 95% compliance rate. Management believes that this is unacceptable and procedures will be put into place to ensure 100% approval of all adjusting journal entries. One out of forty adjusting journal entries tested was approved but not signed by the preparer, indicating a 97.5% compliance rate. As part of the adjusting journal process, management will ensure that 100% of future entries will be signed off by preparers. Early in FY 2008, severance tax draws were being recorded when received instead of when they were incurred. The CFO will write a policy on proper accounting for severance tax draws so this does not occur again. The internally prepared report referred to above contained a \$121 mathematical error. All internally prepared reports will be reviewed as part of the review and approval process in an effort to prevent future reoccurrence.

08-2 SIGNIFICANT DEFICIENCY OVER ENTITY-WIDE CONTROLS

Condition: There was no formal closing process in place, including a method to assess and address risks to the Fair.

Criteria: Formal closing and risk assessment processes should be in place to ensure all accounting assertions made in the financial statements are met.

Effect: Possible misstatement of the financial statements and/or misappropriation of assets.

YEAR ENDED JUNE 30, 2008

B. FINDINGS – FINANCIAL STATEMENT AUDIT - continued

08-2 SIGNIFICANT DEFICIENCY OVER ENTITY-WIDE CONTROLS - continued

Cause: Established processes have not been completed and implemented.

Auditors' Recommendation: Complete and implement a formal closing process, including a separate risk assessment process that is approved by management and the Commissioners.

Agency's Response: Management concurs with this finding. During the audit, the CFO disclosed to the auditors that a more formalized closing process was needed. Although the CFO believes that the agency has strong internal controls in place to prevent misstatement of the financial statements and/or misappropriation of assets, the NM State Fair needs to do a better job in documenting these internal controls. Implementation of a more formal monthly close process will take place in FY 2009. This will include a separate risk assessment process that is approved by both management and the State Fair Commission.

08-3 CONTROL DEFICIENCY OVER SUPPORTING DOCUMENTATION

Condition: Four transactions were missing supporting documentation: a cash disbursement invoice, a cash receipt, an adjusting journal entry and one I9 form.

Criteria: Supporting documentation should be kept and attached to all transactions.

Effect: Possible misstatement of the financial statements and/or misappropriation of assets.

Cause: Lack of a procedure to ensure all documentation is kept and attached to support each transaction.

Auditors' Recommendation: Create and implement a process to ensure all transactions have complete and accurate supporting documentation. This includes a procedure to periodically monitor transactions to ensure compliance.

Agency's Response: Management accepts this finding. It is the policy of the State Fair that all transactions must be retained in a manner that is auditable and contains supporting documentation. Internal training will be provided to staff to ensure that all transactions are properly documented. Management believes that a more formalized close process, including a periodic review of various transactions, will be an effective tool to address this finding.

Schedule of Findings and Recommendations

YEAR ENDED JUNE 30, 2008

B. FINDINGS – FINANCIAL STATEMENT AUDIT - continued

08-4 OVER-EXPENDED APPROPRIATION UNITS

Condition: EXPO over-expended the appropriation unit on the following funds:

- Personal Services and Benefits appropriation unit by \$208,030.
- Contractual Services appropriation unit by \$26,348
- Other Operating Costs appropriation unit by \$173,367

Criteria: Per (2.2.2.10 NMAC), all actual expenditures exceeding budgeted expenditures at legal level of budgetary compliance must be reported as a finding. Expo's system should detect over-expenditures before they occur.

Cause: Non-budgeted expenditures are being applied against the final budget and Budget Adjustment Requests are not being submitted on time. Management has not been consistently monitoring the budgeted expenditure level.

Effect: The appropriation unit described above was over-expended.

Recommendation: The Department must track all expenditures and submit Budget Adjustment Requests to ensure compliance with the final budget.

Agency's Response: Expo management acknowledges that NMAC 2.2.2.10 instructs IPAs to report a finding when expenditures exceed the legal level of budgetary compliance. Expo would like to point out that it generated enough revenue to cover the excess expenditures discussed in the finding. As an enterprise fund, Expo is required to generate enough revenue to cover its cost of operations, which it did in FY 2008. Expo management does monitor expenditures as compared to budgeted amounts on a monthly basis. During FY 2008, Expo experienced turnover in key management positions including the GM and CFO positions. In addition, Expo's budget analyst position was vacant for FY 2008. Expo management did submit a Budget Adjustment Request (BAR) to DFA in a timely manner during FY 2008 before the final DFA deadline. In the final analysis of FY 2008 activity, Expo management realized that it did not BAR in enough revenue to cover the excess of expenditures over approved budget amounts. Expo believes had there been a later final deadline for submitting BARs to DFA that this finding would not have come up. In closing, Expo believes that DFA and the state audit rules need to acknowledge the unique issues that affect the financial performance of an enterprise fund such as Expo NM. For instance, it is very possible that Expo could book an event late in its fiscal year that would generate significant revenue for Expo but could also cause it to have increased expenditures that would cause it to exceed budget authority.

Schedule of Prior Year Findings and Recommendations

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

07-01 Capitalization Policy – Repeated

**STATE OF NEW MEXICO
STATE FAIR COMMISSION**

Exit Conference

An exit conference was held on December 19, 2008, to discuss the current report and auditors' findings. Those in attendance were as follows:

STATE OF NEW MEXICO STATE FAIR COMMISSION

Judith M. Espinosa, General Manager
Joe McIntyre, Director of Finance
Janice Edwards, Financial Specialist Supervisor

MEYNNERS + COMPANY, LLC

Georgie Ortiz, CPA, CGFM, Assurance Principal
John Murrel, CPA, Assurance Manager

The Management's Discussion and Analysis was prepared by management of the Fair. The remainder of the financial statements was prepared by Meyners + Company, LLC, based on the general ledger maintained by the Fair. Management of the Fair reviewed and approved the financial statements and is responsible for the fair presentation of the financial statements.



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

February 2, 2009

SAO Ref. No. 460

Judith M. Espinosa, General Manager
State Fair Commission
PO Box 8546
Albuquerque, NM 87198-8546

SUBJECT: Audit Report—State Fair Commission—2007-2008 Fiscal Year—Prepared by Meyners & Company, LLC

The audit report for your agency was received by the Office of the State Auditor (Office) on December 15, 2008. The State Auditor's review of the audit report required by Section 12-6-14 (D) NMSA 1978 and 2.2.2.13 NMAC has been completed. This letter is your authorization to make the final payment to the independent public accountant (IPA) who contracted to perform your agency's financial and compliance audit. In accordance with Section 2 of the audit contract, the IPA will deliver the specified number of copies of the audit to the agency.

Per Section 12-6-5 (A) NMSA 1978, **the audit report does not become public record until ten days after the date of this letter.** Once the ten day waiting period has passed, the audit report shall be:

- released by the Office of the State Auditor to the Legislative Finance Committee, the Department of Finance and Administration, and the State Treasurer.

The independent public accountant's findings and comments are included in the audit report on pages 36 - 40. **It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments.**

HECTOR H. BALDERAS
STATE AUDITOR

cc: Legislative Finance Committee
Department of Finance and Administration
Financial Control Division & Budget Division
Office of the State Treasurer
Meyners & Company, LLC