STATE OF NEW MEXICO

STATE FAIR COMMISSION

INDEPENDENT AUDITORS' REPORT

AND ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011

GPS Griego Professional Services, LLC
Certified Public Accountants

INTRODUCTORY SECTION

STATE OF NEW MEXICO
STATE FAIR COMMISSION
FOR THE YEAR ENDED JUNE 30, 2011
TABLE OF CONTENTS

OFFICIAL ROSTER
JUNE 30, 2011

Members

Name	Title
David Sanchez	Chairman
Ruth Bitsui	Member
Benny Roybal	Member
Kenneth Smith	Member
Larry Kennedy	Member
Kenneth Goff	Member
Charlotte Rode	Member

Administration

Dan Mourning	Interim General Manager
Agnes Maldonado	Director of Administration

FINANCIAL SECTION

GPS Griego Professional Services, LLC
Certified Public Accountants

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 basic financial statements consisting of the business-type activity of the State of New Mexico State Fair Commission (Fair), as of and for the year ended June 30, 2011, 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 (Non-GAAP basis) presented as supplementary 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 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 the 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 of the Fair are intended to present the respective financial position of the business-type activity of the Fair at June 30, 2011, and the changes in financial position and cash flows, where applicable, of the activity and fund for only that portion of the Fair. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2011, or the changes in its financial position 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 respective financial position of the business-type activities of the State of New Mexico State Fair Commission, as of June 30, 2011, and the respective 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 (Non-GAAP basis) referred to above presents fairly, in all material respects, the budgetary comparisons for the year ended June 30, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011, on our consideration of the Fair's internal control over financial reporting and on 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 considered in assessing the results of our audit.

P.O. Box 37379 • Albuquerque, NM 87176-7379
8500 Menaul Blvd. NE, Ste. B295 • Albuquerque, NM 87112
Phone (505) 856-2741 - Fax (505) 856-7510

The State of New Mexico State Fair Commission has not presented the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and budgetary comparisons. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements, including the Schedule of Deposit Accounts and the Schedule of Pledged Collateral. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Griego Professional Services, LLC

December 15, 2011

STATE OF NEW MEXICO Exhibit A-1

STATE FAIR COMMISSION

Statement of Net Assets

June 30, 2011

ASSETS		
Current assets:		
Cash and cash equivalents	$	359,392
Restricted cash		541,324
Accounts and other receivables, net of allowance for doubtful accounts		96,398
Other current assets		2,370
Total current assets		999,484
Non-current assets:		
Restricted cash		590,624
Total non-current assets		590,624
Capital assets		
Land		819,340
Buildings		69,745,727
Improvements, other than buildings		16,834,098
Vehicles and equipment		5,560,651
Office furniture and fixtures		1,469,177
Total capital assets		94,428,993
Less accumulated depreciation		40,940,905
Net capital assets		53,488,088
Total assets	$	55,078,196

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

STATE OF NEW MEXICO
STATE FAIR COMMISSION
Statement of Net Assets
June 30, 2011

Exhibit A-1

LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	$ 2,267,854
Accrued liabilities:	
Payroll and related expenses	88,561
Interest payable	14,880
Gross Receipts Tax	6,490
Deposits	112,695
Deferred revenue	134,930
Compensated absences	199,484
Current portion of bond payable	606,905
Total current liabilities	3,431,799
Non-current liabilities:	
Bond payable, excluding current portion	1,955,766
Total non-current liabilities	1,955,766
Total liabilities	5,387,565
Net Assets:	
Invested in capital assets, net of related debt	50,925,417
Restricted for debt service	606,905
Restricted for capital improvement projects	541,324
Restricted for bond escrow	590,624
Unrestricted	(2,973,639)
Total net assets	49,690,631
Total liabilities and net assets	$ 55,078,196

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

STATE OF NEW MEXICO Exhibit A-2

STATE FAIR COMMISSION

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2011

Operating revenues:	
Admissions, rides, entry fees	$ 2,710,450
Rentals	1,905,163
Racing and gaming rent	2,080,764
Sponsorship in-kind revenues	1,030,177
Concessions	1,549,434
Parking	1,653,199
Service and fee income	568,896
Sponsorship and advertising	255,076
Feed store sales	11,961
Commissions	107,491
Other	110,357
Total operating revenues	11,982,968
Operating expenses:	
Salaries and employee benefits	6,157,991
Other professional services	1,925,239
Depreciation and amortization expense	3,065,546
Sponsorship in-kind expense	1,030,177
Utilities	1,058,917
Contractual security	848,481
Repairs and maintenance	344,582
Advertising	334,205
Other	751,503
Supplies	66,688
Equipment rental	189,646
Premiums and awards	95,462
Bad debt expense	8,687
Insurance	51,207
Total operating expenses	15,928,331
Operating income (loss)	(3,945,363)

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

STATE OF NEW MEXICO Exhibit A-2

STATE FAIR COMMISSION

Statement of Revenues, Expenses and

Changes in Net Assets

For the Year Ended June 30, 2011

Non-operating revenue (expenses):	
Interest income	1,251
Interest expense	(104,185)
Contributed capital revenue	5,999,103
Non-operating revenue (expenses)	5,896,169
Change in net assets	1,950,806
Net assets at beginning of year	47,739,825
Net assets at end of year	$ 49,690,631

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

STATE OF NEW MEXICO
STATE FAIR COMMISSION
Statement of Cash Flows
For the Year Ended June 30, 2011

Cash flows from operating activities:		
Cash received from customers	$	14,406,832
Cash payments to suppliers of goods and services		(530,344)
Cash payments to employees for services		(16,003,916)
Net cash provided by operating activities		(2,127,428)
Cash flows from capital and related financing activities:		
Purchase of property and equipment		(3,105,593)
Principal payments on revenue bonds		(587,470)
Proceeds from contributed capital		6,019,103
Interest paid on bonds and capital leases		(104,185)
Net cash used by capital and related financing activities		2,221,855
Cash flows from investing activities:		
Interest earned		1,251
Net cash provided by investing activities		1,251
Net increase (decrease) in cash		95,678
Cash and restricted cash, cash invested in the State Treasurer investment pool, beginning of year		1,395,662
Cash and restricted cash, cash invested in the State Treasurer investment pool, end of year	$	1,491,340

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

STATE OF NEW MEXICO

STATE FAIR COMMISSION

Statement of Cash Flows

For the Year Ended June 30, 2011

Exhibit A-3

Reconciliation of cash, end of year to cash	
reported in the Statement of Net Assets:	
Current assets - cash	359,392
Cash restricted for debt service and capital projects	1,131,948
Total cash and restricted cash reported in	
the Statement of Net Assets	$ 1,491,340
Reconciliation of operating loss to net cash	
used by operating activities:	
Operating income (loss)	(3,945,363)
Adjustments to reconcile operating loss to net cash provided	
by operating activities:	
Depreciation and amortization expense	3,065,546
Bad debt expense	8,687
Changes in assets and liabilities:	
Accounts and other receivables	(642,136)
Other assets	(8,233)
Accounts payable	(234,555)
Accrued payroll and related expenses	(75,585)
Deposits	(29,077)
Deferred revenues	(211,020)
Payroll liabilities	(55,692)
Net cash provided by operating activities in	
the Statement of Net Assets	$ (2,127,428)

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

NOTE 1. Summary of Significant Accounting Policies

The purpose of the State Fair Commission (Fair) is to hold an annual state fair for the purpose of providing the community of Albuquerque with a 17-day carnival event, as well as exhibiting 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. The Fair also holds many other events on the State Fair grounds throughout the fiscal year, the most regular event being the weekly Flea Market.

A. *Reporting Entity*

Charter 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.

B. *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 (as amended by GASB 39), 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.

C. *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)

NOTE 1. Summary of Significant Accounting Policies – (Continued)

When as expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Fair first uses restricted net assets.

The accompanying financial statements are prepared on the full accrual basis. Transactions not included as operating activities for the statement of 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.

D. *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.

E. *Cash and Cash Equivalents*

For the 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 $250,000 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.

F. *Restricted Cash*

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

NOTE 1. Summary of Significant Accounting Policies – (Continued)

G. *Repurchase Agreement*

State Statue 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 July1, 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 pledges 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, 2011.

H. *Property and Equipment*

Property and equipment are stated at cost. The Fair's capitalization policy is below the $5,000 threshold, as stated in Section 12-6-10 NMSA 1978. 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 valued 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

I. *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.

NOTE 1. Summary of Significant Accounting Policies – (Continued)

J. *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.

K. *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.

L. *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:

1. 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.

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

3. 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.

M. *Operating Revenue*

The Fair received proceeds from the operation of a variety of events throughout the year, consisting primarily of the annual State Fair and the weekly Flea Market. Any other proceeds received during the year are classified as non-operating revenue.

NOTE 1. Summary of Significant Accounting Policies – (Continued)

N. *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 the capital improvements projects. This contributed capital revenue is recognized when received by the Fair.

O. *Advertising*

Non-direct advertising costs are expensed as incurred. Total advertising costs for year ended June 30, 2011 were $334,205.

P. *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 disclosures of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Q. *Subsequent Events*

Subsequent events have been evaluated through December 15, 2011, which is the date the financial statements were available to be issued.

NOTE 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, 2011 consisted of the following:

Unrestricted:		
Income account	$	(1,978)
Cash drawers (on hand)		7,800
CIP Racetrack Funds		353,320
Petty cash		250
Total	$	359,392
Restricted:		
General account (for capital projects)	$	590,624
Bond escrow money market fund		541,324
Total	$	1,131,948

NOTE 2. Cash and Restricted Cash – (Continued)

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, 2011 is $1,021,217. 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.

NOTE 3. Accounts and Other Receivables

Accounts and other receivables consist of the following at June 30, 2011:

Various customers receivables and returned checks	$ 293,761
Allowance for doubtful accounts	(197,363)
Total	$ 96,398

NOTE 4. Capital Assets

	Balance June 30, 2010	Additions	Deletions	Transfers	Adjustments	Balance June 30, 2011
Land	$ 819,340	$ —	$ —	$ —	$ —	$ 819,340
Construction in progress	317,937	—	—	(317,937)	—	—
Total non-depreciable assets	1,137,277	—	—	(317,937)	—	819,340
Buildings	67,793,403	1,634,387	—	317,937	—	69,745,727
Other improvements	14,160,509	2,673,589	—	—	—	16,834,098
Motor vehicles	570,152	—	—	—	—	570,152
Data processing and equipment	1,738,631	2,700	—	—	—	1,741,331
Equipment and machinery	3,182,200	66,968	—	—	—	3,249,168
Office furniture and fixtures	1,467,697	—	—	—	—	1,467,697
Art	1,480	—	—	—	—	1,480
Total depreciable assets	88,914,072	4,377,644	—	317,937	—	93,609,653
Total assets	$ 90,051,349	$ 4,377,644	$ —	$ —	$ —	$ 94,428,993
Less accumulated depreciation:						
Buildings	$ 27,563,560	$ 2,017,567	$ —	$ —	$ —	$ 29,581,127
Other improvements	4,689,407	494,467	—	—	—	5,183,874
Motor vehicles	508,924	30,466	—	—	—	539,390
Data processing and equipment	1,572,189	79,059	—	—	—	1,651,248
Equipment and machinery	2,473,216	393,162	—	—	—	2,866,378
Office furniture and fixtures	1,068,063	50,825	—	—	—	1,118,888
Total accumulated depreciation	$ 37,875,359	$ 3,065,546	$ —	$ —	$ —	$ 40,940,905
Total capital assets	$ 52,175,990	$ 1,312,098	$ —	$ —	$ —	$ 53,488,088

NOTE 5. Compensated Absences Payable

A summary of changes in compensated absences payable for the year ended June 30, 2011 is as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011	Due within One Year
Accrued vacation, sick leave and comp time	$ 255,176	$ 52,000	$ 107,692	$ 199,484	$ 199,484

The liability at June 30, 2011 of $199,484 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.

NOTE 6. Long-term Debt

A. *Bond Liabilities*

Long-term debt consists of the following at June 30, 2011:

Capital Improvement Bonds, Series 2004, due in installments of $5,555,556, annual maturities of approximately $570,000 to $676,000 through November 1, 2014, interest rate from 1.26% to 3.67%.	$ 2,562,671
Less current portion	606,905
Total	$ 1,955,766

The total annual principal and interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012 (Due within one year)	$ 606,905	$ 79,417	$ 686,322
2013	628,199	58,813	687,012
2014	651,312	36,444	687,756
2015	676,255	12,409	688,664
	$ 2,562,671	$ 187,083	$ 2,749,754

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

NOTE 6. Long-term Debt – (Continued)

B. *Changes in Long-term Debt*
Long-term debt activity for the year ended June 30, 2011 is as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Bonds payable	$ 3,150,141	$ –	$ 587,470	$ 2,562,671

NOTE 7. Deferred Revenue

The Fair has collected deposits for the annual September fair and other events occurring in the next fiscal year. At June 30, 2011, the balance in deferred revenue of $134,930 consists of prepaid admissions, concessions and exhibits for the Fair.

NOTE 8. 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.

NOTE 9. 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, 2011:

Media, services and other	$ 1,030,177

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 is considered to be equal to and, therefore, offset the amount of expense recorded.

NOTE 10. Pension Plan – Public Employees Retirement Association

A. *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.

NOTE 10. Pension Plan – Public Employees Retirement Association – (Continued)

B. *Funding Policy*

Plan members are required to contribute 8.92% of their gross salary. The Fair is required to contribute 15.09% of the gross covered salary. From the 2009 legislative session House Bill 854 temporarily shifts the burden of 1.5% of employer PERA contributions to state employees whose annual salaries exceed $20,000. For the two-year period from July1, 2009 to June 30, 2011, the employer contribution rates will be reduced by 1.5% and the employee contribution rates will be increased by 1.5%. After this temporary shift the burden will return to the employer. The contribution requirements of plan members and the Fair are established in State statue 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, 2011, 2010 and 2009 were $353,342, $439,788 and $530,397, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 11. Post-Employee Benefits – State Retiree Health Care Plan

A. *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 optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long term care policies.

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. The report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

B. *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.

NOTE 11. Post-Employee Benefits – State Retiree Health Care Plan – (Continued)

B. *Funding Policy – Continued*

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that established 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 Juanuary1, 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, 2011, 2010 and 2009 were $38,562, $28,235 and $39,522, respectively, which equal the required contributions for each year.

NOTE 12. Contributed Capital Revenue

The following amounts were recorded as contributed capital revenues for capital improvement projects for the year ended June 30, 2011:

State of New Mexico Severance Tax Bond Proceeds	$	4,641,975
Pari Mutuel Tax Proceeds		998,528
Other State Financing		358,600
	$	5,999,103

NOTE 13. 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 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, 2011, the Fair had no claims which the Risk Management Division has returned as not covered that would become the responsibility of the Fair.

NOTE 14. Joint Powers Agreement

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 Dept. of Public Safety: To provide additional security during the 2010 New Mexico State Fair.	Fair	09/10/10	09/26/10	$38 per hour	$ 158,000	Fair

NOTE 15. Subsequent Event

On August 20, 2010, the Legislative Finance Committee issued a program evaluation report of the New Mexico State Fair that indicated some operational shortfalls issues that the organization is required to address.

Subsequent to June 30, 2011,the Fair management was replaced. As of December 15, 2011,the Fair's managed by an interim General Manager, Director of Administration and other new key employees in an attempt to address the Fair's operational and cash management concerns.

SUPPLEMENTARY INFORMATION

Schedule I

STATE OF NEW MEXICO
STATE FAIR COMMISSION
Statement of Revenues and Expenses -
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2011

	Budgeted Amounts			
	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
Revenues:				
Admissions	$ 3,338,500	$ 3,338,500	$ 2,710,450	$ (628,050)
Building rental	4,700,000	4,700,000	3,985,927	(714,073)
Other services (excluding in-kind)	2,500,000	2,500,000	2,775,618	275,618
Concessions and exhibits	2,250,000	2,250,000	1,549,434	(700,566)
Discounts and interest earned	5,000	5,000	1,251	(3,749)
Other state financing	1,090,000	379,100	358,600	(20,500)
Pari-Mutual Tax	-	695,000	998,528	303,528
Total revenues	$ 13,883,500	$ 13,867,600	$ 12,379,808	$ (1,487,792)
Expenses:				
Personal services	$ 6,484,900	$ 6,479,700	6,157,991	$ 321,709
Contractual services	3,633,100	3,626,100	2,882,153	743,947
Other costs (including debt payments)	3,765,500	3,761,800	3,468,572	293,228
Total expenses	$ 13,883,500	$ 13,867,600	$ 12,508,716	$ 1,358,884
Excess (deficiency) of revenues over expenses - budgetary basis			$ (128,908)	
Adjustments to conform to Generally Accepted Accounting Principles:				
Debt principal payments recorded as a budgetary expense			587,470	
Depreciation and amortization expenses			(3,065,546)	
Plus in-kind contributions treated as revenue			1,030,177	
Less in-kind contributions treated as expenses			(1,030,177)	
Interest expense			(104,185)	
Other contributed capital revenue			4,661,975	
Change in net assets as reported on Statement of Revenues, Expenses and Changes in Net Assets			$ 1,950,806	

Schedule II

STATE OF NEW MEXICO
STATE FAIR COMMISSION
Schedule of Deposit Accounts
June 30, 2011

Depository/Account Name	Type of Account	Cash Per Bank June 30, 2011	Add Deposits in Transit	Less Outstanding Checks	Other Reconciling Items	Adjusted Cash Balance June 30, 2011
Wells Fargo						
Income/Cash Management Account	Checking	$ 108,450	$ 253,866	$ (291,793)		$ 70,523
Payroll Account	Checking	-	48,785	(48,785)		-
Payroll Tax Account	Checking	-	30,086	(30,086)		-
Premium Account	Checking	-	14,270	(14,270)		-
Bank of Albuquerque:						
2004 Bond Account	Savings	590,624	83	(83)		590,624
Cash in Bank		699,074	347,090	(385,017)	-	661,147
Petty cash and cash drawers		8,050	-	-	-	8,050
Repurchase agreement with Wells Fargo		822,143			-	822,143
Total Cash, Restricted Cash and Cash Equivalents		$ 1,529,267	$ 347,090	$ (385,017)	$ -	$ 1,491,340

For the cash and investments noted in the above schedule, market value approximated the cost, or cash per bank.

STATE OF NEW MEXICO
STATE FAIR COMMISSION
Schedule of Pledged Collateral
June 30, 2011

	Wells Fargo Bank Balance	Bank of Albuquerque Bank Balance
Total Deposits	$ 108,450	$ 590,624
Repurchase agreement	822,143	-
Less FDIC insurance	(250,000)	(250,000)
Total Uninsured Public Funds	680,593	340,624
50% collateral requirement	(70,775)	170,312
102% collateral requirement (repurchased agreement)	838,586	-
Total Collateral Requirement	767,811	170,312
Collateral at Market Value:		
Collateralization at Wells Fargo *	-	-
Collateralization at Bank of Albuquerque **	-	-
Under Collateralized	$ 767,811	$ 170,312

* 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 one security: CUSIP 3128M6VH8
with a market value at June 30, 2011 of $12,993,978.
This security matures on September 1, 2038.

** The collateral is in the name of and held by BNY Mellon Corporate Trust, 1775 Sherman Street, Suite 2775
Denver, CO 80203.
The collateral is in the amount of the Bank of New York Mellon's cash reserve balances.
The total collateralized cash reserve balance for these accounts at June 30, 2011 was $153,265.
There is no maturity date for this security.

COMPLIANCE SECTION

GPS Griego Professional Services, LLC
Certified Public Accountants

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 activity of the State of New Mexico State Fair Commission (Fair), as of and for the year ended June 30, 2011 and have issued our report thereon dated December 15, 2011. We have also audited the Schedule of Revenue and Expenses – Budget and Actual (Non-GAAP Basis) presented as supplementary information in the accompanying table of contents. 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 auditing procedures for the purpose of expressing our opinions 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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, detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (FS 07-01, FS 11-01, FS 11-04 and FS 11-05)

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 deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. (FS 08-01, FS 08-03, FS 09-02, FS 10-06, FS 11-02 and FS 11-03)

P.O. Box 37379 • Albuquerque, NM 87176-7379

8500 Menaul Blvd. NE, Ste. B295 • Albuquerque, NM 87112
Phone (505) 856-2741 - Fax (505) 856-7510

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* and which are described in the accompanying schedule of findings and responses as items FS 07-01, FS 09-02 and FS 11-02.

The Fair's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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, others within the Fair, the State Auditor, and the New Mexico Legislature, and is not intended to be and should not be used by anyone other than these specified parties.

Griego Professional Services, LLC

Albuquerque, New Mexico
December 15, 2011

Section I – Summary of Audit Results

Financial Statements:

1.	Type of auditors' report issued	Unqualified
2.	Internal control over financial reporting:	
	a. Material weaknesses identified?	Yes
	b. Significant deficiencies identified?	Yes
	Noncompliance material to financial statements noted?	No

Section II – Financial Statement Findings

FS 07-01 – Material Weakness over the Capitalization Policy – *Repeated*

Condition: During our testwork, we noted that management is still capitalizing assets with a purchase value of less than $5,000.

Criteria: State Auditor Rule 2.2.2.10, Subsection Y states that the Audit Act requires agencies to capitalize only chattels and equipment that cost over $5,000.

Effect: The Fair is not in compliance with the State Auditor Rule. Additionally, capital assets and depreciation expense will be overstated.

Cause: Lack of effective procedures for reviewing capital assets to ensure that all assets being depreciated properly qualify for capitalization in accordance with the State Audit Rule.

Auditors' Recommendation: Management should establish procedures to ensure that only items with a purchase value greater than $5,000 are capitalized. This includes strict adherence to the State Auditor Rule.

Management's Response: As a general rule we only capitalize eligible capital items costing over $5,000. The current procedure is stated in the Expo accounting policy / procedure manual which was completed in August 2011.

FS 08-01 – Significant Deficiency over the Review and Approval Process – *Modified and Repeated*

Condition: During our testwork we noted the following lapses in the review and approval process during the 2011 fiscal year:

- The payroll supervisor is responsible for various job duties including updating the compensated absences account balances. The payroll supervisor's work is not being reviewed for this duty.

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: Lack of effective controls surrounding the review process; management oversight.

Auditors' Recommendation: Management should establish procedures to review and approve all work and transactions performed by employees before they are posted or processed.

Management's Response: This recommendation has been implemented and currently in effect.

FS 08-03 Control Deficiency over Supporting Documentation – *Modified and Repeated*

Condition: During our testwork, we noted that management was unable to provide supporting documentation for the following items:

- Eleven out of twenty-five I-9s
- One out of twenty-five W-4s
- Operating leases
- Joint power agreements
- Twelve out of fifteen In-Kind/Sponsorship revenue packets requested for testing

Criteria: Supporting documentation for financial transactions should be retained in a specific location that is easily accessible.

Effect: EXPO is not in compliance with the State statutes and the Immigration Reform & Control Act of 1986 and could be subject to penalties. Also, EXPO could be employing an individual who is not legally able to work in the United States. Possible misstatement of financial statements and/or misappropriation of assets.

Cause: Lack of effective procedures to ensure that all supporting documentation is kept and attached to support each transaction.

Auditors' Recommendation: EXPO must require all employees to complete the necessary forms and retain the necessary documents in each employee's personnel file. In addition, the District should make periodic checks to ensure all such information is being properly maintained. Management should establish procedures to ensure that all transactions have complete and accurate supporting documentation.

Management's Response: A project was completed in May 2011 that consisted of reviewing and updating all personnel files. To date all files are complete and contain all I-9s, W-4s and other pertinent employee information. Procedures are in place to ensure all employee changes, new hires and terminations are properly documented and updated in employee's files.

FS 09-02 Significant Deficiency over Capital Asset Inventory –*Repeated*

Condition: During our capital asset testwork, we noted that management did not perform a year-end physical inventory count for all capital assets.

Criteria: State Auditor Rule 2.2.2.10, Subsection Y states that each agency shall conduct an annual physical inventory count of all equipment listed on the agency's capital asset inventory listing as of year-end. The agency must then certify the correctness of the physical inventory count and the certification must be provided to the agency's auditors.

Effect: Not in compliance with the State Auditor Rule 2.2.2.10 requirements pertaining to the correctness of property listed on the financial statements.

Cause: Lack of effective controls or procedures associated with capital assets.

Auditors' Recommendation: Management should establish controls and procedures necessary to ensure that a physical inventory of all equipment is performed. Additionally, we recommend that a reconciliation between the physical inventory results and the capital asset inventory listing be performed to identify any necessary adjustments.

Management's Response: Expo is currently under a very tight personnel budget and does not have the proper resources to conduct a physical inventory and reconcile to plant records. However, we consider this very important and have it in our plans for future projects.

FS 10-06 Significant Deficiency over Bank Reconciliations – *Modified and Repeated*

Condition: The Fair's June 2011 bank reconciliations do not tie to the trial balance provided due to a sub ledger difference of $2,899 that has been continuously carried forward for several years as well as Zero-Based Accounting differences that have also been carried forward for several years. The Fair did contract temporary assistance in order to prepare for the 2011 audit and adjustments were made to address this issue; however, it was in place during the 2011 fiscal year.

Criteria: Statement on Auditing Standards (SAS) 112 Section 402.61 states that "A cash reconciliation that reconciles from the bank to the general ledger balance should be prepared to determine that all transactions have been recorded properly and to discover bank errors."

Effect: Without proper reconciliations, cash may be misstated on the financial statements.

Cause: The bank statement was not properly reconciled to the general ledger during the 2011 fiscal year.

Auditors' Recommendation: The Fair should reconcile bank accounts monthly and in a timely manner. Furthermore, the Fair should reconcile any un-reconciled differences and move forward with clean bank reconciliations. In order to achieve this and other goals, the Fair must hire a qualified controller to insure proper internal controls.

Management's Response: Bank account was balanced in July 2011 and continues to be balance / reconciled every month.

FS 11-01 - Material Weakness over Cash Management

Condition: The Fair did not maintain sufficient net income to cover operational expenditures. Internal controls within the cash management function prior from 2006 through 2011 were not implemented sufficiently and as a result cash balances have decreased significantly within the entity.

Criteria: An entity should establish and maintain a cash management program to safeguard cash and provide prompt and accurate reporting to insure liquidity and to insure operational revenues met expenses.

Effect: The Fair has experienced cash decreases from overall operations. Decreases in cash from operations result in decreased equity balances and may result in required subsidies from other sources such as the State of New Mexico.

Cause: The Fair has not been managed as a true governmental "enterprise" fund. As an enterprise fund of the State of New Mexico, the Fair should maintain net income and cash surpluses annually to insure it is self-sub stained and is not reliant upon other State funding.

Auditor's Recommendation: The Fair must and has implemented policies and procedures to ensure this situation does not occur in the future. Controls must require the monitoring of cash balances to ensure operational stability and non-reliance upon outside funding. The Fair appears to be addressing this issue through new management; however, results may not be apparent until fiscal years 2012 or 2013.

Management's Response: We prepared a balanced budget for fiscal year 2011-12 to ensure that income covers expenses. It includes a reduction in personnel, streamlining of operations, and proper management of all contracts to ensure obligations are properly fulfilled. Expo worked jointly with DFA and SPO to ensure a balanced budget.

FS 11-02 – Significant Deficiency over Segregation of Duties

Condition: During fiscal year 2011, the Fair did not maintain a Chief Financial Officer position as of September 2010 and the accountant that was in place had the ability to perform functions which did not allow for the proper maintenance of internal controls. The CFO or controller position or both appears to be a is apparent given the organizations business activity.

Criteria: According to NMSA 1978 Section 6-5-2, segregation of duties must be maintained.

Effect: Without proper supervision and review, it may be difficult to detect and correct mistakes and deter potential fraud. Lack of qualified individuals in these positions may result in financial transaction errors, fraudulent activity and/or poor management decisions as a result of inaccurate of untimely reporting to governance.

Cause: Procedures are not formally designed to control segregation of duties. Formalized internal controls would mitigate internal control obstacles in the case of vacant positions.

Auditors' Recommendation: The Fair must ensure that internal control functions such as journal entries are reviewed and approved; bank reconciliations are reviewed, etc. Internal controls should be in place and routinely followed.

Management's Response: Recommendation was implemented in August 2011 with implementation of the accounting policies and procedures manual.

FS 11-03 – Significant Deficiency in Internal Control Structure Design

Condition: The Fair does not have a current comprehensive documented internal control structure. We noted the Fair has not updated procedural manuals on a timely basis, including key internal control procedures entity wide or for daily operating activities.

Criteria: An entity should establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP, and that state funds are managed in compliance with applicable laws and regulations. An internal control structure should include written administrative controls (rules, procedures and practices, and policies that affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP.

Effect: The Fair has not maintained a formal policy and procedure manual. The lack of formally written policies and procedures may result in grant noncompliance and/or potential errors and misstatements in times of personnel turnover and personnel reductions.

Cause: The Fair has not formally written all internal control policies and procedures. The Fair has written some policies and procedures within departments, but has not formalized internal controls for the entity as a whole.

Auditor's Recommendation: The Fair should update and complete a formalized comprehensive internal control structure and ensure that it is followed.

Management's Response: Recommendation was implemented in August 2011 with implementation of the accounting policies and procedures manual.

FS 11-04 – Material Weakness over Contractual Agreements

Condition: The Fair did not examine its contracts and implement internal controls to ensure compliance with contract agreements. Management did not enforce provisions of contractual agreements with leases to insure additional revenues and expenditures were properly paid by the lease. In addition, in-kind stipulations of the lease were not enforced. Finally, the Fair did not enforce new rates related to the 2010 carnival concession agreement which resulted in reduced revenues.

Criteria: Proper management and operational procedures ensure provisions stipulated in agreements with leases and other sources are enforced.

Effect: Noncompliance with contractual provisions indicates a lack of management oversight and limits the organizations ability to make accurate and timely management decisions. In this case, the organization may also be effected by operational losses and potential cash deficits as revenues are not provided as stipulated in contract provision.

Cause: The Fair's former management did not enforce provisions provided within the Down or the carnival concession agreements in place..

Auditors' Recommendations: The Fair must implement a policy that insures that contractual provisions are enforceable and implement internal control policies which allow for potential penalties to parties that violate or do not comply with contractual provisions.

Management Response: Recommendation was implemented in August 2011 with implementation of the accounting policies and procedures manual.

FS 11-05 – Material Weakness over Cash Controls

Condition: The Fair did not maintain proper cash controls in the vault area and cash count area.

Criteria: An organization must maintain proper controls over cash on hand, especially during special events or a times of large cash volume on hand.

Effect: The lack of proper internal controls over cash on hand may result in fraudulent activity by internal or external individuals and/or irregularities in reporting cash as well as revenue. The Fair has one instance pending in which potential fraud is suspected.

Cause: The Fair did not maintain proper controls over cash on hand. Lack of controls included lack of physical security, access to cash by internal staff, lack of count procedures, etc.

Auditor's Recommendation: The Fair must and has implemented policies and procedures to ensure this situation does not occur in the future. We believe further steps should be taken. An example may be to seek the consultation of a bank or casino advisor to suggest physical and procedural actions to be implemented.

Management's Response: Recommendation was implemented in August 2011 with implementation of the accounting policies and procedures manual.

Section III – Prior Year Audit Findings

FS 07-01 Material Weakness over the Capitalization Policy – *Repeated*

FS 08-01 Significant Deficiency over the Review and Approval Process – *Modified and Repeated*

FS 08-03 Control Deficiency over Supporting Documentation – *Modified and Repeated*

FS 08-04 Significant Deficiency over Over-Expanded Appropriation Units – *Resolved*

FS 09-02 Significant Deficiency over Capital Asset Inventory – *Repeated*

FS 10-01 Significant Deficiency over Bids – *Resolved*

FS 10-02 Significant Deficiency over Per Diem Disbursements – *Resolved*

FS 10-03 Significant Deficiency over Disposal of Assets – *Resolved*

FS 10-04 Compensated Absences – *Resolved*

FS 10-05 Stale Dated Transactions – *Resolved*

FS 10-06 Bank Reconciliations – *Modified and Repeated*

Section IV – Other Disclosures

Auditor Prepared Financials
Griego Professional Services, LLC assisted in the preparation of the financial statements presented in this report. The Fair's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.

Exit Conference
The contents of this report were discussed on December 15, 2011. The following individuals were in attendance.

State Fair Commission
Dan Mourning, Interim General Manager
David Sanchez, Chairman
Agnes Maldonado, Director of Administration

Griego Professional Services, LLC
J.J. Griego, CPA