

STATE OF NEW MEXICO

STATE FAIR COMMISSION

INDEPENDENT AUDITOR'S REPORT

AND ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2012

INTRODUCTORY SECTION

STATE OF NEW MEXICO
STATE FAIR COMMISSION
FOR THE YEAR ENDED JUNE 30, 2012
TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION		
TABLE OF CONTENTS		i
OFFICIAL ROSTER		ii
FINANCIAL SECTION		
INDEPENDENT AUDITORS' REPORT		1
BASIC FINANCIAL STATEMENTS:		
STATEMENT OF NET ASSETS	A-1	3
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	A-2	4
STATEMENT OF CASH FLOWS	A-3	5
NOTES TO THE FINANCIAL STATEMENTS		6
	<u>Schedule</u>	<u>Page</u>
SUPPLEMENTARY INFORMATION		
SCHEDULE OF REVENUES AND EXPENSES – BUDGET AND ACTUAL (NON-GAAP BASIS)	I	15
SCHEDULE OF DEPOSIT ACCOUNTS	II	16
SCHEDULE OF PLEDGED COLLATERAL	III	17
COMPLIANCE SECTION		
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>		18
SCHEDULE OF FINDINGS AND RESPONSES		20
SCHEDULE OF PRIOR YEAR FINDINGS		28
EXIT CONFERENCE		28

STATE OF NEW MEXICO
STATE FAIR COMMISSION
OFFICIAL ROSTER
JUNE 30, 2012

MEMBERS

Larry Kennedy
Ruth Bitsui
Matthew Rush
Kenneth Smith
David Sanchez
Kenneth Goff
Charlotte Rode

Chairman
Member
Member
Member
Member
Member
Member

ADMINISTRATION

Dan Mourning
Tammy Sorem

General Manager
Controller

FINANCIAL SECTION



Griego Professional Services, LLC

Certified Public Accountants

INDEPENDENT AUDITOR'S 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 of the business-type activity of the State of New Mexico State Fair Commission (Fair), as of and for the year ended June 30, 2012, 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, 2012, 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, 2012, 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, 2012, 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, 2012, 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 14, 2012, 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

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Grigo Professional Services, LLC

December 14, 2012

(except for findings FS 12-03, FS 12-04, FS 12-05, FS 12-06, FS 12-07 and FS 12-08, as to which the date is November 27, 2013)

STATE OF NEW MEXICO
STATE FAIR COMMISSION
STATEMENT OF NET ASSETS
JUNE 30, 2012

Exhibit A-1

ASSETS

Current assets:

Cash and cash equivalents	\$	1,642,180
Restricted cash		541,324
Accounts and other receivables (net of allowance of \$197,363)		99,467
Other current assets		56,056
<i>Total current assets</i>		2,339,027

Non-current assets:

Restricted cash		558,022
-----------------	--	---------

Capital assets:

Land		819,340
Buildings		69,899,034
Improvements, other than buildings		16,852,938
Vehicles and equipment		5,495,262
Office furniture and fixtures		1,469,177
<i>Total capital assets</i>		94,535,751
<i>Less: accumulated depreciation</i>		(43,803,288)
<i>Net capital assets</i>		50,732,463

<i>Total assets</i>	\$	53,629,512
---------------------	----	------------

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$	2,366,328
Accrued liabilities		79,497
Accrued interest		11,592
Deposits		90,414
Deferred revenue		167,749
Compensated absences		150,086
Current portion of bond payable		628,199
<i>Total current liabilities</i>		3,493,865

Non-current liabilities:

Bond payable, excluding current portion		1,327,567
<i>Total liabilities</i>		4,821,432

Net Assets:

Invested in capital assets, net of related debt		48,776,697
Restricted for debt service		1,955,766
Restricted for capital improvement projects		541,324
Restricted for bond escrow		558,022
Unrestricted		(3,023,729)
<i>Total net assets</i>		48,808,080

<i>Total liabilities and net assets</i>	\$	53,629,512
---	----	------------

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

STATE FAIR COMMISSION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSET:
FOR THE YEAR ENDED JUNE 30, 2012*Operating revenues:*

Admissions, rides, entry fees	\$ 3,020,781
Rentals	1,860,164
Racing and gaming rent	2,575,504
Sponsorship in-kind revenues	1,906,584
Concessions	1,613,995
Parking	1,580,425
Service and fee income	809,865
Sponsorship and advertising	295,135
Feed store sales	12,142
Commissions	109,746
Other	46,391
<i>Total operating revenues</i>	<u>13,830,732</u>

Operating expenses:

Salaries and employee benefits	6,102,786
Other professional services	1,710,355
Depreciation and amortization expense	2,943,603
Sponsorship in-kind expense	1,748,605
Utilities	1,201,990
Contractual security	894,060
Repairs and maintenance	455,088
Advertising	261,489
Other	286,929
Supplies	82,031
Equipment rental	202,114
Premiums and awards	97,700
Bad debt expense	-
Insurance	128,475
<i>Total operating expenses</i>	<u>16,115,225</u>

Operating income (loss) (2,284,493)

Non-operating revenue (expenses):

Contributed capital revenue	1,472,025
Interest income	2,746
Gain on sale of capital assets	3,300
Interest expense	(76,129)
<i>Non-operating revenue (expenses)</i>	<u>1,401,942</u>

Change in net assets (882,551)

Net assets, beginning of year 49,690,631

Net assets, end of year \$ 48,808,080

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, 2012

Exhibit A-3

<i>Cash flows from operating activities:</i>	
Cash received from customers	\$ 13,839,474
Cash payments to suppliers of goods and services	(7,024,048)
Cash payments to employees for services	(6,169,011)
<i>Net cash provided by operating activities</i>	<u>646,415</u>
 <i>Cash flows from capital and related financing activities:</i>	
Proceeds from the sale of capital assets	3,300
Purchase of property and equipment	(187,978)
Principal payments on revenue bonds	(606,905)
Proceeds from contributed capital	1,472,025
Interest paid on bonds and capital leases	(79,417)
<i>Net cash provided by capital and related financing activities</i>	<u>601,025</u>
 <i>Cash flows from investing activities:</i>	
Interest earned	2,746
<i>Net cash provided by investing activities</i>	<u>2,746</u>
 <i>Net increase in cash and cash equivalent</i>	 1,250,186
 <i>Cash and cash equivalents, beginning of year</i>	 <u>1,491,340</u>
 <i>Cash and cash equivalents, end of year</i>	 <u>\$ 2,741,526</u>
 <i>Reconciliation of operating loss to net cash provided by operating activities:</i>	
Operating loss	\$ (2,284,493)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization expense	2,943,603
Changes in assets and liabilities:	
Increase in accounts and other receivables	(3,069)
Increase in other assets	(53,686)
Decrease in accounts payable	98,474
Decrease in accrued payroll	(16,827)
Increase in gross receipts taxes	1,273
Decrease in deposits	(22,281)
Increase in deferred revenue	32,819
Decrease in compensated absences	(49,398)
 <i>Net cash provided by operating activities</i>	 <u>\$ 646,415</u>

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

STATE OF NEW MEXICO
STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 (7) member State Fair Commission appointed by the governor to staggered terms of five (5) 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, *The Financial Reporting Entity*, (as amended by GASB Statement 39, *Determining Whether Certain Organizations are Component Units*), the Fair is part of the primary government of the State of New Mexico (State), 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, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units that Use Proprietary Accounting*, 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)

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.

STATE OF NEW MEXICO
STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

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 demand deposits with repurchase agreements, money market accounts, and cash retained in cash drawers and petty cash funds. 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.

State statutes also require that 50% of the uninsured balance is secured by pledges of qualifying securities held by the depository. Demand accounts are insured up to \$250,000 per depositor, per insured bank, for each account ownership category. From December 31, 2010 through December 31, 2012, at all FDIC insured institutions, deposits held in non-interest bearing transaction accounts will be fully regardless of the amount in the account.

F. Restricted Cash

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

G. 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, 2012.

H. Capital Assets

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 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:

STATE OF NEW MEXICO
STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

H. Capital Assets (Continued)

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.

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: 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: Funds used for capital outlay expenses.
3. Unrestricted Net Assets: Funds not restricted for any project or any other purpose.

M. 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 resources and then to unrestricted resources.

STATE OF NEW MEXICO
STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

N. 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.

O. 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.

P. Advertising

Non-direct advertising costs are expensed as incurred. Total advertising costs for year ended June 30, 2012 were \$261,489.

Q. 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.

R. Subsequent Events

Subsequent events have been evaluated through December 14, 2012, which is the date the financial statements were available to be issued. As of this date, the Fair had no significant subsequent events.

NOTE 2. Cash and Cash Equivalents

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, 2012 consisted of the following:

Unrestricted:	
Operating account	\$ 1,632,680
Cash drawers	8,000
Petty cash	<u>1,500</u>
Total Unrestricted	<u>1,642,180</u>
Restricted:	
General account for capital projects	558,022
Bond escrow money market fund	<u>541,324</u>
Total Unrestricted	<u>1,099,346</u>
Total Cash and Cash Equivalents	<u>\$ 2,741,526</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, 2012 is \$2,315,243. This amount is collateralized by securities held in the name of the bank. For further information, please see Schedule II and Schedule III under Supplementary Information in the Table of Contents.

STATE OF NEW MEXICO
STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2. Cash and Cash Equivalents (Continued)

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 Receivables

Accounts receivables consist of the following at June 30, 2012:

Various customers receivables	\$	228,448
Returned checks		<u>68,382</u>
Total Accounts Receivable		296,830
Less: Allowance for doubtful accounts		<u>(197,363)</u>
Net Accounts Receivable	\$	<u>99,467</u>

NOTE 4. Capital Assets

A summary of capital asset changes for the year ended June 30, 2012 follow. Land and construction in progress are not subject to depreciation. Vehicles and equipment consists of motor vehicles, data processing equipment, and equipment and machinery.

	Balance June 30, 2011	Additions	Deletions	Transfers	Balance June 30, 2012
<i>Capital assets used in business activities</i>					
Land	\$ 819,340	\$ 0	\$ 0	\$ 0	\$ 819,340
Construction in progress	<u>0</u>	<u>44,062</u>	<u>0</u>	<u>(44,062)</u>	<u>0</u>
Total non-depreciable assets	<u>819,340</u>	<u>44,062</u>	<u>0</u>	<u>(44,062)</u>	<u>819,340</u>
Buildings	69,745,727	109,245	0	44,062	69,899,034
Other improvements	16,834,098	18,840	0	0	16,852,938
Motor vehicles	570,152		20,397	0	549,755
Data processing equipment	1,741,331		0	0	1,741,331
Equipment and machinery	3,249,168	15,831	60,823	0	3,204,176
Office furniture and fixtures	<u>1,469,177</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,469,177</u>
Total depreciable assets	<u>93,609,653</u>	<u>143,916</u>	<u>81,220</u>	<u>44,062</u>	<u>93,716,411</u>
Total assets	<u>94,428,993</u>	<u>187,978</u>	<u>81,220</u>	<u>0</u>	<u>94,535,751</u>
<i>Accumulated depreciation</i>					
Building	29,581,127	1,992,854	0	0	31,573,981
Other Improvements	5,183,874	491,818	0	0	5,675,692
Motor vehicles	539,390	15,596	20,397	0	534,589
Data processing equipment	1,651,248	54,681	0	0	1,705,929
Equipment and machinery	2,866,378	319,567	60,823	0	3,125,122
Office furniture and fixtures	<u>1,118,888</u>	<u>69,087</u>	<u>0</u>	<u>0</u>	<u>1,187,975</u>
Total accumulated depreciation	<u>40,940,905</u>	<u>2,943,603</u>	<u>81,220</u>	<u>0</u>	<u>43,803,288</u>
Net capital assets	<u>\$ 53,488,088</u>	<u>\$ (2,755,625)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 50,732,463</u>

Depreciation expense for the year ended June 30, 2012 was \$2,943,603. All of the depreciation expense of \$2,943,603 was allocated to the Commission's general government function.

STATE OF NEW MEXICO
STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5. Accounts Payable

Accounts payable consist of invoices for goods and services that were due at June 30, 2012 and total \$2,366,328. Of this amount \$1,830,366 represents an amount due to the State of New Mexico General Service Department for insurance premiums.

NOTE 6. Compensated Absences

Compensated absences consist of accrued vacation, sick leave, and compensatory time payable from future operations. A summary of changes in compensated absences payable for the year ended June 30, 2012 is as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due within</u> <u>One Year</u>
Compensated absences	\$ 199,484	\$ 29,150	\$ 78,548	\$ 150,086	\$ 150,086

NOTE 7. Long-term Debt

A. Bond Liabilities

On September 19, 2004, the Fair issued \$5,555,556 of Pari-Mutuel Tax Improvement Revenue Bonds in order to defray costs of capital improvements for the New Mexico State Fairgrounds including but not limited to gas, water, and sewer lines, building upgrades, and construction of new structures, telephone systems, and parking lot repairs. Proceeds were also authorized to be used for funding a Debt Service Reserve Account, payment of principal, interest expense, and administrative fees from 50% of the proceeds from the bonds. The New Mexico Finance Authority (NMFA) is custodian of the bonds. The bonds are mature on November 1, 2014 and bear interest rates from 1.26% to 3.67%.

The annual requirements to amortize revenue bonds as of June 30, 2012, including interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 628,199	\$ 58,813	\$ 687,012
2014	651,312	36,444	687,756
2015	<u>676,255</u>	<u>12,409</u>	<u>688,664</u>
	<u>\$ 1,955,766</u>	<u>\$ 107,666</u>	<u>\$ 2,063,432</u>

There was no bond issuance costs associated with the Series 2004 bonds. All costs were subsidized by the New Mexico Finance Authority.

B. Changes in Long-term Debt

Long-term debt activity for the year ended June 30, 2011 is as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Bonds payable	\$ 2,562,671	\$ 0	\$ 606,905	\$ 1,955,766

NOTE 8. Deferred Revenue

The Fair has collected deposits for the annual September Fair and other events occurring in the subsequent fiscal year. At June 30, 2012, the balance in deferred revenue of \$167,749 consists of advance payments for admissions, concessions, and exhibits.

STATE OF NEW MEXICO
STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 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 NMFA for the Series 2004 Bonds. The Pari-Mutuel tax earmarks 50% of the tax and three-sixteenths percent (3/16%) 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 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, 2012:

Media services and other	\$ 1,906,584
--------------------------	--------------

During the current year, \$157,979 was the net effect on net income, which reflected a sponsorship from the New Mexico Police for services provided at the 2010 New Mexico State Fair (NMSF). The remaining 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 11. Pension Plan – Public Employees Retirement Association (PERA)

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). 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.

B. Funding Policy

Plan members are required to contribute 10.67% of their gross salary. The Fair is required to contribute 13.34% 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, 2012, 2011, and 2010 were \$220,315, \$353,342, and \$439,788, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 12. 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

STATE OF NEW MEXICO
STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 12. Post-Employee Benefits – State Retiree Health Care Plan (Continued)

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.

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. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee’s annual salary; each participating employee is required to contribute 0.917% of their salary. In the fiscal year ending June 30, 2013, the contribution rates for employers and employees will rise as follows:

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Contribution Rates</u>	
	<u>Employer</u>	<u>Employee</u>
2013	2.000%	1.000%

Also, 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, 2012, 2011, and 2010 were 28,035, \$38,562, and \$28,235, respectively, which equal the required contributions for each year.

NOTE 13. Contributed Capital Revenue

The following amounts were recorded as contributed capital revenues for capital improvement projects for the year ended June 30, 2012:

State of New Mexico Severance Tax Bond Proceeds	\$ 288,935
State of New Mexico ARRA Funding	250,000
Pari Mutuel Tax Proceeds	<u>933,090</u>
Total Contributed Capital Revenue	<u>\$ 1,472,025</u>

NOTE 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. It is defined as a State Agency in the New Mexico Tort Claims Act and 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:

STATE OF NEW MEXICO
STATE FAIR COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 14. Risk Management (Continued)

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, 2012, the Fair had no claims which the Risk Management Division has returned as not covered that would become the responsibility of the Fair.

NOTE 15. Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosures of certain information concerning individual funds including excess of expenses over appropriations. The following fund exceeded approved budgetary authority for the year ended June 30, 2012.

State Fair Commission	\$1,570,416
-----------------------	-------------

NOTE 16. Joint Powers Agreement

The Fair entered into a Joint Powers Agreement (JPA) with the New Mexico Department of Public Safety to provide additional security during the 2011 NMSF. The parties entered into the JPA in August 2011 to provide fifty-six (56) NMDPS employees to provide additional assistance and security. The agreed upon payment was not to exceed \$158,000 for reimbursement of mileage, per diem, overtime, and related expenses incurred by NMDPS. Actual amount paid for services rendered totaled \$155,822.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO

Schedule I

STATE FAIR COMMISSION

STATEMENT OF REVENUES AND EXPENSES - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final		
<i>Revenues:</i>				
Admissions	\$ 2,988,300	\$ 2,988,300	3,020,781	\$ 32,481
Building rental	4,500,000	4,500,000	4,435,668	(64,332)
Other services (excluding in-kind)	2,593,400	2,593,400	2,807,313	213,913
Concessions and exhibits	2,200,000	2,200,000	3,520,579	1,320,579
Miscellaneous	695,000	695,000	46,391	(648,609)
<i>Total revenues</i>	<u>12,976,700</u>	<u>12,976,700</u>	<u>13,830,732</u>	<u>854,032</u>
<i>Expenses:</i>				
Personal services	5,912,700	5,912,700	5,852,786	59,914
Contractual services	3,284,000	3,284,000	2,604,415	679,585
Other (including debt payments)	3,781,000	3,781,000	5,351,416	(1,570,416)
<i>Total expenses</i>	<u>12,977,700</u>	<u>12,977,700</u>	<u>13,808,617</u>	<u>(830,917)</u>
<i>Excess of revenues over expenses</i>	<u>(1,000)</u>	<u>(1,000)</u>	<u>22,115</u>	<u>23,115</u>
<i>Other financing sources (uses):</i>				
Designated cash	-	-	-	-
Other state financing	-	-	1,222,025	1,222,025
Discounts and interest earned	1,000	1,000	2,746	1,746
Gain on sale of capital assets	-	-	3,300	3,300
Proceeds from bond issues	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>1,000</u>	<u>1,000</u>	<u>1,228,071</u>	<u>1,227,071</u>
<i>Excess of revenues and net financing sources over expenses</i>	<u>\$ -</u>	<u>\$ -</u>	<u>1,250,186</u>	<u>\$ 1,250,186</u>
Net assets, beginning of year			<u>1,491,340</u>	
Net assets, end of year			<u>\$ 2,741,526</u>	
<i>Reconciliation to GAAP Basis:</i>				
Excess of revenues and net financing sources over expenses			\$ 1,250,186	
Adjustments to revenues			-	
Adjustments to expenses			(2,132,737)	
Net change in net assets			<u>\$ (882,551)</u>	

STATE OF NEW MEXICO
STATE FAIR COMMISSION
SCHEDULE OF DEPOSIT ACCOUNTS
JUNE 30, 2012

Schedule II

<u>Depository/Account Name</u>	<u>Account Type</u>	<u>Cash per Bank June 30, 2012</u>	<u>Deposits in Transit</u>	<u>Outstanding Checks</u>	<u>Adjusted Cash June 30, 2012</u>
<i>Wells Fargo:</i>					
Operating account *	Checking	\$ 1,626,131	\$ 43,495	\$ (434,734)	\$ 1,234,892
General account *	Checking	4,237	-	-	4,237
Payroll account **	Checking	-	15,151	(15,151)	-
Payroll tax account **	Checking	-	18,614	(18,614)	-
Premium account **	Checking	-	4,957	(4,957)	-
<i>NMFA - Bank of Albuquerque:</i>					
2004 bond account	Savings	558,022	-	-	558,022
Total cash accounts		<u>2,188,390</u>	<u>82,217</u>	<u>(473,456)</u>	<u>1,797,151</u>
Repurchase agreement - Wells Fargo		934,875	-	-	934,875
Petty cash and cash drawers		<u>9,500</u>	<u>-</u>	<u>-</u>	<u>9,500</u>
Total cash and cash equivalents		<u><u>\$ 3,132,765</u></u>	<u><u>\$ 82,217</u></u>	<u><u>\$ (473,456)</u></u>	<u><u>\$ 2,741,526</u></u>

* Account is a non-interest bearing demand account

** Account is a Zero Balance Account (ZBA) that is used as a clearing account for checks

STATE OF NEW MEXICO
STATE FAIR COMMISSION
SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2012

Schedule III

	Wells Fargo	Bank of Albuquerque	Total
Total amounts of deposits per bank	\$ 1,630,368	\$ 558,022	\$ 2,188,390
Repurchase agreement	934,875	-	934,875
Total value of accounts	2,565,243	558,022	3,123,265
Less: FDIC insurance	(2,565,243)	(250,000)	(2,815,243)
Less: NMFA guarantee	-	(308,022)	(308,022)
Total Uninsured Public Funds	\$ -	\$ -	\$ -
50% collateral requirement	\$ -	\$ -	\$ -
102% collateral requirement (repurchase agreement)	-	-	-
Total Collateral Requirement	-	-	-
Pledged Collateral at Market Value:			
Less: Collateralization	-	-	-
Over Collateralized	\$ -	\$ -	\$ -

COMPLIANCE SECTION



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 and related budgetary comparison presented as supplemental information of the State of New Mexico State Fair Commission (Fair), as of and for the year ended June 30, 2012 and have issued our report thereon dated December 14, 2012. 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

Management of the Fair is responsible for establishing and maintaining effective 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 of this section 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 to be material weakness 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 deficiency describe in the accompanying schedule of findings and responses to be a material weakness. (FS 12-01)

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 11-02, FS 11-03, FS 12-02, FS 12-03, FS 12-05, FS 12-06, 12-07 and FS 12-08).

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 09-02, FS 11-02, FS 12-01, FS 12-02, FS 12-03, FS 12-04, FS 12-05, FS 12-06, FS 12-07 and FS 12-08).

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, State Fair Commission, 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.

Grigo Professional Services, LLC

Albuquerque, New Mexico
December 14, 2012

(except for findings FS 12-03, FS 12-04, FS 12-05, FS 12-06, FS 12-07 and FS 12-08, as to which the date is November 27, 2013)

STATE OF NEW MEXICO
STATE FAIR COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

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?	Yes

Section II – Financial Statement Findings

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

Condition: During our test work we noted the following lapses in the review and approval process during the 2012 fiscal year:

- The payroll supervisor position is vacant; therefore the Controller is processing payroll. The Controller is temporarily 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.

Responsible Officials' Views: Management concurs with the auditor's recommendation. All classified employees are being moved to the state SHARE system. Procedures are being put into place to review and approve all payroll work and transactions. The State Fair is currently exploring outsourcing the payroll function. As of 8/28/2013 the payroll for all classified employees has been moved to the State's SHARE personnel system. The SHARE system is now updating the compensated absences account balances. Payroll for all non-classified employees has been outsourced to Payday Inc, effective July 2013.

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

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

- Nine out of twenty-five I-9s
- Five out of twenty-five W-4s

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

STATE OF NEW MEXICO
STATE FAIR COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

FS 08-03 Significant Deficiency over Supporting Documentation – Modified and Repeated (Continued)

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, which could result in 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.

Responsible Officials' Views: Management concurs with the auditor's recommendation. Procedures are currently in place to ensure that all employee files are complete. The State Fair has added an HR director to ensure quality control of employee records.

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

Condition: During our capital asset test work, we noted that management did not perform a year-end physical inventory count for all capital assets. However, the inventory did not appear to be a complete inventory of 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 reconciliation between the physical inventory results and the capital asset inventory listing be performed to identify any necessary adjustments.

Responsible Officials' Views: Management concurs with auditor's recommendation. Capital asset inventory has been completed but a formal reconciliation has not occurred with the financial records. That reconciliation is currently underway.

FS 11-02 – Significant Deficiency over Segregation of Duties – Modified and Repeated

Condition: During fiscal year 2012, the Fair had reductions in force (RIF) that caused many positions to take on additional duties, which did not allow for the proper maintenance of internal controls. The Controller is completing many day to day activities that in all reality, she should be reviewing and the Purchasing/Accounts Payable position does not have clear segregation of duties, which would add additional internal control over transactions. In addition, the Fair did not maintain a Chief Financial Officer position as of June 2012.

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 or untimely reporting to governance.

STATE OF NEW MEXICO
STATE FAIR COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

FS 11-02 – Significant Deficiency over Segregation of Duties – Modified and Repeated (Continued)

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.

Responsible Officials' Views: Management concurs with the auditor's recommendation. Although internal controls have been in place the State Fair has hired a Chief Financial Officer who will review and approve all journal entries and reconciliations as well as continue to strengthen the existing internal controls. As of July 2013 the Fair has moved on to the State's SHARE accounting system. Under this new system purchasing continues to follow the States Procurement Guide. Accounts payable receives a Purchase Order, then receives the invoice for payment and requests a payment voucher to be printed to pay the invoice. The controller then reviews this request for the payment voucher followed by DFA providing a final review and printing the payment warrant.

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

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.

Responsible Officials' Views: Management concurs with the auditor's recommendation. The entire internal control structure is under review and will be rewritten during the current fiscal year.

FS 12-01 – Material Weakness in Budgetary Conditions

Condition: The Fair has expenses functions in which actual expenditures exceeded budgetary authority in the State Fair Commission – Enterprise Fund. Actual expenses exceeded budgetary authority by a total of \$1,570,416.

Criteria: Sound financial management and state regulation 6.20.2.9 (A), NMAC and state statutes 22-8-5 through 22-8-12.2, NMSA 1978, require that budgets not be exceeded at the legal level of control. The Fair's legal level of control is determined by expenditure function.

Effect: As a result, the Fair is not in compliance with New Mexico state law, and the control established by the use of budgets has been compromised. Continued over-expenditure of budgeted balances may result in unnecessary usage of operating funds to cover the over-expenditures.

STATE OF NEW MEXICO
STATE FAIR COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

FS 12-01 – Material Weakness in Budgetary Conditions (continued)

Cause: The Fair did not make the appropriate budgetary adjustment requests and transfers to alleviate possible over-expenditure within functions prior to the year-end.

Auditors' Recommendation: The Fair must establish a policy of budgetary review at year-end and make the necessary budget adjustment requests (BAR's). All BARs and or adjusting journal entries should be requested through the proper process at the Department of Finance and Administration and be approved prior to year end.

Responsible Officials' Views: Management concurs with the auditor's recommendation. Budget Adjustment Requests will be performed on a timely basis during the year to ensure compliance with state statute.

FS 12-02 – Significant Deficiency in Per Diem and Mileage Act

Condition: During fiscal year 2012, we tested the Fair's compliance with the per diem and mileage act and we noted the following:

- 6 out of 17 instances in which the Fair paid per diem for meals but actual expenses for lodging for out of state travel. This is significantly higher than the State statute out of state per diem rate of \$115 per day (24 hour cycles. Total \$55.50 overage.
- 6 out of 17 instances where the reimbursement of meals was higher than the State statute out of state max meal reimbursement of \$45 per day (24 hour cycles. Total \$99 overage.
- 1 instance out of 17 instances in which the Fair paid full rate per diem on the first and last day of travel. \$8.25 overage
- 6 instances out of 17 instances in which the Fair advanced 100% of travel expenses. Total advancement \$2,028.50.

Criteria: NMAC 2.42.2 governs the payment of per diem rates and mileage and the reimbursement of expenses for all salaried and non-salaried public officers and employees of all state agencies and local public bodies. Per Diem rates shall be paid to public officers and employees only in accordance with the provisions of this section. Per Diem rates shall be paid without regard to whether expenses are actually incurred. Where lodging and/or meals are provided or paid for by the agency, the governing body, or another entity, the public officer or employee is entitled to reimbursement only for actual expenses under 2.42.2.9 NMAC. Upon written request of a public officer or an employee, agency heads may grant written approval for a public officer or employee of that agency or local public body to be reimbursed actual expenses in lieu of the per diem rate where overnight travel is required.

Effect: The Fair is not in compliance with New Mexico law, and has potentially over/under reimbursed some employees.

Cause: The Fair was unaware of the NMAC travel and per diem rates for in state and out of state travel.

Auditor's Recommendation: We recommend that the Fair change their travel and per diem policies to match the policies provided by NMAC 2.42.2.

Responsible Officials' Views: Management concurs with the auditor's recommendation. Management discovered this problem during FY 13 and new policies and procedures to comply with state statute have been written and implemented.

FS 12-03 – Significant Deficiency in Request for Proposal (RFP) Process

Condition: The Fair processed a complex RFP for a Racino, in which the allocated time for response was 30 days subsequent to the announcement in the chosen publication. The RFP in question was very complex and involved multiple facilities, construction, revenue sharing and other potential aspects of the proposal. The time provided, 30 days, did not appear to meet requirements of 1.4.1.31(D) NMAC for complex proposals.

STATE OF NEW MEXICO
STATE FAIR COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

FS 12-03 – Control Deficiency in Request for Proposal (RFP) Process (Continued)

Criteria: Sound financial management and state regulation 1.4.1.31(D) NMAC indicates that “Thirty calendar days between the date of issue and the proposal due date is the recommended minimal preparation time. A longer preparation time may be required for complex procurements or for procurements that require substantial offeror resources to prepare an acceptable proposal.”

Effect: The Fair is in compliance with New Mexico Administrative Code which specifies 30 days as the minimum time period for proposal responses. However, sound fiscal management would require additional time for bidders to respond to a complex proposal. This is supported by NMAC 1.4.1.31(D) which indicates a longer period of time for complex proposals. As a result, the proposal required further clarification and oral presentations from each potential awardee to finalize the evaluations and the decision process.

Cause: The Fair’s response time of 30 days appears to be short given the complexity of the required proposal.

Auditors’ Recommendation: The Fair must establish a policy to ensure offerors are provided a reasonable amount of time to respond to complex proposal processes and thus provide the potential for additional respondents to participate in the process. The Fair should implement internal policies which enhance current State requirements with regard to the contractual and procurement process.

Responsible Officials’ Views: Current State Fair Management arrived to take over the State Fair in March 2011, to find the State Fair with no cash on hand and deeply in debt. In order to have the funds to cover payroll each month the lease payment for the Racino was required. The lease with the Downs at Albuquerque was set to expire on January 11, 2012. In order to ensure continuous operation of the State Fair a new lease had to be in place no later than January 12, 2012. State Fair Management made a business decision to use the RFP process in order to maximize the value to the State of the 96 acres that had been occupied by the Downs at Albuquerque. A sole-source procurement had been attempted by the previous administration but new State Fair Management believed that an open RFP process would better maximize the value of the lease. Multiple requests to use the RFP process had been made by the many constituencies of the State Fair (including the public and members of the legislature) and State Fair Management listened.

State Fair Management chose to issue the RFP for this lease in order to produce the best possible outcome for the State of New Mexico. Management takes exception to the implication that sound fiscal management would require additional time for bidders to respond to this proposal. The New Mexico Administrative Code recommends that 30 days be given and contemplates the recommendation of 30 days may be greater for complex bids, 1.4.1.31(D) NMAC. The auditor is thus incorrect in stating that 1.4.1.31(D) NMAC requires more than 30 days for this RFP. The auditor is forced to acknowledge that the Fair did meet the requirement of the law, and the auditor’s opinion that this proposal is complex and required even more time is subjective. A number of other State agencies have used 30 days for what could be considered complex RFPs without those business decisions resulting in audit findings. Prospective bidders were aware that this lease was expiring in early 2012 and consequently anticipated the opportunity to bid. In fact, when it reported on the Request for Proposal the Albuquerque Journal wrote “New Mexico State fair officials have issued a long anticipated “request for proposal” for the 93 acres of Expo New Mexico leased since 1985 to the Downs at Albuquerque”. Numerous proposals were picked up and downloaded by prospective bidders. State Fair Management learned that many potential bidders were not able to meet the \$2,000,000 minimum annual lease payment requirement and therefore chose not submit a proposal. The State Fair took great care to ensure not only that the procurement code was followed but that the RFP allowed prospective bidders a sufficient amount of time to respond as evidenced by the two complete responses that were received to the RFP.

Auditor’s Rebuttal: As indicated in the finding, the Fair did follow the minimum requirements relating to the Request for Proposal process. 1.4.1.31(D) NMAC clearly states “A longer preparation time may be required for complex procurements...” The proposal relating to the operation of the Racetrack and Casino is a complex proposal which would require additional time.

STATE OF NEW MEXICO
STATE FAIR COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

FS 12-04 – Control Deficiency in State Procurement Regulations - Evaluation Process

Condition: The Fair processed and evaluated a complex RFP for a Racino. The Fair did not utilize conflict of interest forms with the evaluation committee members to insure independence.

Criteria: Sound financial management in processing and evaluating complex proposals would indicate the selection of independent evaluators as well as processes to insure evaluators do not maintain a conflict of interest within the evaluation process.

Effect: As a result, the Fair appears to have complied with New Mexico state law as there is not a requirement for the conflict of interest certification; however, the utilization of such documentation would mitigate and deter any questionable actions of the organizations in the selection process.

Cause: The Fair selected independent evaluators for the complex RFP; however, the evaluators were not required to complete a "conflict of interest" certification.

Auditors' Recommendation: The Fair must establish a policy and procedures to insure bid selection processes are not questioned. This will mitigate proposal challenges and potentially limit possible litigation from unsuccessful bidders.

Responsible Officials' Views: "Conflict of Interest Forms" are not required by law and the auditor did not make any findings that any member of the committee had any conflicts. State Fair management not only followed the procurement code in the selection of the evaluation committee but went to extraordinary lengths to assure the independence of each of the three people selected to serve on the committee.

Auditor's Rebuttal: As indicated in the finding, the utilization of "conflict of interest" form is presented as a sound financial management policy and provision in situations of complex Request for Proposal processes. The Fair processes multiple requests for proposal annually. The use of conflict of interest forms will strengthen the organizations internal controls and improve the evaluation process.

FS 12-05 – Significant Deficiency in State Purchasing Regulations – Committee Selection

Condition: The Fair processed an RFP for a Racino, in which management had to establish an evaluation committee prior to the due date of the proposals. The evaluation committee was not established until after receipt of proposals and does not appear to meet requirements of 1.4.1.38(B) NMAC for evaluation of proposals. In addition, in the agency's audio and narrative minutes for the September 1 and November 9, 2011 commission meetings indicate that the agency did not select the evaluation committee.

Criteria: Sound financial management and state regulation 1.4.1.38(B) NMAC indicates that "Evaluation committee. The state agency management shall appoint an evaluation committee prior to the due date for receipt of proposals. The size of the committee should be manageable and include both user and technical support representatives."

Effect: The Fair is not in compliance with New Mexico Administrative Code which specifies the evaluation committee must be appointed prior to the receipt of proposals. These instances of non-compliance and/or mistakes in internal control and documentation may result in litigation, inappropriate selection of contractors and potential liabilities relating to old and new contract agreements.

Cause: The Fair's management did establish an evaluation committee that included a cross section of both technical and user representatives but not until after the receipt of proposals. In addition, the agency's internal controls over the documentation of commission minutes were not properly enforced to ensure intent of governance actions or public communication.

STATE OF NEW MEXICO
STATE FAIR COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

FS 12-05 – Significant Deficiency in State Purchasing Regulations – Committee Selection (continued)

Auditors' Recommendation: The Fair must establish a policy and procedure to ensure evaluation committees are established prior to receipt of proposals, in order to comply with State requirements with regard to the contractual and procurement process. In addition, the Fair must insure minutes to the commission meeting properly reflect the discussion that occurred and decision that were made. The Fair management and commissioners should have reviewed recorded and narrative notes to the meeting to insure accuracy and completeness.

Responsible Officials' Views: State Fair Management worked diligently to identify potential committee members that were both qualified and independent. Because of time required in vetting certain candidates for potential conflicts, and identifying additional candidates, the committee was appointed nearly simultaneously with the receipt of the proposals on August 25, 2011. The timing of the appointment of the evaluation committee did not have an impact on their evaluation. Affidavits of the General Manager and the remaining members of the evaluation committee which were provided to the Auditor confirm that the evaluation committee was independent, qualified, and was appointed by State Fair Management. State Fair Management has sent all procurement personnel to training, and established and implemented policies and procedures to ensure state requirements with regard to the contracting and procurement process are followed.

Auditor's Rebuttal: As indicated in the finding, the Fair publicized commission meeting minutes as required by State statute. The minutes published on the Fair's web-site, audio recordings of the minutes and narrative minutes maintained on file at the Fair indicated that the Governor's office was possibly involved in the selection of the evaluation committee.

FS 12-06 – Significant Deficiency in Unauthorized Release of Information to the Public

Condition: The Fair improperly released information to the public related to fiscal year 2012 financial audit before the audit report became public record.

Criteria: Section 2.2.2.10 J. (3) of the New Mexico Administrative Code states "Neither the IPA nor agency personnel shall release any information to the public relating to the audit at the time of the exit conference or at any other time until the audit report becomes public record." Section 12-6-5 NMSA 1978 (Report of Audits) provides that an audit report does not become a public record, subject to public inspection, until ten business days after it is released by the State Auditor to the agency audited.

Effect: The information the Fair released to the public is a confidential draft of the audit report. The audit report was subject to revision and was not the final product of the independent public accountant or the Office of the State Auditor. The information the Fair released to the public was unlawful and premature which could mislead the users of the audit report. The information released was not the final audit report and was not the final product of the independent public accountant or the Office of the State Auditor.

Cause: The Fair provided information related to the audit to the public prior to the release of the report. The Fair released the information through an internet blog and indicated that the audit showed no deficiencies in their 2012 audit.

Auditors' Recommendation: The Fair should not give any information pertaining to the annual financial audit to the public until the State Auditor officially sends a letter to the Fair that authorizes the release of the audit report as a matter of public record. Release of confidential draft audit information could be misconstrued as an attempt by the Fair to impair the independence of the independent public accountant or the Office of the State Auditor.

Responsible Officials' Views: At the time of the release, State Fair Management believed in good faith and in the interest of transparency that because more than ten days had passed since the exit interview that it could release the findings.

STATE OF NEW MEXICO
STATE FAIR COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

FS 12-07 – Significant Deficiency in State Purchasing Regulations – Communication

Condition: The Fair processed a request for proposal (RFP) for a lease agreement for a race track and casino operation or for alternative uses, in which management indicated a procurement manager and specifications for the proposals to be processed. A requirement of the RFP process was for offerors to complete an "acknowledgement of receipt form". One of the two offerors did not complete the "acknowledgement of receipt form" accurately and did not indicate its intent to response letter. In addition, it appears that 1.4.1.38 which indicates, "For the purpose of conducting discussions under Section 1.4.1.39 of this rule, proposals shall be initially classified as: (1) responsive; (2) potentially responsive, that is, reasonably susceptible of being made responsive; or (3) non-responsive", was not complied with during the process as the procurement manager did not notify respondents as to the classification of the proposals.

Criteria: Sound financial management and state regulation 1.4.1.38(C) NMAC indicates that "proposals shall be initially classified as: (1) responsive; (2) potentially responsive, that is, reasonably susceptible of being made responsive; or (3) non-responsive." In addition, when an agency internal controls requires all respondents to complete necessary paperwork such as the "Acknowledgement of Receipt Form" that was required in the request for proposal for Racetrack and casino operations; the agency should ensure all forms are completed accurately prior to acceptance of proposals or bids.

Effect: The Fair is not in compliance with New Mexico Administrative Code which specifies the process in which an agency must provide bidders the classification of their intended proposal. In addition, internal controls require that the agency enforce procurements requirements, including completion of necessary forms by all prospective proposers/bidders regardless of the evaluation committees and procurement manager option to waive minor irregularities. Non-compliance with NMAC and internal procurement and control policies may result in litigation, inappropriate selection of contractors and potential liabilities relating to old and new contract agreements.

Cause: The Fair's procurement manager and management did not document the classification of each proposal as indicated in 1.4.1.38(C) NMAC. Also, the "Acknowledgement of Receipt Form" was not completed correctly and completely by one of the two offerors. The form specifically states "Only potential offerors who elect to return this form completed with the indicated intention of submitting a proposal will receive copies of all offeror written questions and the Agency's written responses those questions as well as RFP amendments, if any are issued".

Auditors' Recommendation: The Fair must establish a policy and procedure to ensure internal controls are implemented and enforced, in order to comply with State requirements with regard to the contractual and procurement process. The agency's management and procurement officer must attend training and implement policies compliance with state requirements. A review process should be put in place to insure all forms within the procurements process are monitored for completeness and accuracy.

Responsible Officials' Views: State Fair Management strongly disagrees with the classification of this finding as a significant deficiency in the procurement process. The "acknowledgement of receipt form" was completed and signed by both bidders – the failure by one bidder to circle either "does/does not" on the form is a technical irregularity. "Technical irregularities are matters of form rather than substance evident from the proposal document, or insignificant mistakes that can be waived or corrected without prejudice to other offerors; that is, when there is no effect on price, quality or quantity." NMAC 1.4.1.42 (C) In fact, proposals may be accepted after the due date of the "acknowledgement of receipt form" because the "acknowledgement of receipt form process is a procedure as opposed to a statutory bar to the submission of a proposal." As to the classification of a proposal, the only instance that a letter must be sent to a bidder is if the proposal is considered non-responsive and therefore disqualified. State Fair Management has sent all procurement personnel to training; established and implemented policies and procedures to insure state requirements with regard to the contracting and procurement process continue to be followed and has instituted a review process to ensure all forms within the procurements process are monitored for completeness and accuracy.

Auditor's Rebuttal: As indicated in the finding, the Fair itself established and implemented the use of the "acknowledgement of receipt form". As such, the Fair must follow its own internal control process and insure all forms and process required in the procurement and proposal process are followed by proposers. The Fair accepting an incomplete form is an indication that the organization utilizes management over-ride of internal controls which may lead to fraudulent activity, public scrutiny and potentially legal matters.

STATE OF NEW MEXICO
STATE FAIR COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

FS 12-08 – Significant Deficiency in Hiring Process – Approval

Condition: According to personnel documentation, it does not appear that the commission authorized the hiring of the General Manager of the Fair. The commission approved the Interim Deputy Director the authority to perform General Manager and operational duties of EXPO as of July 29, 2011. The interim director was officially promoted to General Manager on May 12, 2012 without documented Commission approval.

Criteria: NMSA 16-6-4 indicates that “the commission, among other duties, shall prepare, adopt, publish and enforce all necessary rules for the management of the New Mexico state fair, its meetings and exhibitions and for the guidance of its officers, employees and exhibitors. The commission shall determine the duties, compensation and tenure of office of all of its officers and employees and may remove from office or discharge any person appointed or employed by it at will and shall have the power to appoint all necessary fairgrounds police to keep order on the grounds and in the buildings of the state fair.”

Effect: The Fair is not in compliance with New Mexico Administrative Code which specifies the commission’s duties to oversee the State Fairs operations, including the duties and hiring of the General Manager/Agency Director and other officers and employees.

Cause: The Fair’s commission did not formally authorize or appoint the position of General Manager or Agency Director to his position. This can be formalized via minutes of the commission authorizing the appointment.

Auditors’ Recommendation: The Fair must establish a policy and procedure to ensure internal controls are implemented and enforced, in order to comply with State requirements with regard to the determination of duties of the Fair’s officers and the hiring process of such officer’s.

Responsible Officials’ Views: On July 29, 2011, the following motion was made and approved unanimously by the New Mexico State Fair Commission: “Commissioners of the State Fair, delegate authority to Dan Mourning and Staff to run day-to-day operations of the State Fair”.

Auditor’s Rebuttal: As indicated in the finding, NMSA 16-6-4 indicates that “the commission, among other duties, shall prepare, adopt, publish and enforce all necessary rules for the management of the New Mexico state fair, its meetings and exhibitions and for the guidance of its officers, employees and exhibitors. The commission shall determine the duties, compensation and tenure of office of all of its officers and employees and may remove from office or discharge any person appointed or employed by it at will.” There is no documentation indicating that the commission “officially” promoted Dan Mourning to the position of Executive Director, General Manager or Agency Director.

Section III – Prior Year Audit Findings

- FS 07-01 Material Weakness over the Capitalization Policy – Resolved
- FS 08-01 Significant Deficiency over the Review and Approval Process – Modified and Repeated
- FS 08-03 Significant Deficiency over Supporting Documentation – Modified and Repeated
- FS 09-02 Significant Deficiency over Capital Asset Inventory – Modified and Repeated
- FS 10-06 Significant Deficiency over Bank Reconciliations – Resolved
- FS 11-01 Material Weakness over Cash Management – Resolved
- FS 11-02 Significant Deficiency over Segregation of Duties – Modified and Repeated
- FS 11-03 Significant Deficiency in Internal Control Structure Design - Repeated
- FS 11-04 Material Weakness over Contractual Agreements - Resolved
- FS 11-05 Material Weakness over Cash Controls - Resolved

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.

STATE OF NEW MEXICO
STATE FAIR COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

Exit Conference

The contents of this report were discussed on December 13, 2012. The following individuals were in attendance.

State Fair Commission

Dan Mourning, General Manager
Larry Kennedy, Chairman
Bill Nordin, CFO
Tammy Sorem, Controller
Dupey Bateman, Contractor

Griego Professional Services, LLC

J.J. Griego, CPA

Additional meeting was held on November 27, 2013 to discuss and finalize findings and responses. The following individuals were in attendance.

State Fair Commission

Bill Nordin, CFO

Griego Professional Services, LLC

J.J. Griego, CPA