A large orange circle is positioned on the left side of the page, partially cut off by the edge. It contains the text for the independent accountants.

**FINANCIAL  
STATEMENTS AND  
REPORT OF  
INDEPENDENT  
CERTIFIED PUBLIC  
ACCOUNTANTS**

**STATE OF NEW MEXICO  
GAMING CONTROL BOARD**

**June 30, 2009**

atkinson

PRECISE. PERSONAL. PROACTIVE.

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State of New Mexico  
Gaming Control Board

**OFFICIAL ROSTER**

June 30, 2009

**BOARD MEMBERS**

David Norvell  
Don E. Dutton  
Demesia Padilla  
Arnold Rael  
Jim Peterson

Board Chair  
Board Member  
Board Member  
Ex-Oficio Member  
Public Member

**ADMINISTRATION**

John Monforte  
Gregory J. Saunders  
Frank Baca  
Cynthia M. Ortega-Armijo

Executive Director  
Deputy Executive Director  
General Counsel  
Administrative Services  
Division Director



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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ALBUQUERQUE, NM 87125

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Hector H. Balderas  
New Mexico State Auditor and  
David Norvell, Chair  
State of New Mexico  
Gaming Control Board  
Albuquerque, New Mexico

We have audited the accompanying financial statements of the governmental activities, the general fund, the budgetary comparison of the general fund, and the aggregate remaining fund information of the State of New Mexico Gaming Control Board (the Board) as of and for the year ended June 30, 2009, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Gaming Control Board'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 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.

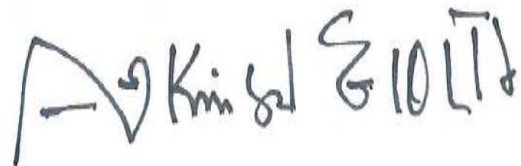
As discussed in Note B1, the financial statements of the Gaming Control Board, State of New Mexico, are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Gaming Control Board. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2009, 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 governmental activities, the general fund and the aggregate remaining fund information of the Board as of June 30, 2009, and the respective changes in financial position and the respective budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2009, on our consideration of the Gaming Control Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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.

The Management's Discussion and Analysis on pages 3 through 12 are not a required part of the basic financial statements, but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Board. The accompanying Statement of Changes in Assets and Liabilities-Agency Fund-Licensing and Background Fees is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Board. Such statement and information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized flourish on the left side.

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 14, 2009

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Required Supplementary Information**

June 30, 2009 and 2008

This discussion and analysis of the New Mexico Gaming Control Board (Board) provides an overview of financial activities for the fiscal year ended June 30, 2009. It should be read in conjunction with the financial statements, which begin on page 13. This section will assist the reader in understanding the following:

- Highlight significant financial issues;
- Provide an overview of the Board's financial activity;
- Identify changes in the Board's financial position;
- Identify any material deviation from the approved budget; and
- Identify issues or concerns.

**Financial Highlights**

The Board strictly regulates the racetrack casinos and nonprofit clubs to assure that gaming revenues benefit the state general fund and state economy. Pages 3-6 highlight the financial information of the racetrack casinos and nonprofit clubs. This information is tracked internally by the Board and is unaudited. Gaming related payments to the State of New Mexico generated as a result of racetrack and nonprofit gaming activity regulated by the Board, totaled \$69,204,440. These revenues are billed to gaming operators by the Board and collected by Taxation and Revenue Department for deposit to the General Fund. The Board also guarantees that the horseracing purses, totaling \$51,447,316, are disbursed. The racetrack gaming operators also paid \$643,091 to various programs to address problem gambling. Nonprofit gaming also generated over \$6,353,422 in charity payments from gaming. Gaming manufacturers and distributors self report and remit gaming taxes to Taxation and Revenue Department. (See Graph A-4).

The Board also monitors tribal gaming in the state in part to ensure that the proper revenue sharing and regulatory fees are paid to the state in accordance with the 2001 Compact and the 2007 Addendum to the Compact. The tribes and pueblos paid a combined \$65,939,241 to New Mexico in FY 2009. The tribes and pueblos also paid out \$1,761,321 to programs that address problem gambling. (See Graph A-3).

Total gaming revenues including horse racing purses, problem gambling, charities, and Tribal revenue sharing totaled \$195,477,716 for fiscal year 2009, representing an approximate 1.5% increase over the prior fiscal year.

State of New Mexico  
Gaming Control Board

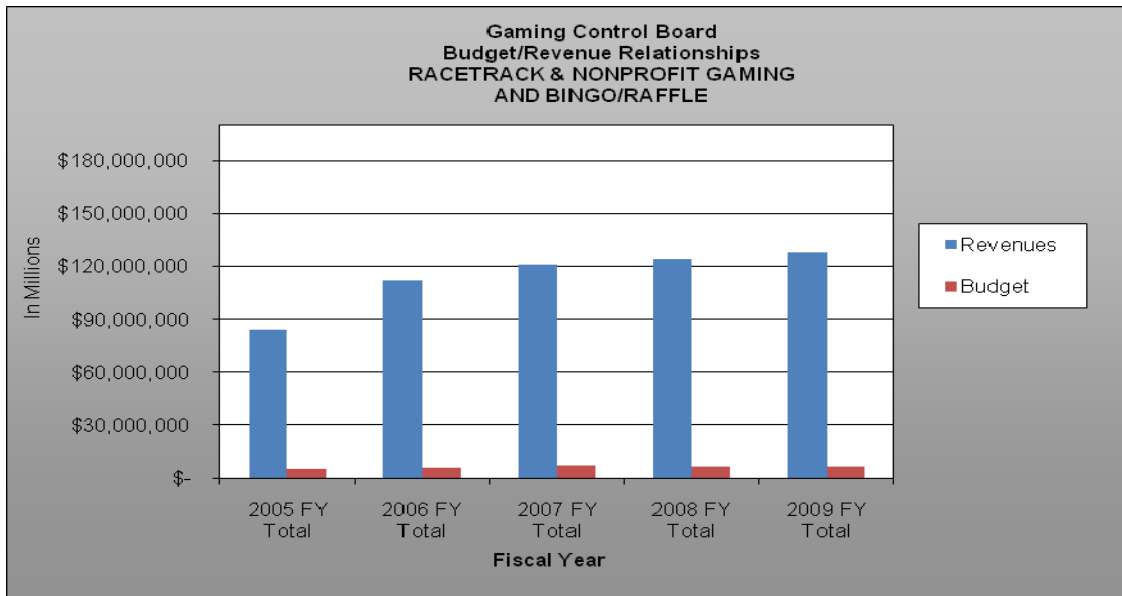
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**Required Supplementary Information**

June 30, 2009 and 2008

**Graph A-1**



**Graph A-2**



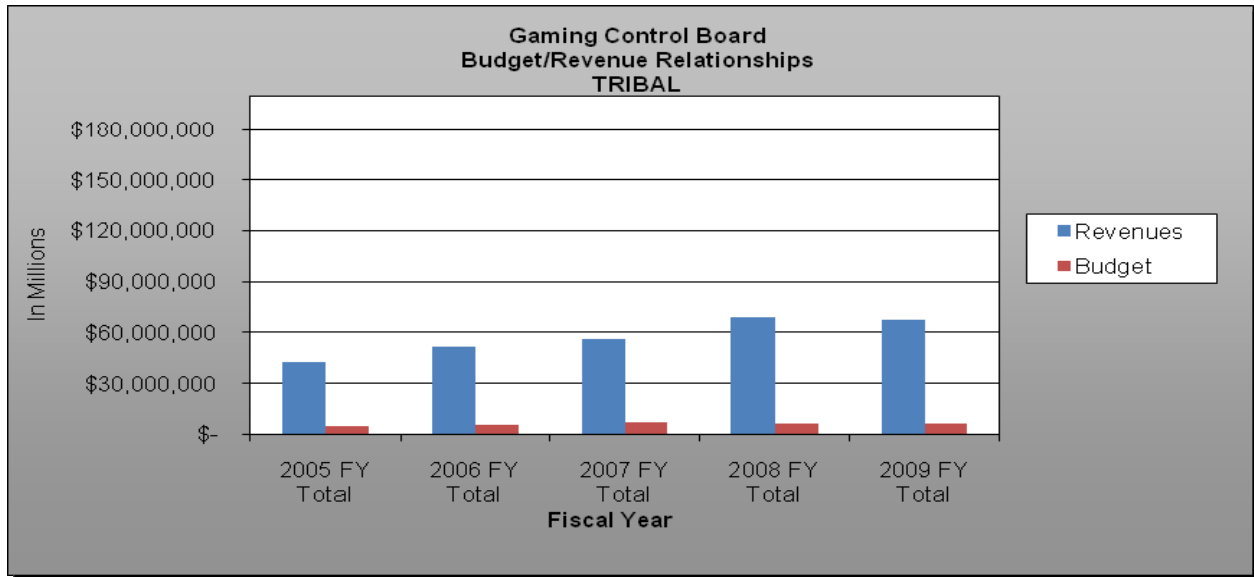


State of New Mexico  
Gaming Control Board

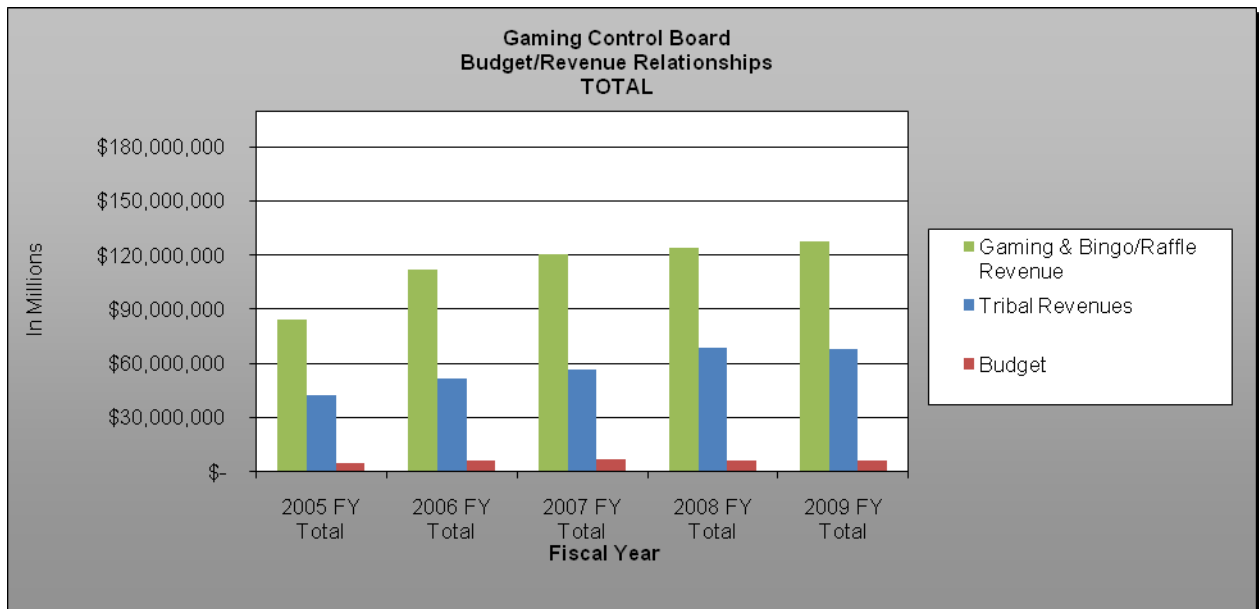
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**Required Supplementary Information**

June 30, 2009 and 2008

**Graph A-3**



**Graph A-4**



*Note:* Gaming Revenues include gaming taxes from racetracks & nonprofit clubs, contributions to horsemen's purses by racetracks, contributions to problem gambling programs by racetracks, and charitable contributions by nonprofit clubs. Tribal Revenues include revenue sharing payments, regulatory fees, and problem gambling payments by tribes.

State of New Mexico  
Gaming Control Board

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**Required Supplementary Information**

June 30, 2009 and 2008

	<u>2005 FY Total</u>	<u>2006 FY Total</u>	<u>2007 FY Total</u>	<u>2008 FY Total</u>	<u>2009 FY Total</u>
<b>Gaming taxes from licensees</b>	\$ 46,352,020	\$ 61,884,223	\$ 65,648,862	\$ 67,090,591	\$ 69,204,440
<b>Bingo Taxes from Licensees</b>		50,453	120,979	128,166	128,882
<b>Horse racing purses</b>	34,866,028	45,926,431	48,859,090	49,715,682	51,447,316
<b>Problem Gambling-Nonprofits &amp; Racetracks</b>	435,825	574,080	610,739	621,446	643,091
<b>Charities (j)</b>	<u>2,330,917</u>	<u>3,669,044</u>	<u>5,521,344</u>	<u>6,588,562</u>	<u>6,353,422</u>
<b>Subtotal (Gaming &amp; Bingo/Raffle)</b>	<b>83,984,790</b>	<b>112,104,231</b>	<b>120,761,014</b>	<b>124,144,447</b>	<b>127,777,151</b>
<b>Problem gambling- Tribal (g)</b>	1,291,697	1,559,515	1,697,770	1,777,869	1,761,321
<b>Tribal Revenue Sharing and Regulatory fees</b>	<u>41,236,256 (b)</u>	<u>49,722,363 (d)</u>	<u>54,819,248 (e)</u>	<u>66,949,444 (h)</u>	<u>65,939,241 (i)</u>
<b>Subtotal (Tribal)</b>	<u><b>42,527,953</b></u>	<u><b>51,281,878</b></u>	<u><b>56,517,018</b></u>	<u><b>68,727,313</b></u>	<u><b>67,700,562</b></u>
<b>TOTAL</b>	<u><b>\$ 126,512,743</b></u>	<u><b>\$ 163,386,109</b></u>	<u><b>\$ 177,278,032</b></u>	<u><b>\$192,871,760</b></u>	<u><b>\$195,477,713</b></u>
<b>Budget</b>	<u>FY 05</u> \$ 5,030,000	<u>FY 06 (c)</u> \$ 5,859,900	<u>FY 07 (f)</u> \$ 6,968,490	<u>FY 08</u> \$ 6,332,600	<u>FY 09</u> \$ 6,308,700

Notes:

- (b) Includes \$476,132 regulatory fees
- (c) Does not include \$2.2 million special appropriation
- (d) Includes \$552,252 regulatory fees
- (e) Includes \$53,918,632.80 for revenue sharing and \$900,614.91
- (f) Includes \$819,390 of the \$2.2 million carried over from FY06 Special Appropriation encumbrance for new Central Monitoring System
- (g) These figures are based on a quarter of one percent of net win as reported to the New Mexico Gaming Control Board (NMGCB). The figures are subject to change upon independent verification by the NMGCB or upon receipt of additional information.
- (h) Includes \$65,488,441 for revenue sharing and \$1,461,003 for regulatory fees.
- (i) Includes \$64,292,307 for revenue sharing and \$1,646,934 for regulatory fees.
- (j) Includes charitable contributions from both gaming and bingo & raffle starting in FY2006.

State of New Mexico  
Gaming Control Board

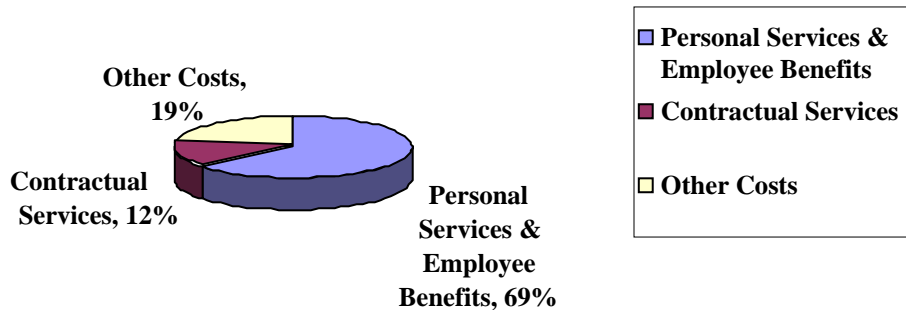
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**Required Supplementary Information**

June 30, 2009 and 2008

Overview of Financial Activity

The Gaming Control Board receives 100% of its funding from the General Fund appropriation. As shown in Graph A-5, expenditures against the budget fiscal year end 2008 appropriation were broken down in the following categories: 69% for personal services and employee benefits, 12% for contractual services, and 19% for other costs.

**Graph A-5**  
**Budgetary Expenditure for FY2009**



Budgetary expenditures percentages by category did not differ significantly from the prior year.

**Using This Audit Report**

Financial data presented in these financial statements is for the activities of the Gaming Control Board as a single agency. It does not purport to represent the State of New Mexico as a whole.

Government-Wide Financial Statements

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (pages 13 and 14). These statements report all assets and liabilities using the accrual basis of accounting. All current year revenues and expenses are reported regardless of when cash is received or paid. These financial statements do not include fiduciary activities. Fiduciary resources are not available to finance the government's programs and are excluded from the government-wide statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**Required Supplementary Information**

June 30, 2009 and 2008

The government-wide financial statements include all activities of the Gaming Control Board with the exception of the fiduciary funds which arise from reimbursements from applicants and licensees and from fines. General fixed assets, formerly reported as a separate account group, are included in these financial statements. Monies to finance these activities are 100% State General Fund appropriations.

Fund Financial Statements

Due to the small size of the Board, the only individual governmental fund, the General Fund, is considered to be a major fund because only individual governmental or individual enterprise funds can be considered for major fund status. Presentations of fund financial statements begin on page 15. The Board's two kinds of funds - governmental and fiduciary - are considered as separate accounting entities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenses and other financing sources or use.

*Governmental funds* - All of the Board's basic services are reported in governmental funds, which focus largely on the establishment of an appropriation by the state legislature and the expenditure of this money in accordance with a budget. Funds not expended or encumbered at year end revert to the general fund. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The differences between governmental activities and governmental funds are reconciled on pages 16 and 18.

*Fiduciary funds* - The fiduciary funds are used to report assets held on behalf of the State of New Mexico and are not available to support Board activities. The reporting focus is upon net assets and changes in net assets and employs the accrual basis of accounting. These funds, once earned, are revenues of the general fund of the State of New Mexico.

Highlights

The New Mexico Gaming Control Board was established to regulate limited gambling activity at racetracks and certain veteran and fraternal organizations, to monitor Tribal gaming, and is responsible for carrying out public policy on gambling in these venues. In 2005 the Board was given responsibility for regulating the Bingo and Raffle act. This responsibility was transferred with no FTEs and no funding.

State of New Mexico  
Gaming Control Board

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**Required Supplementary Information**

June 30, 2009 and 2008

The New Mexico Gaming Control Board is funded by appropriations from the State's General Fund and operates a computerized Jurisdictional Control System. This system is a management, control and monitoring system that connects, via direct communications lines, to every licensed gaming device in the state. This system allows the Board to monitor all activity on each slot machine to remotely verify the software in a gaming machine to assure that it is compliant with all applicable statutes and rules. It also allows by Board order the immediate remote disabling of any machine for any non-compliance issue. The Board has operated such a system since 1998 with an efficiency rate over 99.9% and is finalizing the process of replacing that system with a new and enhanced version. The Board entered into an agreement with Scientific Games Incorporated in 2004 to provide the new JCS. By the date of this report, all of the slot machines in the state have been migrated to the new system.

Table A-1  
Condensed Statement of Net Assets

	Governmental Activities	
	2009	2008
Current assets	\$ 259,154	\$ 316,872
Capital and non-current assets (net of depreciation)	1,015,310	1,430,126
Total assets	1,274,464	1,746,998
Current liabilities	418,310	379,578
Compensated absences payable, less current portion	65,610	140,085
Total liabilities	483,920	519,663
Net assets:		
Invested in capital assets	1,015,310	1,430,126
Unrestricted (deficit)	(224,766)	(202,791)
Total net assets	\$ 790,544	\$ 1,227,335

As summarized in Table A-1, Net Assets of \$790,544 represent the difference between assets and liabilities of the Board. Total assets decreased by \$472,534, while total liabilities decreased by \$35,743, which includes a decrease in the compensated absences payable. Total assets decreased mainly due to depreciation expense for the year.

State of New Mexico  
Gaming Control Board

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**Required Supplementary Information**

June 30, 2009 and 2008

Condensed Statement of Activities

	Governmental Activities	
	2009	2008
Revenues		
General Fund Appropriations (net of reversions)	\$ 6,292,272	\$ 6,273,217
Total revenues	6,292,272	6,273,217
Total expenses for Gaming regulation	(6,729,063)	(6,704,637)
Decrease in net assets	(436,791)	(431,420)
Beginning net Assets	1,227,335	1,658,755
Ending net assets	\$ 790,544	\$ 1,227,335

During the year ended June 30, 2009, total expenses increased by \$24,426 reflecting normal budget and compensation increases including rent and maintenance. Government-wide expenses are \$6,729,063 and include depreciation and an accrual for compensated absences. Compensated absences represent the amount of accrued but unused vacation time at current rates to be paid from future appropriations. See notes to the financial statements beginning on page 21.

The recognition of depreciation is an attempt to match the usage of capital assets to the revenues of the agency by year. This change in net assets does not necessarily reflect only the amount of capital assets purchased net of current year depreciation during the year.

**Financial Analysis of the Governmental Funds**

The Gaming Control Board operates one governmental fund in which all activity related to gaming regulation and control is recorded. The financial statements beginning on page 13, present the financial position and results of operations for the governmental activities. Funding for the governmental funds is 100% from annual appropriations from the New Mexico State Legislature. The compensation package appropriations were awarded to state agencies in fiscal year 2009.

State of New Mexico  
Gaming Control Board

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**Required Supplementary Information**

June 30, 2009 and 2008

Governmental fund expenditures differ from the government-wide expenses for 2009 and 2008 as follows:

	2009	2008
Governmental fund expenditures	\$ (6,292,272)	\$ (6,273,217)
(Increase) decrease in liability for compensated absences	(21,975)	(20,305)
(Excess) deficiency of depreciation over capital outlay	(414,816)	(411,115)
 Agency expenses	 \$ (6,729,063)	 \$ (6,704,637)

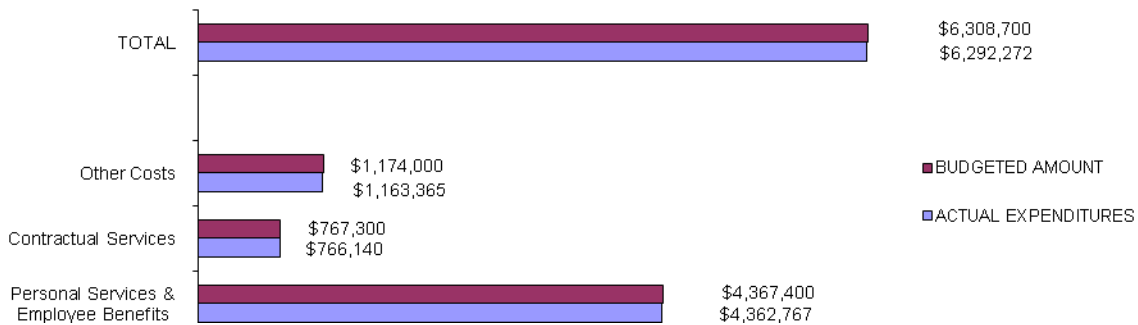
**Financial Analysis of the Budgetary Basis of Accounting**

The annual operating budget is approved by the Department of Finance and Administration. Over the course of the year, the Board adjusts its budget as authorized under the Appropriations Act. Comparison of actual expenditures on a budgetary basis to approved budget amounts is presented on page 18.

As demonstrated by Graph A-6, budgetary basis expenditures were within approved budgeted amounts.

**Graph A-6**

**Budgeted Amount vs. Actual Expenditures**



The difference in budget to actual expenditures for the total categories is \$16,428, which will be reverted to the state general fund. There were no unexpected budget variances during the year.

State of New Mexico  
Gaming Control Board

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**Required Supplementary Information**

June 30, 2009 and 2008

**Capital Assets**

The following net change occurred in the capital assets during the years ended June 30, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Net capital assets at beginning of year	\$ 1,430,126	\$ 1,841,241
Capital assets purchased	-	18,939
Current year depreciation	<u>(414,816)</u>	<u>(430,054)</u>
Net capital assets at end of year	<u>\$ 1,015,310</u>	<u>\$ 1,430,126</u>

Consistent with application of GASB No. 34, the Board has recognized depreciation for assets during the fiscal year of \$414,816. At June 30, 2009, the total accumulated depreciation for the agency was \$3,520,653. Capital assets purchased in 2008 include machinery and equipment. There were no capital asset purchases during fiscal year 2009.

**Currently known facts, decisions or conditions expected to impact the Board's  
financial position and results of operation**

The Board will experience an increase in rent over the term of the lease per contract agreement. This lease affects the location at 4900 Alameda Blvd. in Albuquerque, New Mexico. Per a negotiated contract with Scientific Games International, Inc. for the Jurisdictional Control System, the Board is incurring additional costs for yearly systems maintenance that is over and above the current amounts appropriated. For the fiscal year, the Board will see additional increases in the lease cost of the vehicle fleet and increased fuel cost due to the price of gasoline. There will be an increase in personnel cost. The Board tends to hire employees with unique skills and experience resulting in hiring personnel that have salaries generally over midpoint. The current state budget deficit has impacted all state agencies and budget cuts will be required on a percentage basis.

**Contacting the Board's Financial Management**

This financial report is designed to provide citizens, taxpayers, customers, legislators, and other stakeholders a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

New Mexico Gaming Control Board  
4900 Alameda Blvd. NE  
Albuquerque, NM 87113  
505-841-9700



State of New Mexico  
Gaming Control Board

**STATEMENT OF NET ASSETS**

June 30, 2009

**ASSETS**

	<u>Governmental Activities</u>
<b>CURRENT ASSETS</b>	
Investments in state general fund investment pool	\$ 241,074
Petty cash	600
Prepaid expenses	<u>17,480</u>
Total current assets	259,154
<b>NON-CURRENT ASSETS</b>	
Capital assets, net of accumulated depreciation	<u>1,015,310</u>
Total assets	<u><u>\$ 1,274,464</u></u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 35,661
Accrued payroll, payroll taxes and benefits	196,001
Compensated absences payable, current portion	170,220
Due to state general fund-reversion fiscal year 2009	<u>16,428</u>
Total current liabilities	418,310
<b>NON-CURRENT LIABILITIES</b>	
Compensated absences payable, less current portion	<u>65,610</u>
Total liabilities	483,920
<b>NET ASSETS</b>	
Invested in capital assets	1,015,310
Unrestricted deficit	<u>(224,766)</u>
Total net assets	<u>790,544</u>
Total liabilities and net assets	<u><u>\$ 1,274,464</u></u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico  
Gaming Control Board

**STATEMENT OF ACTIVITIES**

Year ended June 30, 2009

	<u>Governmental Activities</u>
<b>EXPENSES</b>	
General government services	\$ (6,729,063)
Total expenses	(6,729,063)
<b>GENERAL REVENUES</b>	
State general fund appropriation	6,217,600
Compensation appropriation	<u>91,100</u>
Total revenues	6,308,700
Reversion to state general fund fiscal year 2009	<u>(16,428)</u>
Changes in net assets	(436,791)
Net assets beginning of the year	<u>1,227,335</u>
Net assets, end of year	<u>\$ 790,544</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico  
Gaming Control Board

**BALANCE SHEET – GOVERNMENTAL FUND**

June 30, 2009

	<u>General Fund</u>
<b>ASSETS</b>	
Investments with State Treasurer	\$ 241,074
Petty cash	600
Prepaid expenses	<u>17,480</u>
Total assets	<u><u>\$ 259,154</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 35,661
Accrued payroll taxes and benefits	196,001
Due to state general fund-reversion fiscal year 2009	<u>16,428</u>
Total liabilities	248,090
<b>FUND BALANCE</b>	
Reserved for petty cash	600
Reserved for prepaid expenses	17,480
Unreserved deficit	<u>(7,016)</u>
Total fund balance	<u>11,064</u>
Total liabilities and fund balance	<u><u>\$ 259,154</u></u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico  
Gaming Control Board

**RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET ASSETS – GOVERNMENTAL ACTIVITIES**

June 30, 2009

Total fund balance - governmental fund \$ 11,064  
Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not  
current financial resources and therefore, are not  
reported in the governmental funds balance sheet.

These assets consist of:

Machinery and equipment	\$ 615,591
Gaming machine electronic monitoring equipment and software	3,920,372
Accumulated depreciation	<u>(3,520,653)</u>

Total capital assets 1,015,310

Some liabilities are not due and payable in the  
current period and, therefore, are not reported  
in the governmental fund balance sheet.

These liabilities consist of:

Compensated absences	<u>(235,830)</u>
----------------------	------------------

Net assets of governmental activities \$ 790,544

The accompanying notes are an integral part of this financial statement.

State of New Mexico  
Gaming Control Board

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND**

Year ended June 30, 2009

	<u>General Fund</u>
REVENUES	
Other	\$ -
EXPENDITURES	
Current:	
Personnel services	4,362,767
Other costs	1,163,365
Contractual	766,140
Capital outlay	<u>-</u>
Total expenditures	<u>6,292,272</u>
OTHER FINANCING SOURCES (USES)	
State general fund appropriation, Laws of 2008, Chapter 28, Section 4	6,217,600
Compensation appropriation, Laws of 2008, Chapter 28, Section 8	91,100
Reversion to the state general fund - fiscal year 2009	<u>(16,428)</u>
Total other financing sources	<u>6,292,272</u>
NET CHANGE IN FUND BALANCE	-
Fund balance, beginning of year	<u>11,064</u>
Fund balance, ending of year	<u><u>\$ 11,064</u></u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico  
Gaming Control Board

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

June 30, 2009

Net change in fund balance - governmental funds	\$	-
Amounts reported for governmental activities in the statement of activities are different because:		
Accrued compensated absences are recorded as expenses in the current year in the statement of activities, however, the corresponding amount is recorded as future funds to be provided in the governmental funds.		(21,975)
Depreciation expense		<u>(414,816)</u>
Changes in net assets of governmental activities	\$	<u>(436,791)</u>

The accompanying notes are an integral part of this financial statement.

State of New Mexico  
Gaming Control Board

**STATEMENT OF REVENUES AND EXPENDITURES (BUDGETARY BASIS)**

Year ended June 30, 2009

General Fund	Budget Original	Budget Final	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenue:				
State general fund appropriations	\$ 6,379,400	\$ 6,217,600	\$ 6,217,600	\$ -
Compensation appropriation	91,100	91,100	91,100	-
 Total revenue	 <u>\$ 6,470,500</u>	 <u>\$ 6,308,700</u>	 <u>\$ 6,308,700</u>	 <u>\$ -</u>

General Fund	Budget Original	Budget Final	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personnel service	\$ 4,359,200	\$ 4,367,400	\$ 4,362,767	\$ 4,633
Other	1,370,600	1,174,000	1,163,365	10,635
Contractual services	740,700	767,300	766,140	1,160
 Total expenditures (single year)	 <u>\$ 6,470,500</u>	 <u>\$ 6,308,700</u>	 <u>\$ 6,292,272</u>	 <u>\$ 16,428</u>

Budgetary basis expenditures were equal to GAAP basis expenditures.

The accompanying notes are an integral part of this financial statement.

State of New Mexico  
Gaming Control Board

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND**  
**Licensing and Background Fees Fund – (SHARE 95100)**

June 30, 2009

**ASSETS**

Investments with State Treasurer	\$ 46,050
Accounts receivable	<u>5,191</u>

Total assets	<u><u>\$ 51,241</u></u>
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**LIABILITIES**

Due to the state general fund	<u>\$ 51,241</u>
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Total liabilities	<u><u>\$ 51,241</u></u>
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The accompanying notes are an integral part of this financial statement.



## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

### NOTE A – NATURE OF ORGANIZATION

The State of New Mexico Gaming Control Board (Board) was established by the Gaming Control Act enacted at the 1997 Session of the 43<sup>rd</sup> New Mexico State Legislature as House Bill 399, enrolled as Chapter 190, Laws of New Mexico, 1997, and codified at Section 60-2E-1 to 60-2E-62 NMSA.

The Board is responsible for:

**Gaming Regulation** – A body of rules and regulations to govern the conduct of gaming activities within New Mexico within the framework of the Gaming Control Act (Title 15, Chapter 1).

**Gaming Investigation and Enforcement** – The Board is responsible for the enforcement of the statutes and regulations governing gaming activities within the State. As a significant part of its enforcement activity, it aims to investigate the backgrounds of persons applying for licensure, and to monitor the activities of gaming operations in the State to ensure that they are complying with the laws and regulations.

**Gaming Audit and Compliance** – The Board is responsible for the enforcement of the statutes and regulations governing gaming activities within the State, determining compliance of gaming operators with minimum internal control standards and ensuring that all entities conducting gaming activities within the State report the activity and earnings fairly and accurately.

**Gaming Machine Electronic Monitoring** – The Board is charged by statute with continuous electronic monitoring of all gaming machines licensed in the State at racetracks, fraternal organizations, and veterans' organizations. It is also responsible for billing each operator licensee the gaming tax assessed by the Board's central monitoring system.

**Tribal Gaming Monitoring** – Under the provisions of the Gaming Control Act and the compacts signed by the state with the individual gaming tribes and pueblos, the Board is charged with monitoring tribal gaming to ensure compliance with the compacts. The Board's State Gaming Representative is the State's liaison with the tribes.

**Gaming Licensing** – The Board is charged by statute with licensing gaming machine manufacturers, distributors, and operators, and issuing work permits and key person certifications. The Board is also charged with the licensing of gaming machines.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

1. Financial Reporting Entity

GASB Statement No.14, *The Financial Reporting Entity*, effective for periods beginning after December 15, 1992, establishes standards for defining and reporting on the financial reporting entity. The requirements of GASB No. 14 apply at all levels to all state and local governments.

GASB No. 14 defines the financial reporting entity as consisting of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government".

A primary government is any state government or general-purpose local government, consisting of all of the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The Board, therefore, 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. The State of New Mexico will present an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government for fiscal year 2009.

No entities are considered component units of the Board. The Board's sole fiduciary fund is not included with the government-wide presentations.

2. Basic Financial Statements

The basic financial statements include both government-wide (based on the Board as a whole) and fund financial statements. The new reporting model focus is on either the Board as a whole, or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. In the government-wide Statement of Net Assets, the governmental activities are presented and are reflected on a full accrual, economic resources basis measurement focus, which incorporates long-term assets, as well as long-term obligations. The Board did not have any business-type activities during the year ended June 30, 2009. The effect of material interfund activity is removed from the government-wide statements. There was no interfund activity during the year.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

2. Basic Financial Statements - Continued

The government-wide statement of activities reflects both the gross and net costs per functional category (education, labor, transportation, etc.) that are otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function of a business-type activity. The Board includes only one function (general government). When an expense is incurred for purposes when both restricted and unrestricted resources are available, the Board utilizes the restricted resources first.

The net cost (by function of business-type activity) is normally covered by general revenues (taxes, intergovernmental revenues, interest income, etc.). The Board does not currently employ an indirect cost allocation system.

This government-wide focus is more on the sustainability of the Board as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The Board has elected not to apply FASB pronouncements issued after November 30, 1989.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major fund in the governmental category. Due to the limited fund structure of the Board, the only governmental fund is the general fund, which has been classified as a major fund, as required.

The governmental fund statements are presented on a current financial resource and modified accrual measurement focus of accounting. This presentation is deemed more appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Board's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column on the government-wide presentation.

The Board's fiduciary fund (agency fund) is presented in the fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

3. Basis of Presentation

The financial transactions of the Board are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses, and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements.

GASB No. 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined. Due to the fund structure of the Board, the only individual governmental fund, the general fund, has been classified as a major fund.

The Board uses the following fund types:

**Governmental Fund Types**

The focus of governmental fund measurement (in the fund financial statements) is based upon determination of financial position and changes in financial position (sources, uses and balances of financial resources), rather than upon net income. The following is a description of the governmental fund of the Board.

**General Fund** – The general fund is the general operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund is funded primarily from appropriations from the State of New Mexico general fund. This is a reverting fund.

**Agency Fund – Licensing and Background Fees** – A fiduciary fund (agency fund) is used to account for funds received for licensing and background fees that are disbursed to the State of New Mexico general fund per state statute. The Board has no budgetary control over these funds and acts solely as an agent. Agency funds are purely custodial (assets equal liabilities) and thus do not involve the measurement of results of operations.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

4. Basis of Accounting and Measurement Focus

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements and the fiduciary financial statements are presented on an accrual basis of accounting using an economic resources measurement focus. The governmental funds in the fund financial statements are presented on a modified accrual basis using a current financial resources measurement focus.

Modified accrual – All governmental funds are accounted for using the modified accrual basis of accounting and the flow of expendable financial resources. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Available is defined as within 60 days of the fiscal year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due. Since the Board is funded entirely by State appropriations and all appropriations had been received by year-end, there were no revenues susceptible to accrual at June 30, 2009.

5. Budgets and Budgetary Accounting

The State Legislature makes annual appropriations to the Board. Legal compliance is monitored through the establishment of an annual budget. Annual budgets are adopted each fiscal year for the general fund. Amendments to the budget require approval by the State’s Financial Control Division of the DFA. The budgets presented have been so amended during the fiscal year.

Per the General Appropriation Act, Laws of 2008, Chapter 28, Section 3, Item N, “For the purpose of administering the General Appropriation Act of 2008 and approving operating budgets, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration.” The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year’s budget. Encumbrances related to single year appropriations lapse at year-end.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

5. Budgets and Budgetary Accounting – Continued

Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitation as specified in the General Appropriation Act. The budget amounts shown in the financial statements are both the original appropriation and the final authorized amounts as legally revised during the year.

The Gaming Control Board follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. By September 1<sup>st</sup>, the Gaming Control Board prepares a budget request by appropriation unit to be presented to the next legislature.
- b. The appropriation request is submitted to the Department of Finance and Administration's Budget Division (DFA) and to the Legislature.
- c. DFA makes recommendations and adjustments to the appropriation request, which become the Governor's proposal to the Legislature.
- d. The Legislative Finance Committee (LFC) holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
- e. Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
- f. Budgetary control is exercised at the appropriation unit level of the Gaming Control Board as a whole and changes are approved by the DFA.
- g. Appropriations, if reverting, lapse at the end of the year except for amounts in accounts payable.
- h. Beginning with fiscal year 2005, the General Appropriation Act establishes the modified accrual basis of accounting for governmental funds as the budgetary basis of accounting for the State of New Mexico.

6. Prepaid Expenses

These amounts represent prepayment of postage, which has benefit to the Board beyond the year ended June 30, 2009. Prepaid expenses are expensed when consumed. Therefore, these items are allocated to the fiscal year in which they are used.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

7. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market values as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The State's capitalization policy; i.e., the dollar value above which asset acquisitions are added to the capital accounts, is \$5,000 per section 12-6-10 NMSA 1978. For years before fiscal year 2005, the capitalization threshold was \$1,000. Computer software which has been developed for internal use and which meets the capitalization minimum of \$5,000 is capitalized and depreciated in accordance with the Board's depreciation guidelines.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value, as follows:

Machinery and equipment	5 to 7 years
Gaming machine electronic monitoring equipment and software	5 ½ years
Computer hardware and software	5 to 7 years

8. Encumbrances Accounting

Encumbrances accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the general fund during the operating year. Encumbrances outstanding that do not extend beyond the appropriation period (generally, the fiscal year ended June 30), lapse and must be re-encumbered against the new appropriation during the following fiscal year, as necessary or needed.

9. Compensated Absences Payable

Vacation and sick leave earned and not taken is cumulative; however, upon termination of employment, sick pay for such leave hours accumulated up to 600 hours is forfeited, and vacation pay is limited to payment for 240 hours. Vacation leave up to the maximum of 240 hours is payable upon separation from service at the employee's current hourly rate. Sick leave is payable semiannually to qualified employees for hours accumulated above 600 hours at a rate equal to 50 percent of their hourly rate, not to exceed 120 hours each semi-annual period. Upon retirement, payment for sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50 percent hourly rate. The compensated absences payable is included in the government-wide financial statements.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

10. Due to the State General Fund (Reversion)

Reversion to the State General Fund by the Board are based on the definitions of reverting funds.

**Reverting Funds** – All funds that are not identified by law as non-reverting. Such funds are those in excess of budgeted expenditures and approved encumbrances.

Current year reversion due to the State general fund as of June 30, 2009 were:

	<u>General Fund</u>
Budget fiscal year ended: June 30, 2009	\$ 16,428

11. Reservations of Fund Balances

Reservations of fund balance of the government funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated, or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Specific reservations of fund balance accounts are summarized below:

**Reserved for Petty Cash** – This reserve was created to represent the portion of fund balance that is used in petty cash.

**Reserved for Prepaid Expenses** – This reserve was created to represent the portion of fund balance that is not available for expenditures because the Board expects to use the resources within the next budgetary period.

The unreserved fund balance for the governmental fund represents the amount available for budgeting future operations. There were no net assets restricted by enabling legislation at June 30, 2009.

12. Net Assets

The government-wide fund financial statements utilize a net asset presentation. Net assets are categorized as investment in capital assets, restricted and unrestricted.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

12. Net Assets - Continued

**Investment in Capital Assets** – is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The Board did not have any related debt during the year ended June 30, 2009.

**Unrestricted Deficit** – represents the deficit of total assets over total liabilities and net assets invested in capital assets at June 30, 2009.

**Restricted Net Assets** – net assets should be reported as restricted when constraints placed on net asset use are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Enabling legislation must be legally enforceable. Legal enforceability means that a government can be compelled by an external party - such as citizens, public interest groups or the judiciary – to use resources only for the purposes specified by the legislation.

The amount of net assets restricted by enabling legislation is \$0 at June 30, 2009.

13. Use of Estimates

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

14. New Accounting Standards Affecting Gaming Control Board

The Government Accounting Standards Board (GASB) has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes assets qualifying as intangible assets including internally developed software meeting certain criteria as capital assets. The effective date is for periods beginning July 1, 2009. Management is studying the effects of the new standard as it relates to the Board. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides clearer fund balance type definitions and classification rules for fund balances. This standard will be implemented for fiscal 2011.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE C – INVESTMENTS**

1. Investments in State General Fund Investment Pool

Investments of the Board consist of its interest in the State general fund investment pool, which is managed by the New Mexico State Treasurer. The fair value of the investments maintained at the New Mexico State Treasurer’s Office at June 30, 2009, is as follows:

<b>Investment</b>	<b>Maturities</b>	<b>Fair Value June 30, 2009</b>
New Mexico State Treasurer's Office general fund investment pool	1 day to 3 years	\$ 287,124

Detailed information of the Board’s interest in the State General Fund Investment Pool is as follows:

<b>Fund</b>	<b>SHARE Fund No.</b>	<b>Fair Value June 30, 2009</b>
General fund	53600	\$ 241,074
Agency fund	95100	46,050
Total interest in state general fund investment pool		\$ 287,124

There are no outstanding reconciling items in funds 53600 and 95100 at June 30, 2009. The Board is not permitted to have any other investments, and the Board did not have any other investments during the year ended June 30, 2009.

2. Interest Rate Risk

The Board does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

3. Credit Risk

The New Mexico State Treasurer’s investment pools are not rated.

For additional GASB 40 disclosure information related to the above investment pool, the reader should refer to the separate audit report of the New Mexico State Treasurer for the fiscal year ended June 30, 2009.

State of New Mexico  
Gaming Control Board

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE D – ACCOUNTS RECEIVABLE**

Applicants for gaming licenses are charged certain fees for both background investigations and for licenses to engage in gaming activities. At June 30, 2009, the Board's agency fund was owed \$5,191 from various gaming entities. All amounts are considered to be collectible.

**NOTE E – CAPITAL ASSETS**

A summary of changes in capital assets is as follows. All assets are depreciable:

<u>Asset Description</u>	<u>Balance at June 30, 2008</u>	<u>Current Year Additions</u>	<u>Current Year Reclassifications</u>	<u>Current Year Deletions</u>	<u>Balance June 30, 2009</u>
Machinery and equipment	\$ 629,502	\$ -	\$ -	\$ (13,911)	\$ 615,591
Gaming machine electronic monitoring equipment and software	<u>3,920,372</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,920,372</u>
Total capital assets	4,549,874	-	-	(13,911)	4,535,963
<b>Accumulated Depreciation</b>					
Machinery and equipment	588,165	14,816	-	(13,911)	589,070
Gaming machine electronic monitoring equipment and software	<u>2,531,583</u>	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>2,931,583</u>
Total accumulated depreciation	<u>3,119,748</u>	<u>414,816</u>	<u>-</u>	<u>(13,911)</u>	<u>3,520,653</u>
<b>Net Capital Assets</b>	<u>\$ 1,430,126</u>	<u>\$ (414,816)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,015,310</u>

Depreciation expense of \$414,816 was charged entirely to the regulation function. All capital assets are being depreciated.

State of New Mexico  
Gaming Control Board

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE F – CHANGES IN ACCRUED COMPENSATED ABSENCES**

A summary of changes in compensated absences payable for the year ended June 30, 2009, is as follows:

Balance at June 30, 2008	Prior Period Adjustment	Additions	Deletions	Balance at June 30, 2009	Amount Due Within One Year
\$ 213,855	\$ -	\$ 192,195	\$ (170,220)	\$ 235,830	\$ 170,220

Historically, all compensated absences have been paid out of the General Fund.

**NOTE G – COMMITMENTS**

1. Operating Leases

During fiscal year ended June 30, 2008, the Board renegotiated its operating lease on its new location at 4900 Alameda Boulevard NE, Albuquerque, NM. The lease has a term of fifteen years, with an option to renew for an additional five years. The lease has an escalation clause of 3.64% over the full-term (including renewal option) of the lease. A portion of this office space is subject to a sublease with the Racing Commission. Additionally, the Board leases certain other office space, office equipment and vehicles under one-year lease agreements. Vehicles are leased from the General Services Division State of New Mexico. During the year ended June 30, 2009, the Board paid approximately \$679,562 under its various lease agreements.

Future net minimum annual payments under the non-cancelable operating leases are as follows:

**Operating Leases**

Future minimum rental payments under noncancellable lease agreements are as follows:

For the years ended June 30,	
2010	\$ 694,562
2011	715,314
2012	735,155
2013	759,034
2014	783,701
2015 - 2019	4,133,128
2020	692,489
	<u>8,513,383</u>
	<u>\$ 8,513,383</u>

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE G – COMMITMENTS - CONTINUED**

1. Operating Leases - Continued

Minimum rentals to be received in the future under noncancellable subleases is as follows:

The rental income received is netted against rental expense for financial reporting purposes.

**Subleases**

For the years ended June 30,

2010	\$	84,171
2011		87,538
2012		91,039
2013		94,681
2014		98,468
		98,468
	\$	455,897

2. Computer Software Maintenance Contracts

The Board has a maintenance agreement on its initial gaming machine electronic monitoring software and hardware programs (AGIS). Expenditures for the agreement were \$699,213 for the year ended June 30, 2009.

In December 2005, the Board entered into a contract for the development, licensing and maintenance of an updated Central Monitoring System. The Advanced Entertainment Gaming Information System (AEGIS) contract includes software licensing, hardware and maintenance of the system as follows:

Software license fee	\$	2,015,111
Hardware		185,000
Maintenance:		
6 month period beginning 6 months after effective date July 1, 2006		262,500
1 <sup>st</sup> full year (2007-2008)		617,500
2 <sup>nd</sup> full year (2008-2009)		655,000
3 <sup>rd</sup> full year (2009-2010)		655,000
4 <sup>th</sup> full year (2010-2011)		655,000
5 <sup>th</sup> full year (2011-2012)		692,500
6 <sup>th</sup> full year (2012-2013)		692,500
7 <sup>th</sup> full year (2014-2015)		692,500
		692,500
	\$	7,122,611

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE G – COMMITMENTS - CONTINUED**

2. Computer Software Maintenance Contracts - Continued

Commitments outstanding at June 30, 2009 are as follows:

Maintenance contract	<u>\$ 3,387,500</u>
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**NOTE H – RETIREMENT PLAN (STATE PERA)**

1. Plan Description

Substantially all of the Board'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, New Mexico 87504-2123. The report is also available on PERA's website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

2. Funding Policy

Plan members are required to contribute 7.42% of their gross salary. The Board is required to contribute 16.59% of gross covered salary. The contribution requirements of Plan members and the Board are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the Legislature. The Board's contributions to PERA for the years ending June 30, 2009, 2008, and 2007 were \$533,177, \$511,643 and \$439,685, respectively, equal to the amount of the required contribution for each fiscal year.

**NOTE I – DEFERRED COMPENSATION PLAN**

The State of New Mexico offers its employees a deferred compensation plan in accordance with Internal Revenue code Section 457. The Plan permits employees to defer a portion of their income until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Neither the Board nor the State of New Mexico makes any contributions to the deferred compensation plan.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE I – DEFERRED COMPENSATION PLAN – CONTINUED**

All amounts of compensation deferred under the State of New Mexico Public Employees' Deferred Compensation Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive benefit of participants and their beneficiaries.

**NOTE J – POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

The State of New Mexico is an employer who participates in a cost sharing multiple-employer plan for post-employment benefits other than pensions (OPEB). The New Mexico Retiree Health Care Authority (NMRHCA) is the administrator of the Plan. The Board implemented GASB No. 45 *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* in 2007.

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

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 event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE J – POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN – CONTINUED**

*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](http://www.nmrhca.state.nm.us).

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee’s annual salary; each participating employee is required to contribute .65% of their salary.

Employers joining the program after January 1, 1998, are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The Board’s contributions to the RHCA for the years ended June 30, 2009, 2008, and 2007 were \$37,301, \$33,350, and \$30,480, respectively, which equal the required contributions for each year.

**NOTE K – TRANSFERS TO STATE GENERAL FUND**

During the year, the following cash transfers were made from the Board to the State of New Mexico’s general fund:

	G.C.B. Fund Number	SHARE Fund Number	Amount
Licenses and fees trust funds - from agency funds	95100	85300	\$ 325,191
General fund reversions FYE June 30, 2008	53600	85300	59,383
			\$ 384,574



State of New Mexico  
Gaming Control Board

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE K – TRANSFERS TO AND FROM STATE GENERAL FUND - CONTINUED**

During the year ended June 30, 2009, the following cash transfers were made from the State of New Mexico's general fund to the Board:

	<u>G.C.B. Fund Number</u>	<u>SHARE Fund Number</u>	<u>Amount</u>
State general fund appropriations, Laws of 2008, Chapter 28, Section 4	53600	85300	\$ 6,217,600
Compensation appropriation, Laws of 2008, Chapter 28, Section 8	53600	85300	<u>91,100</u>
			<u>\$ 6,308,700</u>

**NOTE L – INSURANCE COVERAGE**

The Gaming Control Board is exposed to various risks of losses related to torts; theft of, or damage to, or destruction of assets; errors and omissions; injuries to employees or others; and natural disasters. Section 15-7-2 NMSA 1978 requires the General Services Department, Risk Management Division (RMD) to be responsible for the acquisition and administration of all insurance purchased by the State. The Board pays premiums to participate in the program.

The Board obtains its coverage through the Risk Management Division. This coverage includes liability and civil rights, property, vehicle, employee bond, workers' compensation, group insurance and state unemployment. These coverages are designed to satisfy the requirements of the State Tort Claims Act. Risk management expenditures for the Board are accounted for in the general fund. Any claims are processed through RMD. There are no pending or known threatened legal proceedings involving material matters to which the Gaming Control Board is party. All employees of the Board were covered by blanket fidelity bond and money securities coverage by the State of New Mexico for the period July 1, 2008 through June 30, 2009.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2009

**NOTE M – SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the balance sheet date, but before financial statements are issued. The Board recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Board's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date and before financial statements are available to be issued.

The Board has evaluated subsequent events through November 14, 2009, which is the date the financial statements are issued. No matters required adjustment or disclosure.

## **SUPPLEMENTARY INFORMATION**

State of New Mexico  
Gaming Control Board

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUND-LICENSING AND BACKGROUND FEES**

June 30, 2009

	Agency Fund			Balance June 30, 2009
	Balance June 30, 2008	Additions	Deletions	
<b>ASSETS</b>				
Investments with State Treasurer	\$ 44,902	\$ 415,851	\$ (414,703)	\$ 46,050
Accounts receivable, net	2,067	9,746	(6,622)	5,191
 Total assets	<u>\$ 46,969</u>	<u>\$ 425,597</u>	<u>\$ (421,325)</u>	<u>\$ 51,241</u>
<b>LIABILITIES</b>				
Due to state general fund	\$ 46,969	\$ 329,463	\$ (325,191)	\$ 51,241
 Total liabilities	<u>\$ 46,969</u>	<u>\$ 329,463</u>	<u>\$ (325,191)</u>	<u>\$ 51,241</u>



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**INDEPENDENT AUDITORS' 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**

Hector H. Balderas  
New Mexico State Auditor and  
David Norvell, Chair  
State of New Mexico  
Gaming Control Board  
Albuquerque, New Mexico

We have audited the financial statements of the governmental activities, the general fund, the budgetary comparison of the general fund and the aggregate remaining fund information of the State of New Mexico Gaming Control Board as of and for the year ended June 30, 2009, and have issued our report thereon dated November 14, 2009. 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 Gaming Control Board'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 Gaming Control Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Gaming Control Board's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Gaming Control Board's internal control.

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

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

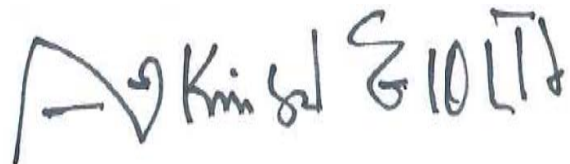
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gaming Control Board'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. There were no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that is required to be reported under Government Auditing Standards January Revision paragraphs and 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as finding 09-01.

The Gaming Control Board's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Gaming Control Board's response and, accordingly, we express no opinion on it.

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

A handwritten signature in blue ink, appearing to read "Atkinson & Co. Ltd.", with a stylized logo to the left.

**Atkinson & Co. Ltd.**

Albuquerque, New Mexico  
November 14, 2009

State of New Mexico  
Gaming Control Board

**SCHEDULE OF FINDINGS AND RESPONSES**

June 30, 2009

**FINANCIAL STATEMENTS**

Type of auditor's report issued: Unqualified

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

Material weaknesses identified? No

Significant deficiencies identified not considered  
to be material weaknesses? No

**COMPLIANCE AND OTHER MATTERS**

Noncompliance material to the financial statements noted? No

**FINANCIAL STATEMENT FINDINGS**

None

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC**

09-01 – ASSET DISPOSAL NOT RECORDED IN A TIMELY MANNER

**STATUS OF PRIOR YEAR FINDINGS**

No prior year findings

**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**

June 30, 2009

**I. STATUS OF PRIOR YEAR AUDIT FINDINGS**

**FINDING**

**STATUS**

No prior year findings noted

**II. CURRENT YEAR FINDINGS**

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC**

**09-01 – ASSET DISPOSAL NOT RECORDED IN A TIMELY MANNER**

Statement of Condition:

The Board failed to notify the State Auditor in a timely manner regarding the action to dispose of certain capital assets.

Criteria:

According to 2.2.2.10 NMAC Section V item (3), agencies must notify the Office of the State Auditor of the proposed disposition of property at least thirty days prior to taking action.

Cause:

The Board neglected to notify the Office of the State Auditor of the disposal and was only reminded of the requirement after disposing of the capital assets. The Board was not aware of the requirement.

Effect:

The Board does not have proper controls in place to ensure that the Board will remain in compliance with State requirements when disposing of capital assets. The controls inherent in the approval process of the State Auditor were not available for the disposal transaction. An inappropriate loss of assets could occur.

Recommendation:

We recommend that the Board implement a policy whereby the State Auditor's Office will be notified immediately after it was decided to dispose of capital assets.

Management's Response:

The Board will institute a policy that will reflect the current procedures required by the State Auditor. This policy will cover all fixed assets and will ensure the Board properly notifies all parties and disposes of the assets properly and in a timely manner. The policy shall be completed by December 21, 2009.



State of New Mexico  
Gaming Control Board

**EXIT CONFERENCE**

June 30, 2009

The basic financial statements have been prepared by Atkinson & Co., Ltd. with the assistance of The Gaming Control Board. The content in this report is the responsibility of the Gaming Control Board.

\* \* \* \* \*

An Exit Conference was held on November 19, 2009 and attended by the following:

**For Atkinson & Co., Ltd.:**

Martin Mathisen, CPA	Shareholder/Audit Director
Divan Coetzee, CPA	Audit Senior

**For the State of New Mexico Gaming Control Board:**

David Norvell	Board Chair
Demesia Padilla	Board Member
John Monforte	Executive Director
Greg J. Saunders	Deputy Director
Cynthia M. Ortega-Armijo	ASD Director
Kathy Lenhardt	Licensing
Barbara Palmier	ASD Administrator
Robi Gonzales	ASD Senior Financial Specialist
George Cobyaneec	Human Resources
Carla Smith	Human Resources

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