



**STATE OF NEW MEXICO  
GAMING CONTROL BOARD**

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

**June 30, 2012**

atkinson

PRECISE. PERSONAL. PROACTIVE.

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State of New Mexico  
Gaming Control Board

**OFFICIAL ROSTER**

June 30, 2012

**BOARD MEMBERS**

David Norvell  
Carl Londene  
Steve A. Miller, CPA  
Robert M. Doughty III, Esq.  
Jeffrey S. Landers

Board Chair  
Board Member  
Board Member  
Board Member  
Board Member

**ADMINISTRATION**

Frank A. Baca  
Cynthia M. Ortega-Armijo

General Counsel/Acting  
Executive Director  
Administrative Services  
Division Director



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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## 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, 2012, 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.

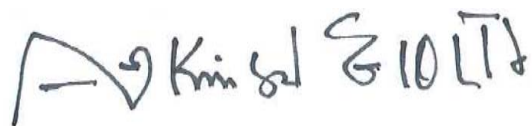
As discussed in Note B1, the financial statements of the State of New Mexico Gaming Control Board are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of 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, 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 governmental activities, the general fund and the aggregate remaining fund information of the Board as of June 30, 2012, 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 28, 2012, on our consideration of the 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The accompanying Schedule of Changes in Assets and Liabilities – Agency Fund – Licensing and Background Fees and Schedule of Special Appropriations listed 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 basic financial statements taken as a whole.

A handwritten signature in blue ink, appearing to read "King & Co. Ltd.", is written over a stylized logo consisting of a large, abstract letter 'A'.

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 28, 2012

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

June 30, 2012 and 2011

This discussion and analysis of the New Mexico Gaming Control Board (the Board) provides an overview of financial activities for the fiscal year ended June 30, 2012. It should be read in conjunction with the financial statements, which begin on page 14. 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 regulates the racetrack casinos and nonprofit clubs to assure that gaming revenues benefit the State General Fund and state economy. Pages 4-6 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 \$66,329,233. 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 monitors that the horseracing purses, totaling \$49,450,221, are deposited. The racetrack and nonprofit gaming operators also paid \$618,128 to various programs to address problem gambling. Charity payments from gaming totaled \$2,046,913 in fiscal year 2012. 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 Amendment to the Compact. The Tribes and Pueblos paid a combined \$68,149,908 to New Mexico in FY 2012. The Tribes and Pueblos also paid out \$1,849,993 to programs that address problem gambling. (See Graph A-3).

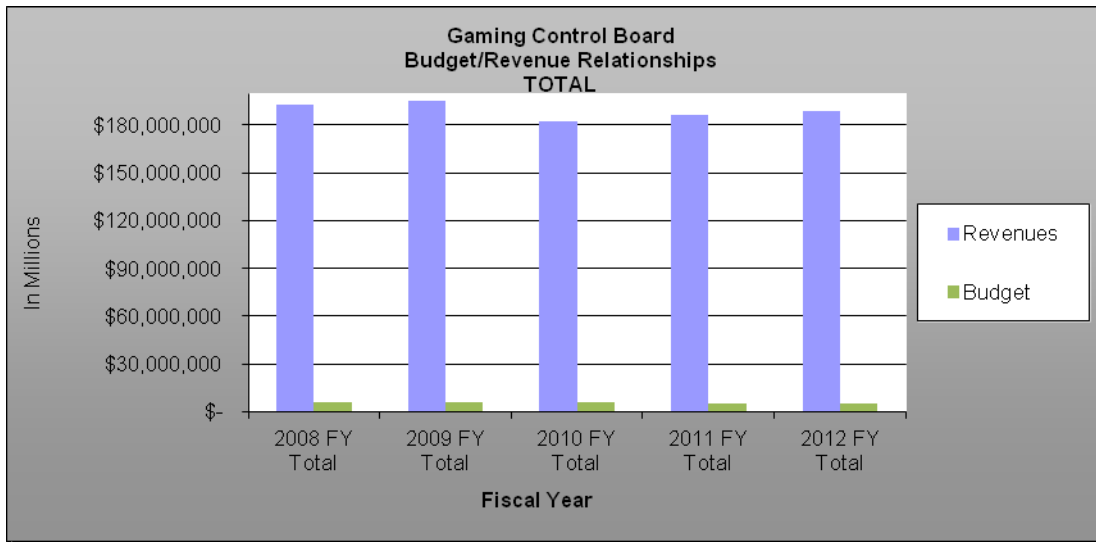
Total gaming revenues including horse racing purses, problem gambling, charities, and Tribal revenue sharing totaled \$188,570,158 for fiscal year 2012.

State of New Mexico  
Gaming Control Board

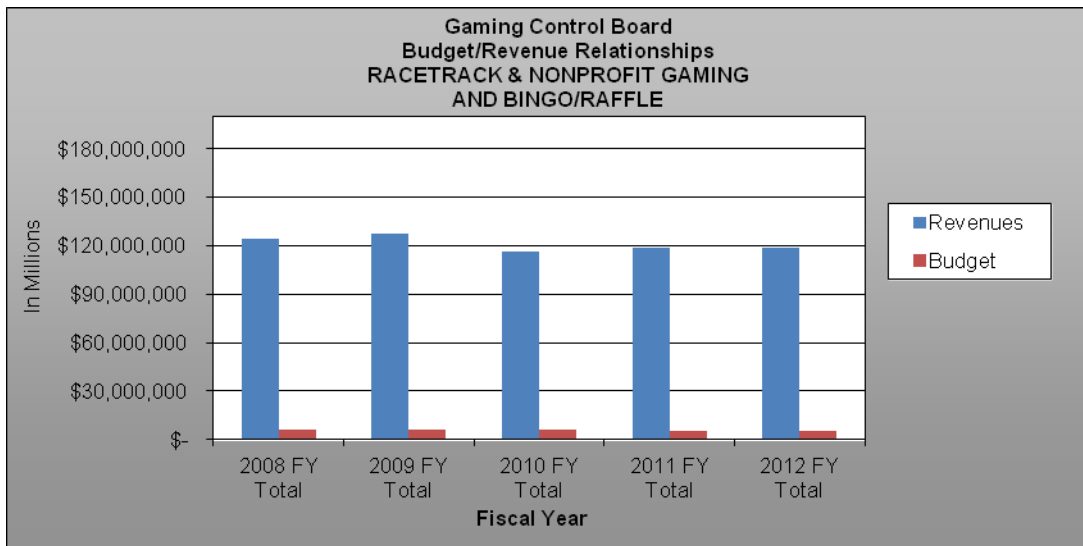
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**Required Supplementary Information**

June 30, 2012 and 2011

**Graph A-1**



**Graph A-2**



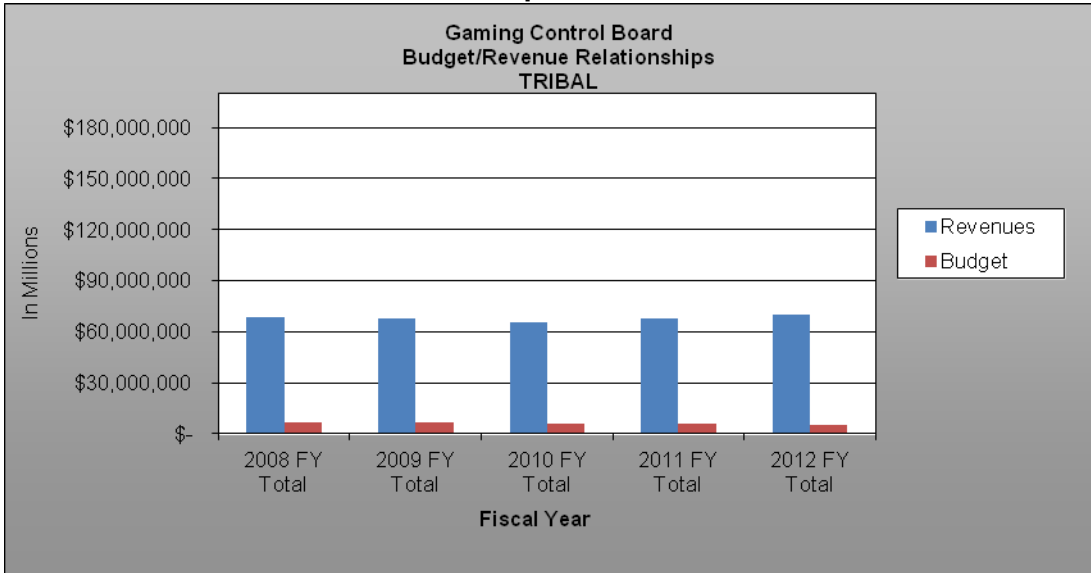


State of New Mexico  
Gaming Control Board

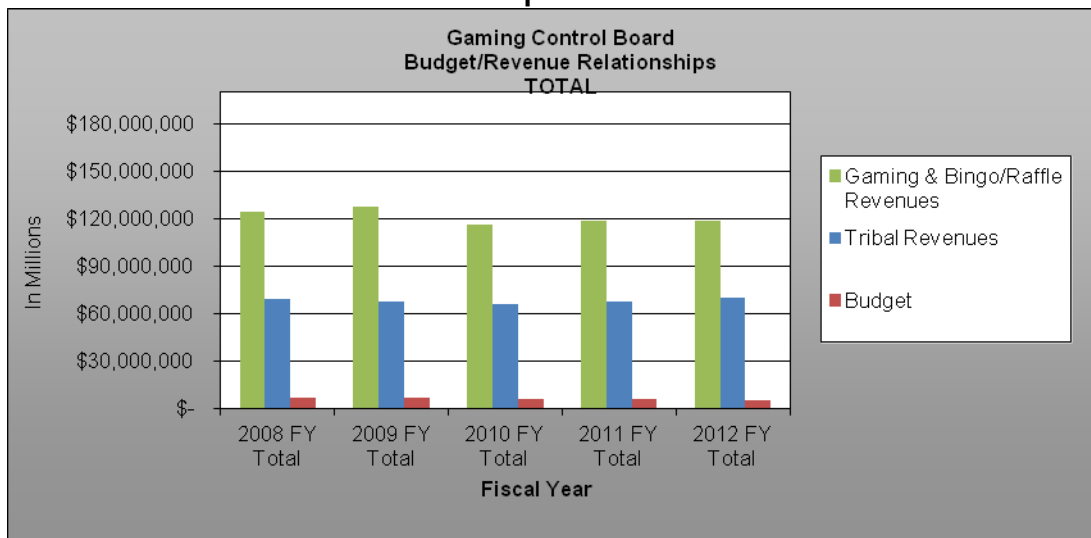
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**Required Supplementary Information**

June 30, 2012 and 2011

**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, 2012 and 2011

The following schedule compares the specific revenues for the last five fiscal years.

	2008 FY Total	2009 FY Total	2010 FY Total	2011 FY Total	2012 FY Total
<b>Gaming Taxes from Licensees</b>	\$ 67,090,591	\$ 69,204,440	\$ 65,114,900	\$ 66,132,864	\$ 66,329,233
<b>Bingo Taxes from Licensees</b>	128,166	128,882	135,948	133,303	125,762
<b>Horse Racing Purses</b>	49,715,682	51,447,316	48,410,045	49,377,595	49,450,221
<b>Problem Gambling-Nonprofits &amp; Racetracks</b>	621,446	643,091	605,126	617,220	618,128
<b>Charities (d)</b>	6,588,562	6,353,422	2,233,288(e)	2,085,666(e)	2,046,913(e)
<b>Subtotal (Gaming &amp; Bingo/Raffle)</b>	<b>124,144,447</b>	<b>127,777,151</b>	<b>116,499,307</b>	<b>118,346,648</b>	<b>118,570,257</b>
<b>Problem Gambling-Tribal (a)</b>	1,777,869	1,761,324	1,726,275	1,781,536	1,849,993
<b>Tribal Revenue Sharing and Regulatory Fees</b>	66,949,444(b)	65,395,285(c)	63,976,857(f)	65,893,522(g)	68,149,908(i)
<b>Subtotal (Tribal)</b>	<b>68,727,313</b>	<b>67,156,609</b>	<b>65,703,132</b>	<b>67,675,058</b>	<b>69,999,901</b>
<b>TOTAL</b>	<b>\$ 192,871,760</b>	<b>\$ 194,933,760</b>	<b>\$ 182,202,439</b>	<b>\$ 186,021,706</b>	<b>\$188,570,158</b>
	<b>FY 08</b>	<b>FY 09</b>	<b>FY 10</b>	<b>FY 11</b>	<b>FY 12</b>
<b>Budget</b>	\$ 6,332,600	\$ 6,308,700	\$ 5,889,300	\$ 5,586,292	*\$ 5,180,200

NOTES:

(a) Includes \$53,918,632 for revenue sharing and \$900,614 for regulatory fees.

(b) Includes \$819,390 FY06 Special Appropriation Encumbrance for new Central Monitoring System.

(c) 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.

(d) Includes \$65,488,441 for revenue sharing and \$1,461,003 for regulatory fees.

(e) Includes \$63,748,350 for revenue sharing and \$1,646,935 for regulatory fees.

(f) Includes charitable contributions from both gaming and bingo & raffle starting in FY2006.

(g) Includes only contributions from gaming; Bingo & Raffle Act effective 7/1/09 eliminated the requirement for charity distributions.

(h) Includes \$63,044,799 for revenue sharing and \$932,058 for regulatory fees.

(i) Includes \$64,892,038 for revenue sharing and \$1,001,484 for regulatory fees.

\*Operating budget was \$5,180,200; plus a special appropriation of \$200,000 for use in FY12 and FY13 regarding Tribal Gaming matters. Total expenditure for Special Appropriation in FY12 totaled \$3,052.71, leaving a balance of \$196,947.29 available for use in FY13.

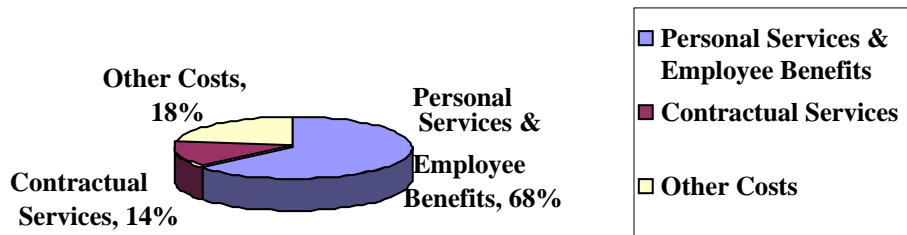
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**  
**Required Supplementary Information**

June 30, 2012 and 2011

**Overview of Financial Activity**

The Gaming Control Board receives 100% of its funding from the General Fund appropriation. As shown in Graph A-3, expenditures against the budget fiscal year-end 2011 appropriation were broken down in the following categories: 68% for personal services and employee benefits, 14% for contractual services, and 18% for other costs.

**Graph A-5**  
**Budgetary Expenditure for FY12**



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 14 and 15). 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.

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

June 30, 2012 and 2011

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 16. 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 17 and 19.

*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.

State of New Mexico  
Gaming Control Board

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

June 30, 2012 and 2011

**Financial Analysis of the Agency as a Whole**

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.

The New Mexico Gaming Control Board is funded by appropriations from the State's General Fund and operates a computerized Central Monitoring System. This system is a management, control and monitoring system that connects, via direct communications lines, to every licensed gaming device in the State (Non-Tribal). This system allows the Board to monitor all activity on each slot machine and 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 or venue for any non-compliance issues. The Board has operated such a system since 1998 with an operational efficiency rate over 99.9%.

**Table A-1**  
**Condensed Statement of Net Assets**

	2012	2011
<b>Assets</b>		
Current assets	\$ 770,018	\$ 262,800
Capital assets, net of depreciation	23,744	197,209
Total assets	\$ 793,762	\$ 460,009
<b>Liabilities and net assets</b>		
Liabilities:		
Current liabilities	\$ 713,472	\$ 421,202
Compensated absences payable, less current	9,084	10,466
Total liabilities	722,556	431,668
Net assets:		
Invested in capital assets	23,744	197,209
Restricted	196,947	-
Unrestricted (deficit)	(149,485)	(168,868)
Total net assets	71,206	28,341
Total liabilities and net assets	\$ 793,762	\$ 460,009

State of New Mexico  
Gaming Control Board

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

June 30, 2012 and 2011

As summarized in Table A-1, net assets of \$28,341 represent the difference between assets and liabilities of the Board. Total assets decreased by \$791,577, while total liabilities decreased by \$422,433. Total assets decreased mainly due to depreciation expense for the year. Total liabilities decreased because of lower reversion payable due at year-end compared to the previous year.

	<u>2012</u>	<u>2011</u>
Total expenses	\$ (4,941,296)	\$ (5,684,328)
Total revenues (net of reversion)	<u>4,984,161</u>	<u>5,315,184</u>
Increase (decrease in net assets)	42,865	(369,144)
Beginning net assets	<u>28,341</u>	<u>397,485</u>
Ending net assets	<u>\$ 71,206</u>	<u>\$ 28,341</u>

During the year ended June 30, 2012, total expenses decreased by \$743,032 reflecting budget decreases in fiscal year 2012. Government-wide expenses are \$4,941,296 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 22.

The recognition of depreciation is an attempt to match the usage of capital assets to the revenues of the Board 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.

State of New Mexico  
Gaming Control Board

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

June 30, 2012 and 2011

**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 14, 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.

Governmental fund expenditures differ from the government-wide expenses for 2012 and 2011 as follows:

	<u>2012</u>	<u>2011</u>
Governmental fund expenditures	\$ (4,792,116)	\$ (5,310,738)
Decrease in liability for compensated absences	24,285	33,291
(Excess) depreciation over capital outlay	<u>(173,465)</u>	<u>(406,881)</u>
Board expenses	<u>\$ (4,941,296)</u>	<u>\$ (5,684,328)</u>

**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 20.

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

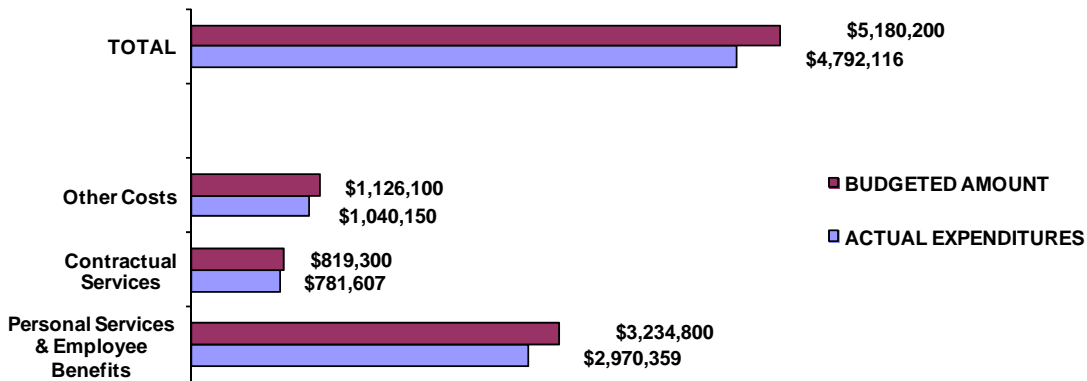
State of New Mexico  
Gaming Control Board

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

June 30, 2012 and 2011

**Graph A-6**

**Budgeted Amount vs. Actual Expenditures**



The chart above only reflects the operating budget allotted for the fiscal year (FY); however the Gaming Control Board received a special appropriation in the 2012 legislative session in the amount of \$200,000 for use in FY 2012 and FY 2013. This appropriation is restricted for use regarding Tribal matters. The Agency expended \$3,052 of this appropriation in FY12 leaving a balance of \$196,947.29 for use in FY 2013. There were no unexpected budget variances during the year.

**Capital Assets**

The following net change occurred in the capital assets during the years ended June 30, 2012 and 2011.

	2012	2011
Net capital assets at beginning of year	\$ 197,209	\$ 604,090
Capital assets purchased	23,849	-
Current year depreciation	(197,314)	(406,881)
Net capital assets at end of year	<u>\$ 23,744</u>	<u>\$ 197,209</u>

Consistent with application of GASB No. 34, the Board has recognized depreciation for assets during the fiscal year of \$197,314. At June 30, 2012, the total accumulated depreciation for the Board was \$4,397,419. There were capital asset purchases in the amount of \$23,849 during fiscal year 2012 and no disposals.



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

June 30, 2012 and 2011

**Currently Known Facts, Decisions or Conditions Expected to Impact the Board's  
Financial Position and Results of Operations**

The Board is currently involved in a significant dispute with nine (9) gaming tribes over the correct amount of revenue sharing owed to the State pursuant to the 2001 and 2007 Compacts. The Board has sent demand letters to the various tribes and has been negotiating a potential resolution of the dispute. If this matter is not resolved, it could require an arbitration proceeding or perhaps litigation in court. In either event, the Agency would incur significant costs such as payment of the cost of an arbitrator, expert witnesses, depositions and other court costs. During the 2012 legislative session, the Board received a special appropriation in the amount of \$200,000 to defray such costs. Those funds became available to the Agency just prior to June 2012. It is unlikely, but possible, that the special appropriation will not be sufficient to cover all the costs associated with the arbitration/litigation, if such is required. The Agency is seeking another special appropriation in the same amount in the 2013 legislative session.

**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, 2012

**ASSETS**

	<u>Governmental Activities</u>
<b>CURRENT ASSETS</b>	
Investments with State Treasurer	\$ 759,239
Petty cash	600
Prepaid expenses	<u>10,179</u>
Total current assets	770,018
<b>NON-CURRENT ASSETS</b>	
Capital assets, net of accumulated depreciation	<u>23,744</u>
Total assets	<u><u>\$ 793,762</u></u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 52,780
Accrued payroll, payroll taxes, and benefits	118,003
Compensated absences payable, current portion	151,180
Due to State general fund-reversion fiscal year 2012	<u>391,509</u>
Total current liabilities	713,472
<b>NON-CURRENT LIABILITIES</b>	
Compensated absences payable, less current portion	<u>9,084</u>
Total liabilities	722,556
<b>NET ASSETS</b>	
Invested in capital assets	23,744
Restricted	196,947
Unrestricted deficit	<u>(149,485)</u>
Total net assets	<u>71,206</u>
Total liabilities and net assets	<u><u>\$ 793,762</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, 2012

	<u>Governmental Activities</u>
<b>EXPENSES</b>	
General government services	\$ (4,941,296)
Total expenses	(4,941,296)
<b>GENERAL REVENUES</b>	
State general fund appropriation	5,180,200
Special appropriation	200,000
Other revenues	95
Total revenues	5,380,295
Reversion to State general fund fiscal year 2012	<u>(396,134)</u>
Changes in net assets	42,865
Net assets, beginning of the year	<u>28,341</u>
Net assets, end of year	<u><u>\$ 71,206</u></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, 2012

	<u>General Fund</u>
<b>ASSETS</b>	
Investments with State Treasurer	\$ 759,239
Petty cash	600
Prepaid expenses	<u>10,179</u>
Total assets	<u><u>\$ 770,018</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 52,780
Accrued payroll taxes and benefits	118,003
Due to State general fund-reversion fiscal year 2012	<u>391,509</u>
Total liabilities	562,292
<b>FUND BALANCE</b>	
Nonspendable:	
Petty cash	600
Prepaid expenses	10,179
Spendable:	
Restricted	<u>196,947</u>
Total fund balance	<u>207,726</u>
Total liabilities and fund balance	<u><u>\$ 770,018</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 FUND TO  
THE STATEMENT OF NET ASSETS – GOVERNMENTAL ACTIVITIES**

June 30, 2012

Total fund balance - governmental fund \$ 207,726  
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 fund balance sheet.

These assets consist of:

Machinery and equipment	\$ 500,791
Gaming machine electronic monitoring equipment and software	3,920,372
Accumulated depreciation	<u>(4,397,419)</u>

Total capital assets 23,744

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>(160,264)</u>
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Net assets of governmental activities \$ 71,206

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, 2012

	<u>General Fund</u>
REVENUES	
Other	\$          95
EXPENDITURES	
Current:	
Personnel services	2,970,359
Other costs	1,016,301
Contractual	781,607
Capital outlay	<u>23,849</u>
Total expenditures	<u>4,792,116</u>
OTHER FINANCING SOURCES (USES)	
State general fund appropriation, Laws of 2011	5,180,200
State general fund appropriation, Laws of 2012	200,000
Reversion to the State general fund - fiscal year 2012	<u>(396,134)</u>
Total other financing sources	<u>4,984,066</u>
NET CHANGE IN FUND BALANCE	192,045
Fund balance, beginning of year	<u>15,681</u>
Fund balance, ending of year	<u><u>\$    207,726</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 FUND  
TO THE STATEMENT OF ACTIVITIES**

June 30, 2012

Net change in fund balance - governmental fund	\$	192,045
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures, while in the statement of activities the cost of these assets are capitalized.		23,849
Decreases in accrued compensated absences are not recorded as expenses in the current year in the statement of activities, however, the corresponding amount is recorded as an expense in the governmental funds.		24,285
Depreciation expense		<u>(197,314)</u>
Changes in net assets of governmental activities	\$	<u>42,865</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, 2012

General Fund	Budget Original	Budget Final	Actual Amount Budgetary Basis	Variance Favorable (Unfavorable)
Revenues:				
State general fund appropriation	\$ 5,180,200	\$ 5,180,200	\$ 5,180,200	\$ -
Special appropriation	-	200,000	200,000	-
Miscellaneous revenue	-	-	95	95
<b>Total revenues</b>	<b>\$ 5,180,200</b>	<b>\$ 5,380,200</b>	<b>\$ 5,380,295</b>	<b>\$ 95</b>

General Fund	Budget Original	Budget Final	Actual Amounts Expended	Variance Favorable (Unfavorable)
Expenditures:				
Personnel services	\$ 3,584,800	\$ 3,234,800	\$ 2,970,359	\$ 264,441
Contractual services	729,300	1,019,300	781,607	237,693
Other costs	866,100	1,126,100	1,040,150	85,950
<b>Total expenditures</b>	<b>\$ 5,180,200</b>	<b>\$ 5,380,200</b>	<b>\$ 4,792,116</b>	<b>\$ 588,084</b>

**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, 2012

**ASSETS**

Investments with State Treasurer	\$	38,394
Accounts receivable		<u>17,878</u>

Total assets	\$	<u><u>56,272</u></u>
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**LIABILITIES**

Due to the State general fund	\$	<u>56,272</u>
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Total liabilities	\$	<u><u>56,272</u></u>
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The accompanying notes are an integral part of this financial statement.

State of New Mexico  
Gaming Control Board

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2012

**NOTE A – NATURE OF ORGANIZATION**

The State of New Mexico Gaming Control Board (the 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, 2012

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

The financial statements for the Board have been prepared in accordance with U.S. generally accepted accounting principles (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 a Comprehensive Annual Financial Report inclusive of all agencies of the primary government for fiscal year 2012.

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

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

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, 2012. The effect of material interfund activity is removed from the government-wide statements. There was no interfund activity during the year.

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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

2. Basic Financial Statements - Continued

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.

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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

3. Basis of Presentation - Continued

**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.

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 fund in the fund financial statements is 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, 2012.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

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.

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 program 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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

5. Budgets and Budgetary Accounting – Continued

- 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, 2012. Prepaid expenses are expensed when consumed. Therefore, these items are allocated to the fiscal year in which they are used.

7. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair 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 2006, 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.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

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.

10. Due to the State General Fund (Reversion)

Reversions 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.

Current year reversion due to the State General Fund was \$396,134 as of June 30, 2012.

11. Fund Balances

The Board follows GASB No 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which provides new definitions and classifications for governmental fund balances. The following classifications and definitions for governmental funds replaced the previous classifications for "reserved" and "unreserved" utilization for years prior to FY11.

***Spendable and Non-spendable***

In the governmental fund financial statements the Board classifies fund balances into spendable and nonspendable classifications. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact until expended for its restricted purpose. The Board's nonspendable fund balances include amounts for petty cash and prepaid expenses.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

11. Fund Balances – Continued

The spendable classifications are detailed below:

***Restricted Fund Balances***

In the governmental fund financial statements *restrictions* of fund balance are reported when constraints placed on the use of resources are either: (1) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. It is the Board's policy to apply restricted resources first for purposes where both restricted and unrestricted resources are available. The Board has \$196,947 of restricted fund balance as of June 30, 2012.

***Committed Fund Balances***

In the governmental fund financial statements *committed* fund balances are reported when amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The Board has no *committed* fund balances as of June 30, 2012.

***Assigned Fund Balances***

In the governmental fund financial statements *assigned* fund balances are reported when amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The Board does not have the authority to assign fund balance for a specific purpose. The Board has no *assigned* fund balances as of June 30, 2012.

***Unassigned Fund Balances***

In the governmental fund financial statements *unassigned* fund balances are reported to reflect residual fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The Board has no *unassigned* fund balances as of June 30, 2012.

Generally, the Board would first apply committed resources when an expense is incurred for purposes for which both committed, assigned, or unassigned fund balances are available.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

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.

**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, 2012.

**Unrestricted Deficit** – represents the deficit of total assets over total liabilities, net assets invested in capital assets, and restricted net assets at June 30, 2012.

**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 \$196,947 at June 30, 2012.

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.

State of New Mexico  
Gaming Control Board

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE C – INVESTMENTS**

1. Investments in State General Fund Investment Pool

State law (Section 8-6-3 NMSA 1978) requires the Board’s cash be managed by the New Mexico State Treasurer’s Office. Accordingly, the investments of the Department consist of an interest in the At June 30, 2012 the Board had the following invested in the General Fund Investment Pool (GFIP):

Investment	Fair Value June 30, 2012
New Mexico State Treasurer’s Office General Fund Investment Pool	<u>\$ 797,633</u>

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

Fund	SHARE Fund No.	Fair Value June 30, 2012
General fund	53600	\$ 759,239
Agency fund	95100	38,394
Total interest in State General Fund Investment Pool		\$ 797,633

The circumstances reported in Note L raise a concern regarding the accuracy of the Board's share of the GFIP. In connection with this concern, Gaming Control Board has adopted policies and procedures currently and for prior years to mitigate the risk of misstatement in their interest in the General Fund Investment Pool. These include:

- Tracking cash receipts and disbursements for the Licensing and Background Fees agency fund in a separate, stand alone accounting system
- Reconciling the stand alone system to SHARE on a monthly basis
- Tracking cash receipts and disbursements in their General Fund on manual spreadsheets
- Reconciling their interest in the General Fund Investment Pool (cash) per SHARE to the deposit and disbursement activity tracked separately

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE C – INVESTMENTS - CONTINUED**

1. Investments in State General Fund Investment Pool - Continued

Additionally, the Board is funded by a single reverting appropriation made to its General Fund. Each year the appropriation has been expended with the remainder reverted. Such transactions since 2006 have been verified by management and audited. Due to this reverting nature of its funding, there is no accumulation of liquid assets or net asset balances that require multiple year reconciliations.

For these reasons, Management believes the value of \$797,633 materially approximates their share of the GFIP at June 30, 2012.

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, 2012.

2. Interest Rate Risk

The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

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, 2012.

**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, 2012, the Board's Agency Fund was owed \$17,878 from various gaming entities. All amounts are considered to be collectible.

State of New Mexico  
Gaming Control Board

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE E – CAPITAL ASSETS**

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

Asset Description	Balance at June 30, 2011	Current Year Additions	Current Year Deletions	Balance June 30, 2012
Machinery and equipment	\$ 476,942	\$ 23,849	\$ -	\$ 500,791
Gaming machine electronic monitoring equipment and software	<u>3,920,372</u>	<u>-</u>	<u>-</u>	<u>3,920,372</u>
Total capital assets	4,397,314	23,849	-	4,421,163
Accumulated Depreciation				
Machinery and equipment	468,522	8,525	-	477,047
Gaming machine electronic monitoring equipment and software	<u>3,731,583</u>	<u>188,789</u>	<u>-</u>	<u>3,920,372</u>
Total accumulated depreciation	<u>4,200,105</u>	<u>197,314</u>	<u>-</u>	<u>4,397,419</u>
Net capital assets	<u>\$ 197,209</u>	<u>\$ (173,465)</u>	<u>\$ -</u>	<u>\$ 23,744</u>

Depreciation expense of \$197,314 was charged entirely to the regulation function. All capital assets are being depreciated.

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

A summary of changes in compensated absences payable for the year ended June 30, 2012, is as follows:

Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012	Amount Due Within One Year
<u>\$ 184,549</u>	<u>\$ 217,768</u>	<u>\$ (242,053)</u>	<u>\$ 160,264</u>	<u>\$ 151,180</u>

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

State of New Mexico  
Gaming Control Board

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE G – COMMITMENTS**

1. Operating Leases

The Board leases a building located at 4900 Alameda Boulevard NE, Albuquerque, NM. The original lease dated May 1, 2005 had a term of fifteen years with a five-year renewal option. The lease was renegotiated effective July 1, 2011, extending the lease term to April 30, 2025. The lease has an escalation clause of 3.25% over years 8, 9, 10, 11 and 16 of the lease. Additionally, the Board leases certain other office space, office equipment, and vehicles under one-year lease agreements. During the year ended June 30, 2012, the Board paid approximately \$612,715 under its various lease agreements.

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

For the years ended June 30,	
2013	\$ 599,108
2014	617,081
2015	635,593
2016	654,661
2017	674,301
2016 - 2020	3,687,353
2023 - 2024	<u>1,563,628</u>
	<u>\$ 8,431,725</u>

2. Computer Software Maintenance Contracts

The Board has a maintenance agreement on its initial gaming machine electronic monitoring software and hardware programs. Expenditures inclusive of gross receipts tax for the agreement were \$742,930 for the year ended June 30, 2012.

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 with commitments as follows. Half of the 6<sup>th</sup> year commitments (\$346,250) were outstanding as of June 30, 2012. In total there were \$1,038,750 in commitments outstanding as of June 30, 2012.

State of New Mexico  
Gaming Control Board

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE G – COMMITMENTS - CONTINUED**

2. Computer Software Maintenance Contracts - Continued

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 (2013-2014)		692,500
		<hr/>
	\$	<u>7,122,611</u>

**NOTE H – PENSION PLAN-PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

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, 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. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. That report is also available on PERA’s website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

Funding Policy – Plan members are required to contribute 8.92% of their gross salary. The Board is required to contribute 15.09% of the gross covered salary. The contribution requirements of the plan members and the Board are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Board’s employer contributions to PERA for the years ending June 30, 2012, 2011, and 2010 were \$292,116, \$388,860, and \$462,620, respectively, equal to the amount of the required contributions for each year.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

*Plan Description.* The 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, NMSA1978). 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.

*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).

State of New Mexico  
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**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

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

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. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.66% of each participating employee’s annual salary; each participating employee was required to contribute .8333% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contributions Rate</u>	<u>Employee Contribution Rate</u>
FY13	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 Board’s contributions to the RHCA for the year ended June 30, 2012, 2011, and 2010 were \$39,952, \$42,569, and \$37,651, respectively, which equal the required contributions for each year.

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

During the year ended June 30, 2012, the following transfers were made from the Board to the State of New Mexico’s General Fund:

	<u>G.C.B. Agency Number</u>	<u>G.C.B. Fund Number</u>	<u>D.F.A. Agency Number</u>	<u>D.F.A. Fund Number</u>	<u>Amount</u>
Reversion expense-FY12	46500	53600	34100	85300	<u>\$ 396,134</u>
					<u><u>\$ 396,134</u></u>

State of New Mexico  
Gaming Control Board

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE J – TRANSFERS TO STATE GENERAL FUND - CONTINUED**

During the year ended June 30, 2011, the following transfers were made from the State of New Mexico’s General Fund to the Board:

	G.C.B. Agency Number	G.C.B. Fund Number	D.F.A. Agency Number	D.F.A. Fund Number	Amount
State general fund appropriations,					
Laws of 2012, Chapter 19, Section 5	46500	53600	34100	85300	\$ 200,000
Laws of 2011, Chapter 179, Section 4	46500	53600	34100	85300	<u>5,180,200</u>
					<u>\$ 5,380,200</u>

**NOTE K – INSURANCE COVERAGE**

The Board is exposed to various risks of losses related to torts; theft of, 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. 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, 2011 through June 30, 2012.

**NOTE L – GENERAL FUND INVESTMENT POOL NOT RECONCILED**

The state Department of Finance and Administration is responsible, by statute, for reconciling the General Fund Investment Pool. In June 2012 an independent expert diagnostic report revealed that the General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management Reporting system (SHARE) system in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration’s website at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx). The document title is Current State Diagnostic of Cash Control.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE L – GENERAL FUND INVESTMENT POOL NOT RECONCILED - CONTINUED**

The General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury.

As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the Board's balances at the business unit/fund level is not possible.

**NOTE M – NEW ACCOUNTING STANDARDS**

The Governmental Accounting Standards Board (GASB) has published statements No. 67, *Financial Reporting for Pension Plans* and No. 68, *Accounting and Financial Reporting for Pensions*. These standards revise existing guidance for governments that provide their employees with pension benefits. A principal change is the requirement to record the government's pro rata share of unfunded actuarial accrued liability (UAAL) on its financial statements including multiemployer cost sharing plans. The Board is a participating member of the Public Employees Retirement Association (PERA), a multiemployer cost sharing plan. See Note H. Other changes arising from these statements are significant and the Board will comply with these changes as necessary. Information to implement is provided by PERA and the State of New Mexico. The implementation date for statement No. 68, most relevant to the Board is for FY 2015. The current status of the unfunded liability for PERA is \$4.97 billion based on the most recently issued audited financial statement at June 30, 2011.

**NOTE N – 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. Transactions or events occurring after year-end may be disclosed if significant.

State of New Mexico  
Gaming Control Board

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE N – SUBSEQUENT EVENTS - CONTINUED**

The Board has evaluated subsequent events through November 28, 2012, which is the date the financial statements were available to be issued. No matters were identified for recognition in the accounts. One matter was identified for disclosure.

Subsequent to June 30, 2012, significant steps toward Tribal arbitration have occurred. A \$200,000 special appropriation was received during the year ended June 30, 2012 for expenditures related to Tribal arbitration.

**SUPPLEMENTARY INFORMATION**

State of New Mexico  
Gaming Control Board

**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES –  
AGENCY FUND – LICENSING AND BACKGROUND FEES FUND**

June 30, 2012

	Agency Fund			Balance June 30, 2012
	Balance June 30, 2011	Additions	Deletions	
<b>ASSETS</b>				
Investments with State Treasurer	\$ 36,785	\$ 393,396	\$ (391,787)	\$ 38,394
Accounts receivable, net	10,092	67,095	(59,309)	17,878
 Total assets	 <u>\$ 46,877</u>	 <u>\$ 460,491</u>	 <u>\$ (451,096)</u>	 <u>\$ 56,272</u>
<b>LIABILITIES</b>				
Due to State general fund	\$ 46,877	\$ 411,257	\$ (401,862)	\$ 56,272
 Total liabilities	 <u>\$ 46,877</u>	 <u>\$ 411,257</u>	 <u>\$ (401,862)</u>	 <u>\$ 56,272</u>

State of New Mexico  
Gaming Control Board

**SCHEDULE OF SPECIAL APPROPRIATIONS**

June 30, 2012

	Current Year Revenue	Amount Appropriated	Current Year Expenditures	Project to Date Expenditures	Unexpended Portion	Unexpended and Reverted
<b>Special Appropriations</b> Laws of 2012, Chapter 19, Section 5 Gaming Control Board	<u>\$200,000</u>	<u>\$ 200,000</u>	<u>\$ 3,053</u>	<u>\$ 3,053</u>	<u>\$ 196,947</u>	<u>\$ -</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 of the State of New Mexico Gaming Control Board (the Board), and the aggregate remaining fund information as of and for the year ended June 30, 2012, and have issued our report thereon dated November 28, 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 Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

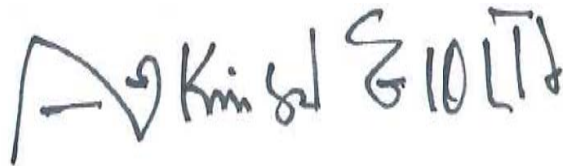
*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Board's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 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. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink, appearing to read "Atkinson & Co. Ltd.", written in a cursive style.

**Atkinson & Co. Ltd.**

Albuquerque, New Mexico  
November 28, 2012

State of New Mexico  
Gaming Control Board

**SCHEDULE OF FINDINGS AND RESPONSES**

June 30, 2012

**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

**CURRENT YEAR FINDINGS**

None

**STATUS OF PRIOR YEAR FINDINGS**

None

State of New Mexico  
Gaming Control Board

**EXIT CONFERENCE**

June 30, 2012

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 27, 2012 and attended by the following:

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

Martin Mathisen, CPA, CGFM  
James Hartogensis, CPA, CGFM

Shareholder/Audit Director  
Senior Audit Manager

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

Cynthia M. Ortega-Armijo  
Frank A. Baca  
Jeffrey S. Landers  
Paulette Becker, CPA

Administrative Services Division Director  
General Counsel/Acting Executive Director  
Board Chair  
Board Member

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