

**STATE OF NEW MEXICO
RACING COMMISSION**

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**STATE OF NEW MEXICO
RACING COMMISSION**

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**STATE OF NEW MEXICO
RACING COMMISSION**

Official Roster

June 30, 2008

Commissioners

Arnold J. Rael	Chairman
Thomas "Eddie" Fowler	Vice Chairman
David "Hossie" Sanchez	Member
Ray Willis	Member
Larry Delgado	Member

Administrative Officials

Julian Luna	Executive Director
Laura Valencia	Administrative Manager

MEMBER
AMERICAN INSTITUTE OF CPA's
NEW MEXICO SOCIETY OF CPA's

OFFICE
ALBUQUERQUE, NEW MEXICO

RANDY W. SALAS
Certified Public Accountant
7305 Helen Ct., SW
Albuquerque, New Mexico 87121
(505)332-2441

Independent Auditors' Report

Members of the Commission
New Mexico Racing Commission
and
Mr. Hector H. Balderas
New Mexico State Auditor

I have audited the accompanying financial statements of the governmental activities, the major fund, the budgetary comparison for the general fund and the aggregate remaining fund information of the New Mexico Racing Commission (Commission) as of and for the year ended June 30, 2008, which collectively comprise the Commission's basic financial statements as listed in the table of contents. I also have audited the combining statement of fiduciary assets and liabilities presented as required supplemental information as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; and with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note 1, the financial statements of the Commission are intended to present the financial position and changes in financial position of only that portion of the governmental activities and major fund of the State of New Mexico that is attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2008 and changes in its financial position and budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Commission as of June 30, 2008, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the agency funds of the Commission as of June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

Members of the Commission
New Mexico Racing Commission
and
Mr. Hector H. Balderas
New Mexico State Auditor

In accordance with *Government Auditing Standards*, I have also issued my report dated January 15, 2009, on my consideration of the Commission's internal control over financial reporting and my test 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 my 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 my audit.

Management's Discussion and Analysis on pages 3 through 8 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the basic financial statements and on the combining statement of fiduciary assets and liabilities presented as supplemental information. The accompanying supplemental information listed in the table of contents consisting of the schedules on pages 32 to 35 are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Albuquerque, New Mexico
January 15, 2009

Randy W. Salas, CPA

**STATE OF NEW MEXICO, RACING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2008
Unaudited**

Overview

Our discussion and analysis of the State of New Mexico, Racing Commission's (Commission) financial performance provides an overview of our financial activities for the fiscal year ended June 30, 2008. It should be read in conjunction with the financial statements, which follow this discussion and analysis. This document will assist the reader in the following:

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

Using This Annual Report

This annual report consists of a series of financial statements. The statement of Net Assets and the Statement of Activities provide information about the Commission as a whole and present a longer-term view of our finances. Financial data presented in these financial statements is for the activities of the Commission as a single agency. It does not purport to represent the State of New Mexico as a whole.

Government Wide Financial Statements

The financial statements report all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All current year revenues and expenses are reported regardless of when cash is received or paid. These financial statements do include fiduciary activities. Fiduciary resources are not available to finance the government's programs and are excluded from the government-wide financial statements.

The government-wide financial statement include all activities of the Commission with the exception of the fiduciary funds that arise from the collection of racing participants and licensees fees, taxes and fines. General fixed assets, formerly reported as separate account groups, are included in these financial statements. State general fund appropriations finance most of these activities. The General fund is included in the government-wide financial statements.

Fund Financial Statements

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. The Commission's two kind of funds - governmental and fiduciary - use different accounting approaches and are required to be established by state law.

**STATE OF NEW MEXICO, RACING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2008
Unaudited**

Governmental Funds. All of the Commission's basic services are reported in the governmental funds, which focus on the establishment of an appropriation by the state legislature and the expenditures of this money in accordance with a budget. Funds not expended or encumbered at the 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 difference between governmental activities and governmental fund are reconciled.

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

The State of New Mexico, Racing Commission as a Whole

The Commission is responsible for the regulation of the State's pari-mutuel horse racing industry. During the fiscal year ending June 30, 2008, there were 293 live race days regulated.

Condensed Statement of Net Assets
Table A-1

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2007</u>	<u>2008</u>	<u>(Decrease)</u>
Current assets	\$ 321,617	\$ 507,850	\$ 186,233
Capital and non-current assets (net of depreciation)	<u>27,977</u>	<u>24,396</u>	<u>(3,581)</u>
Total assets	<u>349,594</u>	<u>532,246</u>	<u>182,652</u>
Current liabilities	339,299	249,730	(89,569)
Long-term liabilities	30,754	37,775	7,021
Due to State General Fund	-0-	90,251	90,251
Due to other funds	<u>-0-</u>	<u>58,895</u>	<u>58,895</u>
Total liabilities	<u>370,053</u>	<u>436,651</u>	<u>66,598</u>
Net assets			
Invested in capital assets	27,977	24,396	(3,581)
Unrestricted (deficit)	<u>(48,436)</u>	<u>71,199</u>	<u>119,635</u>
Total net assets (deficit)	<u>\$ (20,459)</u>	<u>\$ 95,595</u>	<u>\$ 116,054</u>

As summarized in Table A-1, Net Assets of the Commission's governmental activities increased by \$ 116,054. Unrestricted net assets showed a \$ 71,199 balance at the end of the year. The Commission did not revert the \$ 130,223 unreserved, undesignated fund balance for the fiscal year ended June 30, 2008. Once this reversion is made the unrestricted net assets will show a deficit balance of \$ 59,024. This deficit does not mean that the Commission does not have resources available to pay its bills next year. Rather, it is the result of the compensated absences balance that was accrued at June 30, 2008 but will be paid for out of future appropriations. The decrease of \$ 89,569 in current liabilities is the result of accounts payable being less in the current year than in the prior year.

STATE OF NEW MEXICO, RACING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2008
Unaudited

Condensed Statement of Activity
 Table A-2

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2007</u>	<u>2008</u>	<u>(Decrease)</u>
Revenues			
General fund appropriations	\$ 2,186,383	\$ 2,363,100	\$ 176,717
Expenses			
Racing regulation	2,181,543	2,247,046	111,214
Increase (decrease) in net assets	4,840	116,054	111,214
Beginning of year, net assets (deficit)	(25,299)	(20,459)	4,840
End of year, net assets (deficit)	\$ (20,459)	\$ 95,595	\$ 116,054

The Commission's general fund appropriation increased by \$ 176,717 from the prior year as a result of the Commission requesting additional funds for an anticipated increase in medical service expenditures.

Analysis of Financial Position

The Commission receives 100% of its governmental funds from an appropriation from the state legislature. These funds are expended by the Commission based on a budget submitted and approved by the state legislature and the Governor. The financial position of the Commission has remained stable as a result of this year's operations.

**STATE OF NEW MEXICO, RACING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2008
Unaudited**

Analysis of Balances and Transactions of Individual Funds

The Commission maintains one governmental and three fiduciary funds. The governmental fund is an appropriation by the state legislature and the expenditures of this money are in accordance with a budget.

The Commission's three fiduciary funds consist of racing receipts, fee and fine refund, and occupational license fee.

The Racing Receipts Fund consist of collections of all pari-mutuel taxes, license, fines, and fee receipts. These receipts are transferred monthly to the state general fund, and withdrawals to statutory required payments to municipalities where qualifying racetracks are located. The total amount transferred and withdrawn during the 2008 fiscal year was \$840,645.

The Fee and Fine Refund Fund is a statutory required fund to allow for the refund of fines and licensing fees adjudicated to be refunded. The maximum authorized balance of this fund is \$ 4,000.

The Occupational License Fee Fund holds all cash proceeds from issuing badges and ordering fingerprints.

General Fund Budgetary Highlights

The Commission operates one governmental fund in which all activity related to horseracing regulation is recorded. The following financial statements present the financial position and results of operations for the governmental activities. Funding for the governmental funds is \$ 2,363,100 from the General Fund and Compensation Package Appropriation.

Governmental funds expenditures totaled \$ 2,232,877 and differs from the government-wide expenses of \$ 2,247,046 by two items as following:

Governmental fund expenditures	\$ 2,232,877
Increase in liability for compensated absences	10,588
Excess of depreciation over capital capital outlay	<u>3,581</u>
Agency government-wide expenses	<u>\$ 2,247,046</u>

STATE OF NEW MEXICO, RACING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2008
Unaudited

The annual operating budget is approved by the Department of Finance and Administration. Comparison of actual expenditures on a budgetary basis to approved budget amounts is presented below:

Personal Services/Employee Benefits	
Budgeted amount	\$ 1,108,600
Actual amount	1,094,399
Contractual Service	
Budgeted amount	935,400
Actual amounts	843,947
Other	
Budgeted amount	319,100
Actual amount	294,531
Total Expenditures	
Budgeted amount	\$ 2,275,700
Actual amount	2,050,838

There are no known facts, decisions, or conditions, that are expected to have a significant effect on the financial position (net assets) or results of operation of the Commission.

Capital Assets Administration

The Commission capitalizes and inventories capital assets with a cost of \$ 5,000 or more in compliance with HB (Section 12-6-10 NMSA 1978). During the year no capital assets were acquired that required to be capitalized but a copier acquired in a prior year with a cost of \$ 10,000 was inadvertently not capitalized was recorded in the current year depreciation schedule. The Commission recognized depreciation in the current year of \$ 9,383 on assets acquired in prior years.

STATE OF NEW MEXICO, RACING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2008
Unaudited

Contacting the Commission's Financial Management

The financial report is designed to provide citizens, taxpayers, customers, legislators, investors and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the funds it receives. If you have any questions about this report or need additional financial information contact:

New Mexico Racing Commission
4900 Alameda, NW, Suite A,
Albuquerque, New Mexico 87113.
(505)222-0700
nmrc@state.nm.us

STATE OF NEW MEXICO, RACING COMMISSION
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS

Investment in the State Treasurer General Fund Investment Pool	\$ 507,150
Due from state general fund	700
Capital assets, net of accumulated depreciation	24,396
Total assets	<u>532,246</u>

LIABILITIES

Accounts payable	181,025
Accrued salaries and benefits	47,456
Due to other fund	58,895
Due to state general fund	90,251
Compensated absences payable	
Due within one year	21,249
Due after one year	37,775
Total liabilities	<u>436,651</u>

NET ASSETS

Net assets - Investment in capital assets	24,396
Net assets - unrestricted	71,199
Total net assets	<u>95,595</u>

Total liabilities and net assets	<u>\$ 532,246</u>
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**STATE OF NEW MEXICO, RACING COMMISSION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008**

Program Expenses	
Racing regulation	<u>\$ 2,247,046</u>
General Revenue/Transfers	
State general fund appropriations	2,363,100
Transfer out - reversions FY 08	<u>-0-</u>
Total General Revenues/Transfers	<u>2,363,100</u>
Change in net assets	116,054
Net assets, beginning of year (deficit)	<u>(20,459)</u>
Net assets, end of year	<u><u>\$ 95,595</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO, RACING COMMISSION
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2008

ASSETS

Investment in the State Treasurer General Fund Investment Pool	\$ 507,150
Due from state general fund	<u>700</u>
Total assets	<u>507,850</u>

LIABILITIES

Accounts payable	181,025
Accrued salaries and benefits	47,456
Due to other funds	58,895
Due to state general fund	<u>90,251</u>
Total liabilities	<u>377,627</u>

FUND BALANCE

Fund balance - unreserved, undesignated	<u>130,223</u>
Total liabilities and fund balance	<u>\$ 507,850</u>

**STATE OF NEW MEXICO, RACING COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2008**

Fund Balance - Governmental Funds	\$	130,223
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation		24,396
Compensated absences are not due and payable in the current period and therefore are not reported in the funds		<u>(59,024)</u>
Net assets of governmental activities	\$	<u>95,595</u>

**STATE OF NEW MEXICO, RACING COMMISSION
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
 Year Ended June 30, 2008**

Expenditures

Current:

Personal services/employee benefits	\$ 1,094,399
Contractual services	843,947
Other	294,531
Total expenditures	<u>2,232,877</u>

Other Financing Sources (Uses):

State General Fund appropriation	2,363,100
Reversion to State General Fund FY 08	-0-
Total other financing sources (uses)	<u>2,363,100</u>

Net change in fund balance 130,223

Fund balance, beginning of year -0-

Fund balance, end of year \$ 130,223

**STATE OF NEW MEXICO, RACING COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2008**

Net change in fund balances - total government funds \$ 130,223

The Governmental Fund reports capital outlays as expenditures.

However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of \$ 9,383 exceeded the adjusted basis of a capital asset acquired in a prior period of \$ 5,802.

(3,581)

In the Statement of Activities, certain operating expenses - compensated absences payable - are measured by the amounts earned during the year. In the Governmental Fund, however, expenditures are measured by the amount of financial resources used (essentially the amount actually paid). The decrease in the liability for compensated absences payable for the year was

(10,588)

Change in net assets - governmental activities

\$ 116,054

STATE OF NEW MEXICO, RACING COMMISSION
BUDGET TO ACTUAL COMPARISON STATEMENT - GENERAL FUND
Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budget Basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenues				
State General Fund appropriation	\$ 2,363,100	2,363,100	2,363,100	\$ -0-
Total revenues	<u>2,363,100</u>	<u>2,363,100</u>	<u>2,363,100</u>	<u>-0-</u>
Expenditures				
Personal service/employee benefit	1,217,600	1,108,600	1,094,399	14,201
Contractual services	865,400	935,400	843,947	91,453
Other	280,100	319,100	294,531	24,569
Total expenditures	<u>2,363,100</u>	<u>2,363,100</u>	<u>2,232,877</u>	<u>130,223</u>
Excess of revenues over expenditures	<u>-0-</u>	<u>-0-</u>	<u>130,223</u>	<u>130,223</u>
Other Financing Sources (Uses)				
Transfer out - reverision	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net change in fund balances	<u>-0-</u>	<u>-0-</u>	<u>130,223</u>	<u>-0-</u>
Fund balances - beginning	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Fund balances - ending	<u>\$ -0-</u>	<u>-0-</u>	<u>130,223</u>	<u>\$ -0-</u>

STATE OF NEW MEXICO, RACING COMMISSION
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS
June 30, 2008

ASSETS

Investment in the State Treasurer General Fund Investment Pool	\$1,671,989
Due from other fund	58,895
Taxes receivable	<u>5,805</u>
	<u>1,736,689</u>

LIABILITIES

Due to state general fund	1,639,641
Receipts held for suspense fund - refund	82,130
Due to other state agencies	<u>14,918</u>
	<u>\$1,736,689</u>

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the State of New Mexico, Racing Commission (Commission) have been prepared in conformity 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 accepted standard - setting body for establishing governmental accounting and financial reporting principles. As a component unit of the State of New Mexico, a phase one government, the Commission was required to implement GASB Statement 34, *Basis Financial Statements and Managements Discussions and Analysis for State and Local Governments* in fiscal year 2004. The Commission does not have any component units. The financial statements for the year ended June 30, 2008, represent fiscal year 2008 of the State of New Mexico. The more significant accounting policies of the Commission are described below:

A. Financial Reporting Entity

The Commission is administratively attached to the State of New Mexico, Economic Development and Tourism Department. The Commission consists of five members, all of whom are appointed by the Governor of the State of New Mexico. The objectives of the Commission are to license and regulate the operation of all horse races held in the State of New Mexico. The basic financial statements of the Commission only include the activities associated with these types of functions. They do not include the operating or capital improvement activities of the tracks with the exception of those receipts and disbursements for which the Commission operates as an agent of the tracks.

The Commission is a component unit of the primary government, State of New Mexico. These financial statements present the financial position and results of operations of only those Statewide Human Resources Accounting and Management Reporting System (SHARE) funds over which the Commission has oversight responsibility.

Based upon GASB 39, the Commission does not have relationships with other organizations or organizations that are fiduciary in nature that would need to be included in the basic financial statements. Applying this criteria, there are no component units of the Commission.

The Commission's basic financial statements include both government-wide (reporting the Commission as a whole) and fund financial statements (reporting the Commission's major funds) except for fiduciary activities. Both the government-wide and fund financial statements categorize primary activities as governmental. The Commission's general fund is classified as a governmental activity.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basic Financial Statements – Government-Wide Statements

Government-Wide. The government-wide financial statements are reported using the economic resource measurement focus which recognizes all long-term assets and receivables as well as long-term debt and obligations. Also, the government –wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. The Commission's net assets are reported in two parts – Investment in capital assets and unrestricted, undesignated. The Commission first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports the gross cost of the Commission's function. The function is supported by general government revenues (intergovernmental revenues). This governmental-wide focus is more on the survivability of the Commission as an entity and the change in the Commission's net assets resulting from the current year's activities.

C. Basic Financial Statements – Fund Financial Statements

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Commission considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions under capital leases are reported as other financing sources.

Fiduciary Fund Financial Statements. The fiduciary fund financial statements are reported using the economic resources measurement focus and use the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental Funds:

General Fund – The General Fund is the general operating fund and only major fund of the Commission. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is funded through an appropriation from the New Mexico State Legislature. The unreserved, undesignated fund balance reverts back to the State General Fund at fiscal year end.

Agency Funds – Agency Funds are used to account for assets held by the Commission as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement or results of operations.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reversion to State General Fund

The appropriation authorized to the New Mexico Racing Commission by the New Mexico State Legislature is classified in a fund known as a "reverting fund". Section 6-5-10, NMSA 1978, requires "all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert by September 30, to the general fund".

The following is a computation of the reversion amount due at June 30, 2008:

Fund balance at July 1, 2007	\$	-0-
Add – State General Fund appropriation		2,363,100
Less – expenditures		<u>(2,232,877)</u>
Reversion due to the State General Fund June 30, 2008	\$	<u>130,223</u>

The Commission did not revert the \$ 130,223 unreserved, undesignated fund balance by the due date as required per Section 6-5-10, NMSA 1978.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or 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 governmental fund of the Commission follows FASB Statements and interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

The Commission has elected to follow FASB Statements issued after November 30, 1989 for the government-wide statements which consist of SFAS No. 144, use of the "catch up" depreciation if fair market value of asset is less than book value.

Accrual:

Governmental activities in the government-wide financial statements and the fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

E. Cash and cash equivalents

Cash and cash equivalents consists of cash on deposit with area banks which are held for use by the agents of the tracks. The Commission considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. In the normal course of cash activity, the Commission maintains that cash held at financial institutions is below the FDIC and SPIC insured limits.

Cash and cash equivalents also consist of deposits made to the State Treasurer's Office. The State Treasurer invests all public monies held in excess of the minimum compensating balance maintained with the fiscal agent bank in accordance with an investment policy approved by the State Board of Finance. The Commission considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Due to the unavailability of current audited financial statements of the pool sponsor, the Commission is unable to determine the fair value of its investment in the pool. Therefore, it is the Commission's position that all deposits are reported at carrying value which reasonably estimates fair value.

F. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance 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. The Commission uses the modified accrual basis of accounting. Under this accounting basis, encumbrances related to single year appropriations lapse at year end. The portion of an encumbrance representing goods and services received by the last day of the fiscal year are reclassified as accounts payable.

G. Capital Assets

Capital assets are recorded as expenditures in the governmental funds and capitalized at cost in the Statement of Activities. The valuation bases for capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement. The Commission in compliance with HB 1074 (Section 12-6-10 NMSA 1978) which changed the value of assets required to be physically inventoried from \$1,000 to \$ 5,000 is now capitalizing capital assets with a cost of \$ 5,000 or more.

NOTE 1. SUMMAR Y OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Capital Assets (continued)

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Furniture & Fixtures	7 Years
Equipment	5 Years
Data Processing Equipment	5 Years

H. Compensated Absences

Accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and fund liability of the governmental fund that will pay it. Amounts of accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the long term debt Statement of Net Assets. The expenditure is reported for these amounts in the Statement of Activities. In accordance with the provisions of Statement of financial Accounting Standards No. 43, Accounting and compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that employees may convert to cash.

I. Budgetary Procedures and Accounting

The Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

The State Legislature makes annual appropriations for the Commission's Funds. Legal compliance is monitored through the establishment of a budget and a financial control system which permits budget to actual comparison. Expenditures by category may not legally exceed appropriations. Budgeted line item classifications may be amended upon approval from the State Budget Division. Budgetary comparisons have been presented in the report on the modified accrual basis of accounting.

Per the General Appropriation Act, Laws of 2007, Chapter 28, Section 3, item N, "for the purpose of administering the General Appropriation Act of 2007 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. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget.

NOTE 2. CASH AND CASH EQUIVALENTS

Cash

At June 30, 2008 the Commission maintained its cash balances in six financial institutions and the State Treasurer's Office. The balances for demand deposits were insured by the Federal Deposit Insurance Corporation up to \$ 100,000 for each of these financial institutions.

Custodial credit risk – Cash. In the case of deposits, this is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The commission does not have a deposit policy for custodial credit risk. As of June 30, 2008, the Commission's bank balances of \$ 72,670 were not exposed to custodial credit risk because they were fully insured by the Federal Deposit Insurance Corporation.

<u>Description</u>	<u>Bank</u>	<u>Balance per Bank</u>
Checking Acct. – Ruidoso	Wells Fargo	\$ 16,410
Checking Acct. – Hobbs	Wells Fargo	676
Checking Acct. – Albuquerque	Compass Bank	45,828
Checking Acct. – Las Cruces	Wells Fargo	575
Checking Acct. – Compass Bank	Albuquerque	232
Checking Acct. – Farmington	Wells Fargo Bank	<u>8,949</u>
Total amount deposited in bank		72,670
Less: FDIC coverage		<u>(600,000)</u>
Total uninsured public funds		<u>\$ -0-</u>

Investment in the State Treasurer General Fund Investment Pool

At June 30, 2008, the Commission has cash on deposit with the State Treasurer in the amount of \$2,106,469. This cash is remitted to the State General Fund to finance other governmental activities. The State Treasurer has the power to invest money held in demand deposits and not immediately needed for the operation of state government in securities in accordance with Sections 6-10-10 I through P, NMSA 1978 as amended. The State Treasurer with the advice and consent of the State Board of Finance can invest money held in demand deposits and investments not immediately needed for the operation of state government in:

- a) Securities issued by the United States (U.S.) government and by its departments or agencies and direct obligations of the U.S. or are backed by the full faith and credit of the U.S. Government or agencies sponsored by the U.S. Government.
- b) Contracts for the present purchase and resale at a specific time in the future, not to exceed one year or, in the case of bond proceeds, not to exceed three years, of specific securities at specified prices at a price differential representing the interest income to be earned by the state. No such contract shall be invested in unless the contract is fully secured by obligations of the United States of other securities backed by the United States having a market value of at least one hundred two percent of the amount of the contract.

NOTE 2. CASH AND CASH EQUIVALENTS (continued)

- c) Contracts for the temporary exchanged or state-owned securities for the use of broker-dealers, banks or other recognized institutional investors in securities, for periods not to exceed one year for a specified fee rate. No such contract shall be invested in unless the contract is fully secured by exchange of an irrevocable letter of credit running to the state, cash or equivalent collateral of at least one hundred two percent of the market value of the securities plus accrued interest temporarily exchanged. The collateral required for either of the forms of investment in sections (b) and (c) shall be delivered to the fiscal agent of New Mexico or its designee contemporaneously with the transfer of funds or delivery of the securities at the earliest time industry practice permits, but in all cases, settlement shall be on a same day basis. Neither of the contracts in (b) or (c) shall be investe4d in unless the contracting bank, brokerage firm or recognized institutional investor has a net worth in excess of five hundred million dollars.
- d) Any of the following investments in an amount not to exceed forty percent of any fund that the state treasurer invests: (1) commercial paper rated "prime" by a national rating service, issued by corporations organized and operating within the U.S.; (2) medium-term notes and corporate notes with a maturity not exceeding five years that are rated A or its equivalent or better by a nationally recognized rating service and that are issued by corporation organized and operating in the U. S.; or (3) an asset backed obligation with a maturity not exceeding five years that is rated AAA or its equivalent by a nationally recognized rating service.
- e) Shares of a diversified investment company pursuant to the Federal Investment Company Act of 1940 that invests in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b), and (d) above provided that the investment company has total assets under management of at least one billion dollars and the investments made by the State Treasurer pursuant to this paragraph are less than five percent of the assets of the investment company, or
- f) Individual, common or collective trust funds of banks or trust companies that invest in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b), and (d) above, provided that the investment manager has assets under management of at least one billion dollars and the investments made by the State Treasurer pursuant to this paragraph are less than five percent of the assets of the individual, common or collective trust fund.

No public funds can be invested in negotiable securities or loans to financial institutions fully secured by negotiable securities at current market value shall be paid out unless there is a contemporaneous transfer of the securities at the earliest time industry practice permits, but in all cases, settlement shall be on a same-day basis either by physical delivery or, in the case of uncertificated securities, by appropriate book entry on the books of the issuer, to the purchaser or to a reputable third-party safekeeping financial institution acting as agent or trustee for the purchaser, which agent or trustee shall furnish timely confirmation to the purchaser.

For additional GASB 40 disclosure information regarding cash held by the State Treasurer, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2008.

NOTE 3. TAXES RECEIVABLE

Taxes receivable for the Racing Receipts Agency Fund consist primarily of pari-mutuel taxes earned by not received at June 30, 2008. These taxes were received shortly after the fiscal year-end

NOTE 4. INTERFUND RECEIVABLE AND PAYABLE

Individual fund interfund receivable and payable balance as of June 30, 2008 is as follows:

<u>Receivable Fund</u>	<u>Payable fund</u>	<u>Amount</u>
Agency Fund – Racing Receipts	Major – Governmental Fund	<u>\$ 58,895</u>

The interfund balance is due to racing receipts from the Agency Fund incorrectly posted to the Governmental Fund. This interfund balance will be transferred into the proper fund during the fiscal year ended June 30, 2009.

NOTE 5. CAPITAL ASSETS

B. Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance <u>June30, 2007</u>	Increase	Decrease	Ending Ending <u>June30, 2008</u>
Governmental Activities				
Capital assets being depreciated				
Furniture and fixtures	\$ 17,332			\$ 17,332
Equipment	48,301	10,000		58,301
Data processing equipment	<u>198,872</u>			<u>198,872</u>
Total capital assets being depreciated	<u>264,505</u>	<u>10,000</u>		<u>274,505</u>
Less accumulated depreciation for:				
Furniture and fixtures	(17,332)			(17,332)
Equipment	(41,516)	(8,114)		(49,630)
Data processing equipment	<u>(177,680)</u>	<u>(5,467)</u>		<u>(183,147)</u>
Total accumulated depreciation	<u>(236,528)</u>	<u>(13,581)</u>		<u>(250,109)</u>
Governmental activities capital assets, net	<u>\$ 27,977</u>	<u>(3,581)</u>		<u>\$ 24,396</u>

Depreciation expense was charged to governmental activities as follows:

General government	<u>\$ 9,383</u>
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NOTE 6. COMPENSATED ABSENCES PAYABLE

Compensatory time is accumulated by qualified employees as follows:

- a) Annual leave – A maximum of 240 hours of such accumulated annual leave may be carried forward into the beginning of the calendar year and any excess is lost. When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours;
- b) Sick Leave – Employees who have accumulated 600 hours of unused sick leave are entitled to be paid for unused sick leave in excess of 600 hours at a rate equal to fifty percent (50%) of their hourly rate of pay for up to 120 hours of sick leave. Payment for unused sick leave may be made only once per fiscal year on either the payday immediately following the first full pay period in January or the first full pay period in July;
- c) Compensatory time – An employee may accrue not more than 240 hours of compensatory time. Compensatory time shall be at a rate of not less than 1-1/2 hours for each hour of employment for which overtime compensation is acquired. If compensation is paid to an employee for accrued compensatory time off, such compensation shall be paid at the regular rate earned by the employee at the time the employee receives such payment.

Accrued annual leave, sick leave and compensatory time are recorded as a current liability in the government-wide financial statements. Compensated absences are paid out of the general fund.

The following is a summary of changes in long-term debt for the year ended June 30, 2008:

	Beginning Balance <u>June 30, 2007</u>	Increase	Decrease	Ending Balance <u>June 30, 2008</u>	Amounts Due Within <u>One Year</u>
Governmental Activities:					
Other liabilities					
Compensated absences	\$ 48,436	84,135	73,547	<u>59,024</u>	<u>\$ 21,249</u>

NOTE 7. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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

NOTE 7. PENSION PLAN –PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

Funding Policy. Plan members are required to contribute 7.42% (ranges from 4.78% to 16.65% depending upon the plan – i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer) of their gross salary. The Commission is required to contribute 16.59% (ranges from 7.0% to 25.72% depending upon the plan) of the gross covered salary. The contribution requirements of plan members and the commission are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Commission's contributions to PERA for the fiscal years ending June 30, 2008, 2007 and 2006 were \$ 127,298, \$ 125,655, and \$ 113,017, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 8 – Post-Employment Benefits – State Retiree Health Care Plan

Plan Description. The Commission's 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 make 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.

NOTE 8 – 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.

The Retiree Health Care Act (section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employer 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 1/1/98 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 Commission's contributions to the RHCA for the years ended June 30, 2008, 2007 and 2006 were \$ 8,710, \$ 8,574 and \$ 8,527, respectively, which equal the required contributions for each year.

NOTE 9 – DEFEFFED COMPENSATION PLAN

The State offers its employees a deferred compensation plan created in accordance with the Internal Revenue code, Section 457.

The plan, available to all state employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the state (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account of each participant.

NOTE 9 – DEFEFFED COMPENSATION PLAN (continued)

It is the opinion of the State’s legal counsel that the State has no liability for losses under the plan but does have the duty of the due care that would be required on an ordinary prudent investor. The State believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Neither the Commission nor the State of New Mexico make any contributions to the deferred compensation plan. All contributions withheld from participants by the Commission have been paid to the New Mexico Public Employees’ Retirement Association which administers the plan.

NOTE 10. ADJUSTMENTS

When capital assets, which are to be used in governmental activities, are purchased or constructed, the cost of those assets are reported as an expenditure in governmental funds. However, the Statement of Net Assets includes those capital assets among the assets of the New Mexico Racing Commission as a whole. The cost of capital assets is allocated over their estimated useful lives (as depreciation expense) to the various programs reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect financial resources, it is not reported in governmental funds.

Statement of Net Assets

Cost of capital assets to date	\$ 274,505
Depreciation expense to date	<u>250,109</u>
	<u>\$ 24,396</u>

Statement of Activities

Cost of capital assets for the year ended June 30, 2008	\$ -0-
Depreciation expense for the year ended June 30, 2008	<u>(9,383)</u>
	<u>\$ (9,383)</u>

Long-term liabilities applicable to the New Mexico racing Commission’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities both current and long-term are for compensated absences and are reported in the Statement of Net Assets.

Statement of Net Assets

Due within one year	\$ 21,249
Due after one year	<u>37,775</u>
	<u>\$ 59,024</u>

Statement of Activities

Net change for the year ended June 30, 2008	<u>\$ 116,054</u>
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NOTE 11. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Commission is currently sharing general office space with the New Mexico gaming control board under a lease which is considered an operating lease for accounting purposes. Lease expenditures for the year ended June 30, 2008 amounted to \$ 77,837.

The following is a schedule by years of future minimum lease payments for the next five years required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2008.

Year	Amount
2009	\$ 80,414
2010	83,543
2011	86,280
2012	89,088
2013	91,968
Thereafter	<u>\$ 1,373,472</u>
	<u>\$ 1,804,765</u>

NOTE 12. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; and natural disaster for which the Commission carries insurance (Workers Compensation, Unemployment compensation, Employee Liability, and Transportation Property) with the State of New Mexico Risk Management Division (RMD) of the General Services Department.

NOTE 13. CAPITAL IMPROVEMENT TAX OFFSET AGENCY FUND

Section 60-1-15(A) of NMSA 1978, imposes a pari-mutuel tax on the daily handle of each licensed racetrack. In accordance with Section 60-1-15(B) of NMSA 1978, two percent (2%) of the pari-mutuel tax on the first two hundred and fifty thousand dollars (\$250,000) of daily handle, "shall be offset by the amount that each licensee shall expend for capital improvement at existing race track facilities".

Capital improvements are limited to "any capital investment in items that are subject to depreciation under the United States Internal Revenue Code". The capital expenditures are subject to approval by the Commission. However, the Commission does not reflect such capital improvement activity and related credits in its financial statements.

The Commission has permitted racetracks to carry forward capital improvement expenditures which will offset future period pari-mutuel taxes. Through June 30, 2008, capital improvements cumulatively exceeded available capital improvement credits by \$ 3,820,151.

NOTE 14. INTER AGENCY TRANSFERS

The New Mexico State Legislature makes appropriations to the departments and agencies of the state of New Mexico. These appropriations are authorizations allowing the department and agencies to make expenditures and, are funded by various sources including the State General Fund.

Interagency transfers between the Commission and the State of New Mexico are reported as external transactions. Revenues and expenses in the State of New Mexico financial statements and the Commission's separately issued financial statements.

Interagency transfers made to the Commission during the year ended June 30, 2008 was as follows:

<u>Governmental Activities</u>	<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
New Mexico State General Fund	853		\$ 2,363,100
New Mexico Racing Commission	192	\$ 2,363,100	

The State General Fund interagency appropriation is presented on the modified accrual basis of accounting on the Commission's Governmental Fund Financial Statements.

The Commission did not revert unused funds of \$ 130,223 back to the State General Fund at June 30, 2008 by the due date of September 30, 2008.

NOTE 14. NEGATIVE NET ASSETS

The net assets – unrestricted of \$ 71,199 in the Statement of Net Assets is the result of the FY 08 unreserved, undesignated fund balance of \$ 130,223 not being reverted to the State General Fund by the required due date. Once this reversion is made the unrestricted net assets will show a deficit balance of (\$ 59,024). This deficit does not mean that the Commission does not have the resources available to pay its bill next year. Rather, it is the result of the compensated absences balance that was accrued at June 30, 2008 but will be paid for out of future appropriations.

STATE OF NEW MEXICO, RACING COMMISSION
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Year Ended June 30, 2008

	<u>Occupational License</u>	<u>Racing Receipts</u>	<u>Suspense Refunds</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 150,525	\$ 1,435,628	\$ 85,836	\$ 1,671,989
Due from other funds	-	58,895	-	58,895
Taxes receivable	-	5,805	-	5,805
	<u>\$ 150,525</u>	<u>\$ 1,500,328</u>	<u>\$ 85,836</u>	<u>\$ 1,736,689</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to State General Fund	135,607	1,500,328	3,706	1,639,641
Receipts held for suspense fund - refund	-	-	82,130	82,130
Due to other state agencies	14,918	-	-	14,918
Due to local governments	-	-	-	-
	<u>\$ 150,525</u>	<u>\$ 1,500,328</u>	<u>\$ 85,836</u>	<u>\$ 1,736,689</u>

See Notes to Financial Statements.

SUPPLEMENTAL INFORMATION

NEW MEXICO, RACING COMMISSION
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
Year Ended June 30, 2008

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Occupational License				
Assets				
Cash and cash equivalents	\$ 188,035	-	37,510	\$ 150,525
Taxes receivable	-	-	-	-
Total assets	\$ 188,035	-	37,510	\$ 150,525
Liabilities				
Due to state general fund	\$ 154,063	557	19,013	\$ 135,607
Due to other state agencies	33,415	19,013	37,510	14,918
Due to local governments	557	-	557	-
Total liabilities	\$ 188,035	19,570	57,080	\$ 150,525
Racing Receipts				
Assets				
Cash and cash equivalents	\$ 788,283	819,041	171,696	\$ 1,435,628
Due from other funds	-	58,895	-	58,895
Taxes receivable	6,292	-	487	5,805
Total assets	\$ 794,575	877,936	172,183	\$ 1,500,328
Liabilities				
Due to State General Fund	\$ 793,075	879,436	172,183	\$ 1,500,328
Receipts held for suspense funds	1,500	-	1,500	-
Due to local governments	-	-	-	-
Total liabilities	\$ 794,575	879,436	173,683	\$ 1,500,328
Suspense Funds				
Assets				
Cash and cash equivalents	\$ 102,996	-	17,160	\$ 85,836
Taxes receivable	-	-	-	-
Due from local governments	17,160	-	17,160	-
Total assets	\$ 120,156	-	34,320	\$ 85,836
Liabilities				
Accounts payable	17,160	-	17,160	-
Due to state general fund	20,866	-	17,160	3,706
Receipts held for suspense fund	82,130	-	-	\$ 82,130
Due to local governments	-	-	-	-
Total Liabilities	\$ 120,156	-	34,320	\$ 85,836
Totals				
Assets				
Cash and cash equivalents	\$ 1,079,314	819,041	226,366	\$ 1,671,989
Due from local governments	17,160	-	17,160	-
Due from other funds	-	58,895	-	58,895
Taxes receivable	6,292	-	487	5,805
Total assets	\$ 1,102,766	877,936	244,013	\$ 1,736,689
Liabilities				
Accounts payable	17,160	-	17,160	-
Due to state general fund	\$ 968,004	879,993	208,356	\$ 1,639,641
Due to other state agencies	33,415	19,013	37,510	14,918
Receipts held for suspense fund	83,630	-	1,500	82,130
Due to local governments	557	-	557	-
Total liabilities	\$ 1,102,766	899,006	265,083	\$ 1,736,689

See notes to Financial Statements.

STATE OF NEW MEXICO, RACING COMMISSION
SCHEDULE OF CASH ACCOUNTS AND INVESTMENTS
Year Ended June 30, 2008

<u>Account Name</u>	<u>Account Type</u>	<u>Financial Statement Balance</u>
Cash in area banks:		
Wells Fargo Bank - Ruidoso	(1)	\$ 16,410
Wells Fargo Bank - Hobbs	(1)	676
Compass Bank - Albuquerque	(1)	45,828
Wells Fargo Bank - Dona Ana County	(1)	575
Compass Bank - Albuquerque	(1)	232
Wells Fargo Bank - Farmington	(1)	8,949
		<u>\$ 72,670</u>

Investment in the State Treasurer General Fund Investment Pool

General Fund	192	\$ 507,150
Occupational License Fund	379	150,525
Racing Receipts Fund	814	1,435,628
Suspense Refunds Fund	845	85,836
		<u>\$ 2,179,139</u>

(1) checking

**STATE OF NEW MEXICO, RACING COMMISSION
SCHEDULE OF CAPITAL IMPROVEMENT PROJECTS
Year Ended June 30, 2008**

	Projects Approved as of June 30, 2007	Project Costs Additional Projects Approved	Projects Approved as of June 30, 2008
Track			
Downs of Albuquerque	\$ 10,128,095	-	\$ 10,128,095
Downs of Santa Fe	5,883,376	-	5,883,376
La Mesa Park	1,958,432	-	1,958,432
Sunland Park	18,094,434	-	18,094,434
New Mexico State Fair	3,326,134	-	3,326,134
Ruidoso Downs	12,040,907	-	12,040,907
Sun Ray Park	1,339,588	-	1,339,588
	\$ 52,770,966	-	\$ 52,770,966

MEMBER
AMERICAN INSTITUTE OF CPA's
NEW MEXICO SOCIETY OF CPA's

OFFICE
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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance With *Governmental
Auditing Standards***

Members of the Commission
New Mexico Racing Commission
and
Hector H. Balderas, New Mexico State Auditor

I have audited the financial statements of the governmental activities, the major fund and the budgetary comparison for the general fund and the aggregate remaining fund information of the New Mexico Racing Commission (Commission), as of and for the year ended June 30, 2008, which collectively comprise the Commission's basic financial statements and have issued my report thereon dated January 15, 2009. I have also audited the combining statement of fiduciary assets and liabilities of the Commission as of June 30, 2008, presented as supplemental information. I conducted my 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 my audit, I considered the Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the Commission'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 Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. I consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting and are identified as items 04-4, 07-3, 07-5, 08-1, 08-2 and 08-4.

Members of the Commission
New Mexico Racing Commission
and
Hector H. Balderas, New Mexico State Auditor

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 Commission's internal control.

My 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, I performed test 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 my audit and, accordingly, I do not express such an opinion. The results of my test disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 07-4 and 08-3.

The Commission's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. I did not audit the Commission's responses and, accordingly, I express no opinion on them.

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

Albuquerque, New Mexico
January 15, 2009

Randy W. Salas, CPA

**STATE OF NEW MEXICO, RACING COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008**

04-4: Cash Management

CONDITION

During my review of transfers from the track accounts to the State Treasurer accounts, I noted that transfers from the track accounts to the State Treasurer Transfer account were not being done on a timely basis. As part of the reporting to the State Treasurer, the Administrative Manager must sign off that the balance in the local bank accounts must not exceed the maximum balance of \$4,000. Since funds have not been transferred out of those accounts, the balances are exceeding the \$4,000.

CRITERIA

Per Section 12-6-5 NMSA 1978, "any violation of law or good accounting practice should be presented as a finding." The Commission is a pass through entity for the purposes of the State Treasurer funds. Prudent money management policies would require the agency to transfer the funds from the various track accounts to the State Treasurer in a reasonable amount of time.

EFFECT

The State of New Mexico does not receive money due to the State General Fund on a timely basis.

CAUSE

The Commission has poorly designed policies and procedures to ensure transfers are done on a specific timetable.

RECOMMENDATION

The Administrative Manager should set up a system to ensure transfers are done on a timely manner. In addition, the amount of the liabilities should be determined on each agency fund and thus the Commission would know the amount that needs to be transferred.

MANAGEMENT RESPONSE

Although the Administrative Manager understands the importance of transferring monies to the State Treasurer's Office, the Commission needs to consider liabilities that need to be paid before funds are transferred such as invoices for fingerprinting costs and funds owed to the different municipalities. The Administrative Manager is training with the State Treasurer's Office staff on identify liabilities owed by the Commission before funds are transferred.

STATE OF NEW MEXICO, RACING COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2008

07-3: Qualifications and Training to Apply Generally Accepted Accounting Principles (GAAP)

CONDITION

The employees or management do not have the qualifications and training to apply GAAP in recording their financial transactions and preparing their financial statements.

CRITERIA

Per Statement on Auditing Standards No. 112, employees or management should possess the qualifications and training to apply generally accepted accounting principles in recording the Commission's financial transactions or preparing its financial statements.

EFFECT

The Commission will not be able to apply generally accepted accounting principles and prepare their own financial statements.

CAUSE

Employees and management upon being employed with the Commission were not required to possess these qualifications or training.

RECOMMENDATION

I recommend that employees or management obtain training to develop their qualifications to be able to prepare their own financial statements.

MANAGEMENT RESPONSE

Although the Commission has a small staff to operate, the Commission concurs with this finding and will attempt to start training the Administrative Manager.

**STATE OF NEW MEXICO, RACING COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2008**

07-4: Reversion to State General Fund at June 30, 2007

CONDITION

The Commission's unreserved undesignated fund balance of \$ 89,317 as of June 30, 2007 was not reverted back to the State General Fund by the September 30, 2007 due date. Although, the Commission subsequently prepared a journal entry to setup the unreserved, undesignated fund balance as a Due to the State General Fund the operating transfer to complete the transaction had not been prepared and posted.

CRITERIA

Per Section 6-5-10, NMSA 1978, requires all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert by September 30, to the state general fund.

EFFECT

The State of New Mexico does not receive money due the State General Fund on a timely basis.

CAUSE

The Commission has poorly designed policies and procedures to monitor reversion of unexpended general fund balances by the September 30, due date.

RECOMMENDATION

I recommend that the Commission develop and implement internal accounting control procedures to monitor reversion of unexpended general fund balances by September 30, of each year to comply with state statute.

MANAGEMENT RESPONSE

The Commission setup the Due to the General Fund from the closing entries provided by the auditor for the year ended June 30, 2007. Subsequently, the operating transfer was prepared and posted by the Administrative Manager.

**STATE OF NEW MEXICO, RACING COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2008**

07-5: Cash In General Fund is Not Being Reconciled

CONDITION

The Commission is not preparing cash reconciliations in its general fund to cash available with the office of the State Treasurer.

CRITERIA

The Financial Control Division (FCD) of the New Mexico Department of Finance and Administration was created by Section 5-5-1 NMSA 1978, as amended. The FCD through the issuance of its Manual of Model Accounting Practices has established for each agency strategic, operational, reporting, and compliance objectives related to the agency's financial operations.

EFFECT

Unreliable accounting data will result in incorrect statements and reports.

CAUSE

The Commission has not completed developing and implementing a formal reconciliation process using the new Statewide Human Resource, Accounting and Management Reporting System (SHARE) treasury management function as outlined in the Manual of Model Accounting Practices.

RECOMMENDATION

I recommend that the Commission continue to develop and implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, implement controls to prevent the submission of processing documents to FCD that are in error or that are for a purpose not authorized by law.

MANAGEMENT RESPONSE

The Commission is in the process of developing and implementing internal accounting controls designed to comply with the Manual of Model Accounting Practices established by FCD.

**STATE OF NEW MEXICO, RACING COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2008**

08-1: Capital Improvement Tax Offset Agency Fund Schedules are not reconciled

CONDITION

The Schedule of Capital Improvement Projects and the Schedule of Capital Improvement Tax Offset Carryovers maintained by the Commission do not account for the Downs of Santa Fe and La Mesa Park. In addition, the total cost of additional projects approved for the current year is not being maintained.

CRITERIA

Section 60-1-15(A) of NMSA 1978, imposes a pari-mutuel tax on the daily handle of each licensed racetrack. In accordance with Section 60-1-15(B) of NMSA 1978, two percent (2%) of the pari-mutuel tax on the first two hundred and fifty thousand dollars (\$250,000) of daily handle, "shall be offset by the amount that each licensee shall expend for capital improvement at existing race track facilities".

EFFECT

The ending balances in the Capital Improvement Tax Offset Agency Fund for the two tracks that terminated operations needs to be reviewed to determine any potential liability or receivable due to the Commission. Also, the schedules on the Capital Improvement Tax Offset Agency Fund will be inaccurate and unreliable because additional project cost approved are not included in the schedules.

CAUSE

When racing activities at the Downs of Santa Fe and La Mesa Park were terminated the Commission deleted the ending balances from its accounting records. Although, the cost of additional projects approved each year is available (i.e. board minutes) the Commission does not keep schedules and summaries for each track location.

RECOMMENDATION

I recommend that the Commission consult with its legal council to determine the consequences, if any, of the ending balances in its Capital Improvement Tax Offset Agency Fund for the two race tracks that have ceased operations. In addition, the Commission needs to keep track of the additional projects approved each year and reconcile these schedules to reflect accurate and reliable data.

MANAGEMENT RESPONSE

The Commission concurs with the finding and will consult with legal council to determine the appropriate action to take on the ending balances for the race tracks that have terminated operations. In addition, the cost of additional projects approved for each race track will be maintained and the schedules will be reconciled to reflect accurate and reliable data.

**STATE OF NEW MEXICO, RACING COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2008**

08-2 Compensated Absences Records

CONDITION

Annual, sick and compensatory earning records maintained by the Commission are incorrect. The total liability computed by the Commission does not consider the limitation amounts applicable to each category (i.e. annual leave is limited to a maximum of 240 hours, sick leave is limited to 120 hours in excess of 600 hours etc.) and thus the total liability amount is grossly overstated.

CRITERIA

The State Audit Rule Section 2.2.2.10 (L) (1) states "Vacation pay and other compensated absences should be computed in accordance with the requirements of GASB Statement No. 16, Accounting for Compensated Absences, and be reported in the financial statements".

EFFECT

The Commission does not have an accurate liability amount for compensated absences payable. The liability amount would be misleading in the preparation of and the monitoring of the annual budget.

CAUSE

The schedule used to summarize and compute the compensated absences liability by the Commission is not formatted to compute the liability amount subject to the limitations for each category of compensated time earned.

RECOMMENDATION

The Administrative Manager should review the schedule used to account for compensated absences earned and format the computation amount to consider the limitation amounts that the Commission is liable for.

MANAGEMENT RESPONSE

When an employee is terminated the compensated time owed is individually reviewed and computed subject to the maximum amounts allowed. But in order to prepare an accurate schedule of the Compensated Absences Liability, the Commission will work on correcting the schedule currently used.

**STATE OF NEW MEXICO, RACING COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2008**

08-3: Reversion to State General Fund for fiscal year ended June 30, 2008

CONDITION

The Commission did not revert the \$ 130,223 unreserved, undesignated fund balance as of June 30, 2008 by the due date as required per Section 6-5-10, NMSA 1978.

CRITERIA

The appropriation authorized to the New Mexico Racing Commission by the New Mexico State Legislature is classified as a "reverting fund". Section 6-5-10, NMSA 1978, requires "all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert by September 30, to the general fund".

EFFECT

The State of New Mexico does not receive money due to the State General Fund on a timely basis.

CAUSE

The Commission has not developed and implemented internal accounting controls to monitor the reversion of unexpended general fund balances by the September 30, due date.

RECOMMENDATION

I recommend that the Commission develop and implement internal accounting control procedures to insure that any required unreserved, undesignated fund balance be reverted back to the State General Fund by the required due date.

MANAGEMENT RESPONSE

The Commission is in the process of developing and implementing internal accounting controls designed to comply with the Manual of Model Accounting Practices established by the Financial Control Division (FCD) of the New Mexico Department of Finance and Administration..

**STATE OF NEW MEXICO, RACING COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2008**

08-4: Audit Report Late

CONDITION

The audit report for the New Mexico Racing Commission at June 30, 2008 was due at the Office of the State Auditor on December 15, 2008. The audit report was late and not submitted until February 13, 2009.

CRITERIA

The State Audit Rule Section 2.2.2.9A(1)(f) states that state agency reports are due no later than 60 days after the Financial Control Division of the Department of Finance and Administration provides the State Auditor with notice that the agency's books and records are ready and available for audit. However, the deadline cannot extend beyond December 15.

EFFECT

The audit report was not available for review and use by the Board of Directors of the Commission, the Department of Finance and Administration and other agencies on a timely manner.

CAUSE

The Department of Finance and Administration, State Contract Office, did not approve the audit contract until November 6, 2008. A copy of the signed contract agreement by all parties involved was not received by the contract auditor until November 18, 2008.

RECOMMENDATION

The amount of time it takes to process audit contracts by the Office of the State Auditor and the Department of Finance and Administration, State Contract Office, should be reviewed to insure that contract agreements are processed in a timely manner to insure that audit report due dates are met.

MANAGEMENT RESPONSE

In the future the Commission will continue to work with the Office of the State Auditor and the Department of Finance and Administration, State Contract Office, to insure that the audit report is completed and submitted by the required due date.

STATE OF NEW MEXICO, RACING COMMISSION
EXIT CONFERENCE
June 30, 2008

Randy W. Salas, CPA, our auditor, prepared draft financial statements and note disclosures from trial balances and records provided by the Commission's management which was subsequently reviewed and approved by management.

An exit conference was held at the office of the New Mexico Racing Commission in Albuquerque, New Mexico on January 15, 2009.

Representing the New Mexico Racing Commission:

Arnold Rael	Chairman
Julian Luna	Executive Director
Laura Valencia	Administrative Manager

Representing the Firm of Randy W. Salas, CPA:

Randy Salas	Audit Manager
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