

**STATE OF NEW MEXICO  
RACING COMMISSION**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2012**



**Certified Public Accountant**

# NEW MEXICO RACING COMMISSION

## TABLE OF CONTENTS

---

<b>Listing of Principal Officials</b> .....	1
<b>Independent Auditors' Report</b> .....	2
<b>Management's Discussion and Analysis</b> .....	5
<b>Financial Statements:</b>	
Statement of Net Assets.....	11
Statement of Activities.....	12
Balance Sheet - Governmental Fund.....	13
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund.....	14
Budget to Actual Comparison Statement - General Fund.....	15
Statement of Fiduciary Assets and Liabilities - Agency Funds.....	16
<b>Notes to Financial Statements</b> .....	18
<b>Supplemental Information:</b>	
Combining Statement of Fiduciary Assets and Liabilities.....	35
Combining Schedule of Changes in Assets and Liabilities - All Agency Funds.....	36
<b>Schedules:</b>	
Schedule of Cash Accounts and Investments.....	37
<b>Other Information:</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	38
Summary Schedule of Prior Year Audit Findings.....	40
Schedule of Findings and Responses.....	41
<b>Exit Conference</b> .....	45

**COMMISSIONERS**

---

<b>Name</b>	<b>Title</b>
Robert M. Doughty III	Chairman
Beverly Bourguet	Vice Chairman
Gayla McCulloch	Member
Jerry G. Cospers, DVM	Member
Ray Willis	Member

**ADMINISTRATIVE OFFICIALS**

---

<b>Name</b>	<b>Title</b>
Vince Mares	Agency Director
Laura Valencia	Administrative Manager



## INDEPENDENT AUDITORS' REPORT

---

Hector H Balderas  
New Mexico Office of the State Auditor  
The Commissioners of the  
New Mexico Racing Commission  
Albuquerque, New Mexico

We have audited the accompanying financial statements of the governmental activities, the general fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of the New Mexico Racing Commission (Commission), as of and for the year ended June 30, 2012, which collectively comprise the Commission's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Commission's nonmajor funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Commission'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 A 1, the financial statements of the New Mexico Racing Commission, State of New Mexico, are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities, the general fund, the budgetary comparison for the general fund, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the New Mexico Racing Commission. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2012 and 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 previously 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 Commission, as of June 30, 2012, 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 our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the fiduciary fund of the Commission as of June 30, 2012, and the respective changes in financial position thereof 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 December 10, 2012 on our consideration of the Commission'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 5 through 10 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, and the combining and individual fund financial statements and budgetary comparisons. The additional schedules listed as "supplemental information" and "schedules" 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 as a whole.

*SP+ Associates P.C.*  
December 10, 2012

## **OVERVIEW**

---

Our discussion and analysis of the New Mexico Racing Commission's (Commission) financial performance provides an overview of our financial activities for the fiscal year ended June 30, 2012. 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 not 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 statements 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 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, 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.

**USING THIS ANNUAL REPORT (Continued)**

**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 funds 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 NEW MEXICO RACING COMMISSION AS A WHOLE**

The New Mexico Racing Commission is funded by appropriations from the New Mexico State General Fund. The Commission is responsible for the regulation of the State's pari-mutuel horse racing industry. During the fiscal year ending June 30, 2012, there were 289 live race days regulated.

Condensed Statement of Net Assets  
 Table A-1

	Governmental Activities		Increase
	2012	2011	(Decrease)
Current assets	\$ 529,673	\$ 518,802	\$ 10,871
Capital and non-current assets (net of depreciation)	-	281	(281)
<b>Total Assets</b>	<b>\$ 529,673</b>	<b>\$ 519,083</b>	<b>\$ 10,590</b>
Current liabilities	\$ 210,010	\$ 214,471	\$ (4,461)
Long-term liabilities	16,579	11,735	4,844
Due to State General Fund	212,825	213,629	(804)
Due to other funds	116,811	116,811	-
<b>Total Liabilities</b>	<b>\$ 556,225</b>	<b>\$ 556,646</b>	<b>\$ (421)</b>
Net Assets:			
Invested in capital assets	\$ -	\$ 281	\$ (281)
Unrestricted (deficit)	(26,552)	(37,844)	11,292
<b>Total Net Assets</b>	<b>\$ (26,552)</b>	<b>\$ (37,563)</b>	<b>\$ 11,011</b>



**THE NEW MEXICO RACING COMMISSION AS A WHOLE (Continued)**

As summarized in Table A-1, Net Assets of \$(26,552) represents the difference between assets and liabilities of the Agency. The deficit presented in net assets does not mean the agency overspent its funding authority. It represents the estimated future cost of compensated absences that will be funded and paid from future appropriations. Compensated absences represent the amount of accrued, but unused, vacation time at current rates to be paid from future appropriations.

Condensed Statement of Activities  
Table A-2

	<u>Governmental Activities</u>		Increase
	<u>2012</u>	<u>2011</u>	<u>(Decrease)</u>
General Revenues/Transfers:			
General fund appropriations	\$ 1,849,336	\$ 2,085,200	\$ (235,864)
Transfer out - reversion FY10	<u>(89,879)</u>	<u>(110,155)</u>	<u>20,276</u>
Total revenues/transfers	<u>1,759,457</u>	<u>1,975,045</u>	<u>(215,588)</u>
Expenses			
Racing regulation	<u>1,748,446</u>	<u>1,930,097</u>	<u>(181,651)</u>
Increase (decrease) in net assets	11,011	44,948	(33,937)
Beginning of year, net assets (deficit)	<u>(37,563)</u>	<u>(82,511)</u>	<u>44,948</u>
End of year, net assets (deficit)	<u>\$ (26,552)</u>	<u>\$ (37,563)</u>	<u>\$ 11,011</u>

The Commission's general fund expenditures decreased by \$181,651 due to budget cutbacks from prior year appropriations.

**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. During the current year and fiscal year 2012, the Commission continues to have its budget reduced by the New Mexico State Legislature due to budget shortfalls that the State of New Mexico is confronting.

**ANALYSIS OF GOVERNMENTAL FUNDS**

---

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 \$1,849,300 from the General Fund appropriation.

Governmental funds expenditures totaled \$1,759,457 and differs from the government-wide expenses of \$1,748,446 by two items as following:

Government fund expenditures	\$ 1,759,457
Decrease in liability for compensated absences	(11,292)
Excess of depreciation over capital outlay	281
Agency government-wide expenses	<u>\$ 1,748,446</u>

**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 consists 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 to the State General Fund during the 2012 fiscal year was \$857,008.

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 annual operating budget is approved by the Department of Finance and Administration. Over the course of the year, the Commission 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 14.

The budgetary basis expenditures were within the approved budgeted amounts. The difference in budget to actual expenditures for the total categories is \$100,854. The original budget of \$1,849,300 for the fiscal year ended June 30, 2012 had no adjustments made by the state or 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. The Commission recognized depreciation in the current year of \$281 on assets acquired in prior years.

The Commission does not have any current or long term debt.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

---

While current economic conditions continue to be of concern statewide, the New Mexico Racing Commission will strive to sustain its current services to the racing industry, while maintaining a minimum budget. In order to comply with the budget reductions in FY12, expense adjustments were made in the areas of equine testing, travel, telecommunications, postage and supplies. The one area of concern for the agency continues to be equine testing, as the agency feels any additional cuts to this area may be detrimental due to the intense competition and high amount of purses. The agency must not only efficiently utilize its existing resources, but also aggressively seek an alternate funding to increase budgeted resources to maintain the integrity of the industry.

With continued anticipation of a new racetrack, the Commission anticipates continued growth in New Mexico horse racing through additional race days, increase in taxes to the state's general fund and race participation from the racing community within state and the surrounding area. Upon approval of the opening of the sixth racing license, the agency will seek special funding for personnel, operation of a new steward/license office, equine testing and travel.

### **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, NM 87113  
(505) 222-0700  
[nmrc@state.nm.us](mailto:nmrc@state.nm.us)

June 30, 2012

	<u>Governmental Activities</u>
<b>Assets:</b>	
Investment in the State General Fund Investment Pool	\$ 529,512
Other receivables	161
Capital assets, net of accumulated depreciation	-
<b>Total Assets</b>	<u><u>\$ 529,673</u></u>
<b>Liabilities:</b>	
Accounts payable	158,285
Accrued salaries and benefits	28,762
Due to state general fund	212,825
Due to other funds	116,811
Compensated absences payable	
Due within one year	22,963
Due after one year	16,579
<b>Total Liabilities</b>	<u>556,225</u>
<b>Net Assets:</b>	
Net assets - unrestricted (deficit)	<u>(26,552)</u>
Total net assets	<u>(26,552)</u>
<b>Total Liabilities And Net Assets</b>	<u><u>\$ 529,673</u></u>

**For the Year Ended June 30, 2012**

	<u>Governmental Activities</u>
<b>Program Expenses:</b>	
Personal services / employee benefits	\$ 947,907
Contractual services	709,336
Other	91,203
Total Program Expenses	<u>1,748,446</u>
 <b>General Revenues/Transfers:</b>	
State general fund appropriation	1,849,300
Other	36
Transfers - reversion to the state general fund	(89,879)
Total General Revenues/Transfers	<u>1,759,457</u>
 <b>Change in Net Assets</b>	 11,011
 <b>Net Assets:</b>	
Beginning of Year	(37,563)
End of Year	<u><u>\$ (26,552)</u></u>

June 30, 2012

	General Fund
<b>Assets:</b>	
Investment in the State General Fund Investment Pool	\$ 529,512
Other receivables	161
<b>Total assets</b>	<b>\$ 529,673</b>
<b>Liabilities:</b>	
Accounts payable	\$ 158,285
Accrued salaries and benefits	28,762
Due to other funds	116,811
Due to state general fund	212,825
<b>Total liabilities</b>	<b>516,683</b>
<b>Fund Balance:</b>	
Assigned to:	
General operations	12,990
<b>Total liabilities and fund balance</b>	<b>\$ 529,673</b>

**Amounts reported for governmental activities in the statement of net assets are different because:**

Fund Balance - Government Funds	\$ 12,990
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	-
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(39,542)
<b>Net Assets of Governmental Activities</b>	<b>\$ (26,552)</b>

The Accompanying Notes Are An Integral Part Of These Financial Statements

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

**For the Year Ended June 30, 2012**

	<u>General Fund</u>
<b>Expenditures</b>	
Current	
Personal services / employee benefits	\$ 947,907
Contractual services	709,336
Other	102,214
Total Expenditures	<u>1,759,457</u>
<b>Other Financing Sources (Uses)</b>	
State general fund appropriation	1,849,300
Other	36
Transfers - reversion to the state general fund	(89,879)
Total other financing sources (uses)	<u>1,759,457</u>
<b>Net change in fund balance</b>	-
<b>Fund balance</b>	
Beginning of Year	12,990
End of Year	<u>\$ 12,990</u>

**Amounts reported for governmental activities in the statement of net assets are different because:**

Net Change in Fund Balances - Total Government Funds	\$ -
 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. Depreciation expense for the current year was	 (281)
 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	 <u>11,292</u>
<b>Change in Net Assets - Governmental Activities</b>	<b>\$ 11,011</b>

**The Accompanying Notes Are An Integral Part Of These Financial Statements**



**NEW MEXICO RACING COMMISSION  
BUDGET TO ACTUAL COMPARISON STATEMENT - GENERAL FUND**

**For the Year Ended June 30, 2012**

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
State general fund appropriations	\$ 1,849,300	\$ 1,849,300	\$ 1,849,300	\$ -
<b>Total Revenues</b>	<u>\$ 1,849,300</u>	<u>\$ 1,849,300</u>	<u>\$ 1,849,300</u>	<u>\$ -</u>
<b>Expenditures</b>				
Personal service/employee benefits	\$ 1,029,600	\$ 1,029,600	\$ 947,907	\$ (81,693)
Contractual services	713,700	713,700	709,336	(4,364)
Other	106,000	106,000	102,214	(3,786)
<b>Total expenditures</b>	<u>\$ 1,849,300</u>	<u>\$ 1,849,300</u>	<u>\$ 1,759,457</u>	<u>\$ (89,843)</u>

**The Accompanying Notes Are An Integral Part Of These Financial Statements**

NEW MEXICO RACING COMMISSION  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS

June 30, 2012

	<u>Agency Funds</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 141,005
Due from other funds	167,857
Investment in the State General Fund Investment Pool	<u>61,473</u>
<b>Total Assets</b>	<u><u>\$ 370,335</u></u>
<b>Liabilities:</b>	
Due to state general fund	<u>\$ 370,335</u>
<b>Total Liabilities</b>	<u><u>\$ 370,335</u></u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

The Agency Funds are used to account for assets held as an agent for individuals, private organizations, other governments, and/or other funds.

**OCCUPATIONAL LICENSE FUND**

---

This fund is a statutory required fund to account for all cash proceeds from issuing badges and ordering fingerprints.

**RACING RECEIPTS FUND**

---

This fund is a statutory required fund to account for collections of all pari-mutuel license, fines and fee receipts. These receipts are transferred to the state general fund. In addition, required gross receipt disbursements to municipalities where qualifying racetrack are located are made.

**SUSPENSE REFUND FUND**

---

This is a statutory required fund to allow for the refund of fines and licensing fees adjudicated to be refunded.

**NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

---

The New Mexico Racing Commission (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 financial statements of the 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. The more significant accounting policies of the Commission 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 Commission, therefore, is part of the primary government of the State of New Mexico, and its financial data should be included with the financial data of the State. The State of New Mexico will present an audited Comprehensive Annual Financial Report (CAFR) inclusive of all agencies of the primary government for fiscal year 2012.

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

**NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**2. Basic Financial Statements**

The Commission's basic financial statements include both government-wide (based on the Commission as a whole) and fund financial statements. The new reporting model focus is on either the Commission 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 Commission 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 governmental revenues. The Statement of Activities reduce 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 Commission includes only one function (general government). When an expense is incurred for purposes when both restricted and unrestricted resources are available, the Commission 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 Commission does not currently employ an indirect cost allocation system.

The government-wide focus is more on the sustainability of the Commission as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The Commission 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 Commission, the only governmental fund is the General Fund, which has been classified as a major fund, as required.

The governmental fund statements are presented on a current financial resource and modified accrual measurement focus of accounting. This presentation is deemed more appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Commission's actual experience conforms to the budget or fiscal plan.

**NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont.)**

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 also presented on the page, which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column on the government-wide presentation.

The Commission's fiduciary funds (agency funds) are 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 Commission 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 Commission, the only individual governmental fund, the General Fund, has been classified as a major fund.

The Commission uses the following fund types:

***Governmental Fund Types***

**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.

**NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**Agency Funds** - A fiduciary fund (agency fund) is used to account for the Occupational License Fund, Racing Receipts Fund and the Suspense Refund Fund used to account for funds received from issuing badges, ordering fingerprints, pari-mutuel license, fines and fee receipts, fines etc. that are disbursed to the State of New Mexico General Fund per state statute. The Commission has no budgetary control over these funds and acts solely as an agent. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement or results of operations.

**4. Basis of Accounting**

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.

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

**Modified Accrual.** 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.

**5. Budgetary Procedures and Accounting**

The State Legislature makes annual appropriations to the Commission. 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 Department of Finance and Administration. The budgets presented had no amendments during the fiscal year.

**NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont.)**

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.

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

1. By September 1st, the Commission prepares a budget request by appropriation unit to be presented to the next legislature;
2. The appropriation request is submitted to the Department of Finance and Administration's Budget Division (DFA) and to the Legislature;
3. DFA makes recommendations and adjustments to the appropriation request, which become the Governor's proposal to the Legislature;
4. The Legislative Finance Committee (LFC) holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature;
5. Both the DFA's and LFC's recommended appropriation proposal are presented to the legislature for approval of the final budget plan;
6. Budgetary control is exercised at the appropriation unit level of the Commission as a whole and changes are approved by the DFA;
7. Appropriations, if reverting, lapse at the end of the year except for amounts in accounts payable after July 31;
8. 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.



**NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**6. Capital Assets**

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

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

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

**7. Encumbrances Accounting**

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, 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.

**8. 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;

**NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont.)**

- 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 performed. If compensation is paid to an employee for accrued compensatory time off, such compensation shall be paid at the regular rate by the employee at the time the employee receives such payment.

The compensated absences payable is included in the government-wide financial statements.

**9. Reversion to State General Fund**

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".

The following is a computation of the reversion amount due at June 30, 2012:

Fund balance assigned at July 1, 2011	\$ 12,990
State general fund appropriation and other revenue	1,849,336
Budgetary basis expenditures	(1,759,457)
Reversion due to the State General Fund June 30, 2012	<u>(89,879)</u>
Fund balance-assigned	<u><u>\$ 12,990</u></u>

The Commission's reversions are calculated using the budgetary basis expenditures because the Commission does not have the legal authority to obligate the State for liabilities once the appropriation period has lapsed.

**10. 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 assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Commission did not have any related debt during the year ended June 30, 2012.

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

**NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**Restricted Net Assets** - net assets should be reported as restricted when constraints placed on net assets 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.

There were no net assets restricted by enabling legislation during the current year.

**11. Fund Balance**

In fiscal year 2011, the Commission implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions" This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a governments fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

Nonspendable fund balance-amounts that are not in spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance- amounts constrained to specific purposes by their providers (such as grantors), through constitutional provisions, or by enabling legislation;

Committed fund balance- amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

Assigned fund balance- amounts a government intends to use for a specific; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance- amounts that are available for any purpose

**NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**12. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE B - CASH AND CASH EQUIVALENTS**

The Commission maintained a combined cash balance of \$141,005 at June 30, 2012 in six different financial institutions throughout the state. These balances for demand deposits were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for each of these financial institutions.

No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation according to Section 6-10-16 NMSA 1978.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits (in excess of FDIC insurance) may not be returned to them. As of June 30, 2012, the Commission's bank balances of \$141,005 were not exposed to custodial credit risk because they were fully insured by the FDIC.

**NOTE C - STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED**

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%20Control.aspx). The document title is Current State Diagnostic of Cash Control.

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.

**NOTE C - STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED (continued)**

---

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 New Mexico racing Commission's balances at the business unit/fund level is not possible.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. Management believes that these changes will allow for the completion of a timely and accurate reconciliations. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items. Furthermore, Section 6-5-2.1(J) NMSA 1978 requires DFA to complete, on a monthly basis, reconciliations with balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on 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).

Since the notification of the error, the Commission is developing an internal reconciliation process to ensure that cash receipts and disbursements recorded in the SHARE system are in fact transactions that have been initiated by the Commission. The reconciliation will occur each month and any required adjustments will be forwarded to the Financial Control Division at DFA for correction. The monthly internal reconciliation of cash receipts and disbursements flowing through the Commission's share of the state general fund investment pool provides management assurance that the balance reflected in State General Fund Investment Pool account is accurate as of the end of the reporting period.

**NOTE C - INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL**

Investments of the Commission consist of its interest in the State General Fund Investment Pool, which is managed by the New Mexico State Treasurer. The fair value of the investments maintained at the New Mexico State Treasurer's Office at June 30, 2012 is as follows:

<u>Investment</u>	Fair Value June 30, 2012
New Mexico State Treasurer's Office General Fund Investment Pool	<u>\$ 590,985</u>

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

<u>Fund</u>	<u>SHARE Fund No.</u>	Fair Value June 30, 2012
General Fund	69000	\$ 529,512
Agency Funds	95100	61,473
		<u>\$ 590,985</u>

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission does not have an investment policy that limits investment interest rate risk. Management estimates that the State General Fund Investment Pool is presented at a value which approximates fair value. For additional disclosure information regarding the investment in the State Treasurer's SGFIP, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2012, and review the State Treasurer's Investment Policy at <http://www.stonm.org/Investments/InvestmentPolicy>.

**NOTE D - CAPITAL ASSETS**

Following are the changes in capital assets for the year ended June 30, 2012:

	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
<b>Governmental Activities</b>				
<b>Capital assets being depreciated</b>				
Furniture and fixtures	\$ 17,332	\$ -	\$ -	\$ 17,332
Equipment	58,301	-	-	58,301
Data processing equipment	198,872	-	-	198,872
	<u>274,505</u>	<u>-</u>	<u>-</u>	<u>274,505</u>

**NOTE D - CAPITAL ASSETS (continued)**

<b>Less accumulated depreciation for</b>				
Furniture and fixtures	(17,332)	-	-	(17,332)
Equipment	(58,020)	(281)	-	(58,301)
Data processing equipment	(198,872)	-	-	(198,872)
	<u>(274,224)</u>	<u>(281)</u>	<u>-</u>	<u>(274,505)</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 281</u>	<u>\$ (281)</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was charged to governmental activities as follows:

General government	<u>\$ 281</u>
--------------------	---------------

**NOTE E - COMPENSATED ABSENCES PAYABLE**

Long-term liability activity for the Commission for the year ended June 30, 2012, is as follows:

	Balance 6/30/2011	Increase	Decrease	Balance 6/30/2012	Due Within One Year
<b>Governmental Activities</b>					
<b>Other Liabilities</b>					
Compensated absences	<u>\$ 50,834</u>	<u>\$ 44,812</u>	<u>\$ 56,104</u>	<u>\$ 39,542</u>	<u>\$ 22,963</u>

Compensated absences are paid out of the general fund.

**NOTE F - 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](http://www.pera.state.nm.us).

**NOTE F - PENSION PLAN - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)**

---

**Funding Policy.** Plan members are required to contribute 10.67% (ranges from 3.83% 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 13.34% (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, 2012, 2011 and 2010 were \$75,315, \$108,145, and \$124,451, respectively, which equal to the amount of the required contributions for each fiscal year.

**NOTE G - POSTEMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN**

---

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

Eligible retirees are:

- (1) Retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement;
- (2) Retirees defined by the Act who retired prior to July 1, 1990;
- (3) Former legislators who served at least two years;
- (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 G - POSTEMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN (continued)**

**Funding Policy.** The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee was required to contribute .91% of their salary. In the fiscal years ending June 30, 2013 the contribution rates for employees and employers will rise as follows:

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

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY 13	2.000%	1.000%

(2) For employees who are members of an enhanced retirement plan (state police and adult correctional officer coverage plan 1; municipal police member coverage plans 3, 4, and 5; municipal fire member coverage plan 3, 4, and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978]), during the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 2.084% of each participating employee's annual salary, and each participating employee was required to contribute 1.042% of their salary. In the fiscal year ending June 30, 2012 and June 30, 2013, the contribution rates for both employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY 13	2.500%	1.250%

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

**NOTE G - POSTEMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN (continued)**

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, 2012, 2011, and 2010 were \$10,845, \$12,444, and \$10,648, respectively, which equal the required contributions for each year.

**NOTE H - DEFERRED COMPENSATION PLAN**

The State offers its employees a deferred compensation plan created in accordance with 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.

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 due care that would be required of 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 I - RECONCILIATION OF BUDGET BASIS TO GAAP - EXPENSES**

	<u>Expenses</u>
Budget basis expenditures	\$ 1,759,457
Depreciation	281
Decrease in compensated absences	(11,292)
GAAP basis expenses	<u>\$ 1,748,446</u>

**NOTE J - RISK MANAGEMENT**

---

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters 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 K - STATE GENERAL FUND APPROPRIATIONS**

---

During the year ended June 30, 2012, State General Fund Appropriations consist of the following:

2011 Regular Session, Chapter 179, Section 4	<u>\$ 1,849,300</u>
--	---------------------

**NOTE L - TRANSFERS TO STATE GENERAL FUND**

---

During the year, the following cash transfers were made from the Commission to the State of New Mexico's General Fund:

	<u>Amount</u>
Racing Receipts Fund:	
Transfer from Fund #81400 to Fund #85300	<u>\$ 857,008</u>

During the year, the following cash transfers were made from the Commission to the State of New Mexico's General Fund:

General Fund Reversions:	
Transfer from Fund #19200 to Fund #85300 for FY11 fund balance	90,854
	<u>\$ 90,854</u>

**NOTE M - DUE TO OTHER FUNDS**

---

In 2011, an error was made in posting of cash that should have been posted to the Racing receipts fund. The Commission expects to transfer the monies to Racing Receipts fund in this fiscal year.

**NOTE N - DUE TO STATE GENERAL FUND**

---

Due to state general fund consists of the following items as of June 30, 2012:

General Fund Reversions:

FY09 Reversion - not paid in FY 12	\$ 73,900
FY10 Reversion - not paid in FY 11	27,087
FY11 reversion - ending fund balance	19,755
FY12 reversion	89,879
Stale dated checks	2,204
	<u>\$ 212,825</u>

**NOTE O - NET ASSETS - UNRESTRICTED (DEFICIT)**

---

The net assets - unrestricted (deficit) of \$26,552 in the Statement of Net Assets is primarily due to the following: created from \$39,542 of compensated absences that were accrued at June 30, 2012 but will be paid for out of future appropriations.

## COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES-AGENCY FUNDS

June 30, 2012

	Occupational License	Racing Receipts	Suspense Refunds	Total
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ 141,005	\$ -	\$ 141,005
Due from other funds	51,046	116,811	-	167,857
Investment in the State				
General Fund Investment Pool	(34,452)	-	95,925	61,473
	<u>\$ 16,594</u>	<u>\$ 257,816</u>	<u>\$ 95,925</u>	<u>\$ 370,335</u>
<b>Liabilities</b>				
Due to state general fund	\$ 16,594	257,816	\$ 95,925	\$ 370,335
	<u>\$ 16,594</u>	<u>\$ 257,816</u>	<u>\$ 95,925</u>	<u>\$ 370,335</u>

**NEW MEXICO RACING COMMISSION**  
**COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**

For the Year Ended June 30, 2012

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
<b>Occupational License - Assets</b>				
Investment in STGF investment pool	\$ 16,594	\$ -	\$ 51,046	\$ (34,452)
Due from other funds	-	51,046	-	51,046
Total assets	<u>\$ 16,594</u>	<u>\$ -</u>	<u>\$ 51,046</u>	<u>\$ 16,594</u>
<b>Occupational License - Liabilities</b>				
Due to state general fund	\$ 16,594	-	-	\$ 16,594
Total Liabilities	<u>\$ 16,594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,594</u>
<b>Racing Receipts - Assets</b>				
Cash and cash equivalents	\$ 132,956	\$ 865,057	\$ 857,008	\$ 141,005
Due from other funds	116,811	-	-	116,811
Total assets	<u>\$ 249,767</u>	<u>\$ 865,057</u>	<u>\$ 857,008</u>	<u>\$ 257,816</u>
<b>Racing Receipts - Liabilities</b>				
Due to state general fund	\$ 249,767	\$ 865,057	\$ 857,008	\$ 257,816
Total Liabilities	<u>\$ 249,767</u>	<u>\$ 865,057</u>	<u>\$ 857,008</u>	<u>\$ 257,816</u>
<b>Suspense Funds - Assets</b>				
Investment in STGF investment pool	\$ 95,925	\$ -	\$ -	\$ 95,925
Total assets	<u>\$ 95,925</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,925</u>
<b>Suspense Funds - Liabilities</b>				
Due to state general fund	\$ 95,925	\$ -	\$ -	\$ 95,925
Total Liabilities	<u>\$ 95,925</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,925</u>
<b>Total Assets</b>				
Cash and cash equivalents	\$ 132,956	\$ 865,057	\$ 857,008	\$ 141,005
Investment in STGF investment pool	112,519	-	51,046	61,473
Due from other funds	116,811	51,046	-	167,857
Total assets	<u>\$ 362,286</u>	<u>\$ 916,103</u>	<u>\$ 908,054</u>	<u>\$ 370,335</u>
<b>Total Liabilities</b>				
Due to state general fund	362,286	865,057	857,008	370,335
Total Liabilities	<u>\$ 362,286</u>	<u>\$ 865,057</u>	<u>\$ 857,008</u>	<u>\$ 370,335</u>

**NEW MEXICO RACING COMMISSION  
SCHEDULE OF CASH ACCOUNTS AND INVESTMENTS**

**For the Year Ended June 30, 2012**

Account Name	Account Type	Financial Statement Balance
<b>Cash and cash equivalents in area banks:</b>		
Compass Bank - Albuquerque	Checking	\$ 97,749
Compass Bank - Albuquerque	Checking	2,538
Wells Fargo Bank - Farmington	Checking	12,418
Wells Fargo Bank - Ruidoso	Checking	25,284
Wells Fargo Bank - Hobbs	Checking	1,454
Wells Fargo Bank - Dona Ana County	Checking	1,562
		<u>\$ 141,005</u>

**Investment in State Treasurer General Fund Investment Pool**

	NMRC Fund Number	Fund Balance
General Fund	192	\$ 529,512
Occupational License Fund	379	(34,452)
Suspense Refunds Fund	845	95,925
		<u>\$ 590,985</u>

Collateral Pledged

The above cash with area banks represents balances for demand deposits which were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for each of the financial institutions.

No security is required for the deposit of public money that is insured by the FDIC according to Section 6-10-16 NMSA 1978.



**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 Office of the State Auditor  
The Commissioners of the  
New Mexico Racing Commission  
Albuquerque, New Mexico

We have audited the financial statements of the governmental activities, the general fund, the aggregate remaining fund information, the budgetary comparison for the general fund, and the combining statement of fiduciary assets and liabilities presented as supplemental information of the New Mexico Racing Commission (Commission) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 10, 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 Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission'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 Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.



A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses listed as finding 07-3.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies listed as finding 04-4.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain other matters that are required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as finding 12-1.

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

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

  
December 10, 2012

**NEW MEXICO RACING COMMISSION**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**For The Year Ended June 30, 2011**

Finding	Status
04-4 Cash Management	Repeated and Modified
07-3 Qualifications and Training to Apply Generally Accepted Accounting Principles (GAAP)	Repeated and Modified
11-1 Incomplete/Missing Payroll Forms	Resolved
11-2 Reversion to State General Fund	Repeated and Modified as 12-1

**Section I - Summary of Auditors' Results**

---

**Financial Statements**

Type of auditors' report issued: Unqualified

**Internal Control Over Financial Reporting:**

- Material weakness(es) identified? Yes

Finding 07-3

- Significant deficiencies identified that are not considered to be material weakness(es)? Yes

Finding 04-4

## Section II - Financial Statement Findings

---

### 04-4 - Cash Management

#### **CONDITION**

During our review of cash we noted the following exceptions:

Transfers from the individual track accounts to the State Treasurer Transfer account we noted that transfers from the track accounts to the State Treasurer's account were not being performed on a timely basis.

#### **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 purpose of the State Treasurer funds. Prudent money management policies would require the agency transfer funds received from the various track accounts to the State Treasurer in a reasonable amount of time.

#### **CAUSE**

The New Mexico Racing Commission does not have policies or procedures in place to ensure that transfers are being done within a specific timetable.

#### **EFFECT**

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

#### **RECOMMENDATION**

The management should set up a system to ensure that transfers are being performed in a timely manner.

#### **MANAGEMENT RESPONSE**

Internal controls are being developed to accommodate two monthly transfers, 1st and 19th of each month, the process will also account for liability amounts for each fund to ensure each transfer is accounted for accurately. A report will be provided on a monthly basis to management to ensure compliance. The approval of an additional financial person will help to ensure compliance.

**Section II - Financial Statement Findings**

---

**07-3 - Qualifications and Training to Apply Generally Accepted Accounting Principles (GAAP)(Material Weakness)**

***CONDITION***

During our testwork for the Commission, it was noted that the Commission is unable to prepare their own financial statements. Management does not have the qualifications and training necessary to apply GAAP in preparing their financial statements.

***CRITERIA***

Per Statement on Auditing Standards No. 115, the person responsible for the accounting and reporting function should possess the skill and knowledge to apply GAAP in preparing the Commission's financial statements.

***CAUSE***

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

***EFFECT***

The Commission cannot prepare their own financial statements.

***RECOMMENDATION***

We recommend that employees responsible for financial reporting obtain training to develop their skills over preparation of their own financial statements.

***MANAGEMENT RESPONSE***

Training to eliminate this finding will be requested prior to next financial audit. With turnover in staff, finding time to schedule training is difficult.

**Section III - Other Matters as Required by New Mexico State Statute 12-6-5, NMSA 1978**

---

**12-1 - Reversion to State General Fund**

***CONDITION***

The Commission's unreserved undesignated fund balance of \$89,842.75 as of June 30, 2012 was reverted in a timely fashion, but the amount was not correct and an additional reversion is needed for an additional \$36.08.

The commission still has not reverted the additional funds from FY2009, FY2010, and FY 2011 totaling approximately \$73,900, \$27,087 and \$19,755 respectively.

***CRITERIA***

Under NMSA 1978, Section 6-5-10, all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system (SHARE) as of June 30 shall revert by September 30 or within forty-five days of release of the audit report for that fiscal year to the general fund.

***CAUSE***

The Commission did not put in place procedures to monitor reversion of unexpended general fund balances by the required due date.

***EFFECT***

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

***RECOMMENDATION***

We recommend that the Commission develop and implement internal accounting control procedures to monitor reversion of unexpended general fund balances to comply with state statute.

***MANAGEMENT RESPONSE***

Reversion was processed to ensure DFA compliance date, which allows for adjustments to be made after auditor review for any changes that may need to be done. Paperwork was also completed for previous years for reversion, a request to DFA has been sent to find out why incomplete.

**For the Year Ended June 30, 2012**

---

An exit conference was held on December 11, 2012, with the following in attendance:

New Mexico Racing Commission

Robert Doughty, Chairman

Vince Mares, Agency Director

SP & Associates, P.C.

Scott Peck, Principal

SP & Associates, P.C. 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.