



Timothy Keller
State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR
Elected for Better Government

Sanjay Bhakta, CPA, CGFM,
CFE
Deputy State Auditor

VIA EMAIL

February 2, 2015

Vince Mares, Director
C/O Laura M. Valencia, Administrative Manager
New Mexico Racing Commission
laura.valencia@state.nm.us

Dear Director Mares,

The Office of the State Auditor reviewed the audit of the New Mexico Racing Commission for Fiscal Year 2014. As part of our review, our team identified select matters and findings that we will refer for additional test work in the Fiscal Year 2015 audit, and which may lead to subsequent actions by our office.

We intend to require additional test work and to require specific details related to the auditor determination of whether the Department has implemented its proposed changes to internal controls to address:

- **Finding 2013-001**, identifying a significant deficiency because the Commission does not perform monthly reviews of transactions for the Investment in the State General Fund Investment Pool to ensure that the agency's balances in SHARE are correct. As you know, this is an issue of the utmost importance to the State as a whole.
- **Finding 2014-002**, identifying an "other matter" because the Commission did not follow the State-mandated procurement process for a professional service contracted that exceeded \$60,000.

Please do not hesitate to contact our auditor Lori Narvaiz at Lori.Narvaiz@osa.state.nm.us or (505) 476-3800 if you have questions about this letter.

Sincerely,

A handwritten signature in black ink that reads "Timothy Keller".

Tim Keller, State Auditor



Timothy Keller
State Auditor

Sanjay Bhakta, CPA, CGFM, CFE
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR
Elected for Better Government

February 2, 2015

SAO Ref. No. 469

Vince Mares, Director
State Racing Commission
4900 Alameda NE
Albuquerque, NM 87113-4900

SUBJECT: Audit Report—State Racing Commission—2013-2014 Fiscal Year—Prepared by MP Group, Inc.

The audit report for your agency was received by the Office of the State Auditor (Office) on December 15, 2014. The State Auditor's review of the audit report required by Section 12-6-14 (B) NMSA 1978 and 2.2.2.13 NMAC has been completed. This letter is your authorization to make the final payment to the independent public accountant (IPA) who contracted to perform your agency's financial and compliance audit. In accordance with the Section 2 of the audit contract, the IPA is required to deliver the specified number of copies of the audit report to the agency.

Pursuant to Section 12-6-5 NMSA 1978, the audit report does not become public record until five days after the date of this release letter, unless your agency has already submitted a written waiver to the Office. Once the five-day period has expired or upon the Office's receipt of a written waiver, the audit report shall be:

- released by the Office to the Legislative Finance Committee, the Department of Finance and Administration, and the State Treasurer
- posted by the Office to our website

The independent public accountant's findings and comments are included in the audit report on pages 42-45. **It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments. Section 2.2.2.10(J) NMAC requires that an exit conference be held with representatives of the agency's governing authority and top management.**

A handwritten signature in cursive script that reads "Timothy Keller".

Timothy Keller
State Auditor

cc: MP Group, Inc.

**STATE OF NEW MEXICO
RACING COMMISSION**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2014**



NEW MEXICO RACING COMMISSION

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COMMISSIONERS

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

ADMINISTRATIVE OFFICIALS

Name	Title
Vince Mares	Executive 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

Report on Financial Statements

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, 2014, and the related notes 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 fiduciary funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining fund financial statements as of and for the year ended June 30, 2014, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2014, 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 funds of the Commission as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Information

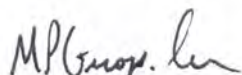
As discussed in Note A 1, the financial statements of the New Mexico Racing Commission, State of New Mexico, are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities, the general fund, the budgetary comparison for the general 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, 2014 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.

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.

The supplemental information and schedules are the responsibility of management and were derived from and relate 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014 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* in considering the Commission's internal control over financial reporting and compliance.



December 8, 2014

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, 2014. 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 Position 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 (cont.)

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 position and changes in net position 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, 2014, there were 286 live race days regulated.

Condensed Statement of Net Position
Table A-1

	Governmental Activities		Increase (Decrease)
	2014	2013	
Current assets	\$ 474,136	\$ 505,221	\$ (31,085)
Capital and non-current assets (net of depreciation)	-	-	-
Total Assets	\$ 474,136	\$ 505,221	\$ (31,085)
Current liabilities	\$ 177,728	\$ 160,388	\$ 17,340
Long-term liabilities	23,220	22,796	424
Due to State General Fund	309,628	169,478	140,150
Due to other funds	-	116,811	(116,811)
Total Liabilities	\$ 510,576	\$ 469,473	\$ 41,103
Deferred special appropriations	\$ -	\$ 67,500	\$ (67,500)
Total Deferred Inflow of Resources	\$ -	\$ 67,500	\$ (67,500)
Net Position:			
Unrestricted (deficit)	\$ (36,440)	\$ (31,752)	\$ (4,688)
Total Net Position	\$ (36,440)	\$ (31,752)	\$ (4,688)

THE NEW MEXICO RACING COMMISSION AS A WHOLE (cont.)

As summarized in Table A-1, Net Position of \$(36,440) represents the difference between assets and liabilities of the Agency. The deficit presented in net position 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, annual and sick leave at current rates to be paid from future appropriations.

Condensed Statement of Activities
Table A-2

	Governmental Activities		Increase (Decrease)
	2014	2013	
General Revenues/Transfers:			
General fund appropriations	\$ 2,352,200	\$ 1,983,000	\$ 369,200
Special appropriations	67,500	-	67,500
Transfer out - reversion	(181,319)	(46,496)	(134,823)
Total revenues/transfers	<u>2,238,381</u>	<u>1,936,504</u>	<u>301,877</u>
Expenses			
Racing regulation	<u>2,243,069</u>	<u>1,941,704</u>	<u>301,365</u>
Increase (decrease) in net position	(4,688)	(5,200)	512
Beginning of year, net position (deficit)	(31,752)	(26,552)	(5,200)
End of year, net position (deficit)	<u>\$ (36,440)</u>	<u>\$ (31,752)</u>	<u>\$ (4,688)</u>

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, the Commission has had an increase in their budget largely due to new database technology related expenditures and additional investigators hired during the year to ensure enforcement of state laws and regulations at each of the state's horse racing facilities.

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 \$2,419,700 from the General Fund appropriation which includes \$67,500 of special appropriations.

ANALYSIS OF GOVERNMENTAL FUNDS (cont.)

Governmental funds expenditures totaled \$2,238,381 and differs from the government-wide expenses of \$2,243,069 by one item as follows:

Government fund expenditures	\$ 2,238,381
Increase in liability for compensated absences	4,688
Agency government-wide expenses	<u>\$ 2,243,069</u>

ANALYSIS OF BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

The Commission maintains one governmental fund 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 from the Racing Receipts Fund during the 2014 fiscal year was \$841,175.

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 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 15.

The budgetary basis expenditures were within the approved budgeted amounts. The difference in budget to actual expenditures for the total categories is \$181,319. The Commission came under budget mostly due to staff turnover and delayed hiring of new staff which caused personnel related expenditures to be substantially lower than budget amounts. The original budget of \$2,419,700, including \$67,500 for special appropriations, for the fiscal year ended June 30, 2014 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 did not recognize any depreciation on assets acquired in the current year or prior years.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

As a whole, the horse racing industry continues to struggle to endure in the current economy, with the New Mexico racing industry also facing similar challenges to maintain its integrity. During FY14, the Commission's main focus was to revive and restore integrity and value within New Mexico horse racing beginning with our goals and objectives. Many of these goals were achieved within the passing fiscal year.

With regards to equine drug testing, additional funding has been awarded the Commission in order to provide additional testing. The additional testing helps to ensure not only integrity among the racing participants, but also the safety of human and equine athletes, which is of the utmost importance. A comprehensive testing program, which includes a nationally accredited laboratory, additional testing, and oversight, will help restore the confidence of all racing participants.

In FY14, the Commission has maintained its ARCI (American Racing Commissioners International) membership, which has provided the Commission with resources and services not available in the past and most recently, the new license database. It was introduced at Ruidoso Downs in May, 2014. Available now to the staff is a more efficient and dependable system which allows for real time communication between the main office and field offices.

With the approval of FY15 operating budget, authorization for additional staff was established. This will allow the Commission to address the issue of oversight, not only for financial issues but also for budgetary issues, concentrating on budget and financial accountability. The additional staff will allow the Commission an enhanced focus on customer service, accountability and an overall improvement in its services.

The executive director has become proactive in objectives for the subsequent years' budget appropriation including working with legislators. Issues that are being addressed include relocating the Commission to allow for continued growth and autonomy as well as changing legislation to allow the Racing Commission oversight of illegal bush tracks, which would allow the Commission to hire law enforcement certified staff. There has also been a legislative subcommittee set up to review the opportunity to streamline the Commission's adjudication process and hire legal staff to include legal council and/or a hearing officer.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (cont.)

With the upcoming fiscal year, the Commission's management will continue to move forward and achieve its goals to progress forward in an industry with constant change. We will seek out alternative ways to improve on services and accountability within our agency and its employees.

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

June 30, 2014

	<u>Governmental Activities</u>
Assets:	
Unrestricted investment in the State General Fund Investment Pool	\$ 473,975
Other receivables	161
Capital assets, net of accumulated depreciation	<u>-</u>
Total assets	<u>\$ 474,136</u>
Liabilities:	
Accounts payable	\$ 124,799
Accrued salaries and benefits	26,719
Due to state general fund	309,628
Compensated absences payable	
Due within one year	26,210
Due after one year	<u>23,220</u>
Total liabilities	<u>510,576</u>
Net Position:	
Unrestricted (deficit)	<u>(36,440)</u>
Total net position	<u>(36,440)</u>
Total liabilities and net position	<u>\$ 474,136</u>

For the Year Ended June 30, 2014

	<u>Governmental Activities</u>
Program Expenses:	
Personal services / employee benefits	\$ 1,136,523
Contractual services	891,768
Other	214,778
Total program expenses	<u>2,243,069</u>
General Revenues/Transfers:	
State general fund appropriations	2,352,200
State special appropriations	67,500
Transfers - reversion to the state general fund	<u>(181,319)</u>
Total general revenues/transfers	<u>2,238,381</u>
Change in net position	(4,688)
Net Position:	
Beginning of year	(31,752)
End of year	<u><u>\$ (36,440)</u></u>

June 30, 2014

	General Fund
Assets:	
Unrestricted investment in the State General Fund Investment Pool	\$ 473,975
Other receivables	161
Total assets	<u>\$ 474,136</u>
Liabilities:	
Accounts payable	\$ 124,799
Accrued salaries and benefits	26,719
Due to state general fund	309,628
Total liabilities	<u>461,146</u>
Fund Balance:	
Assigned to:	
General operations	<u>12,990</u>
Total liabilities and fund balance	<u>\$ 474,136</u>

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

Fund Balance - Government Funds	\$ 12,990
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(49,430)</u>
Net Position of Governmental Activities	<u>\$ (36,440)</u>

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

For the Year Ended June 30, 2014

	General Fund
Expenditures	
Personal services / employee benefits	\$ 1,136,523
Contractual services	891,768
Other	210,090
Total expenditures	<u>2,238,381</u>
Other Financing Sources (Uses)	
State general fund appropriations	2,352,200
State special appropriations	67,500
Transfers - reversion to the state general fund	(181,319)
Total other financing sources (uses)	<u>2,238,381</u>
Net change in fund balance	-
Fund balance	
Beginning of year	12,990
End of year	<u>\$ 12,990</u>

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

Net Change in Fund Balances - Total Government Funds	\$ -
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 increase in the liability for compensated absences payable for the year was	<u>(4,688)</u>
Change in Net Position - Governmental Activities	<u>\$ (4,688)</u>

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, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
State general fund appropriations	\$ 2,352,200	\$ 2,352,200	\$ 2,352,200	\$ -
State special appropriations	67,500	67,500	67,500	-
Total revenues	<u>\$ 2,419,700</u>	<u>\$ 2,419,700</u>	<u>\$ 2,419,700</u>	<u>\$ -</u>
Expenditures				
Personal service/employee benefits	\$ 1,281,500	\$ 1,281,500	\$ 1,136,523	\$ (144,977)
Contractual services	923,900	923,900	891,768	(32,132)
Other	146,800	146,800	146,106	(694)
Database software and equipment	67,500	67,500	63,984	(3,516)
Total expenditures	<u>\$ 2,419,700</u>	<u>\$ 2,419,700</u>	<u>\$ 2,238,381</u>	<u>\$ (181,319)</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, 2014

	Agency Funds
Assets:	
Cash and cash equivalents	\$ 67,960
Investment in the State General Fund Investment Pool	163,988
Fines Receivable	449,200
Total assets	<u>\$ 681,148</u>
Liabilities:	
Due to state general fund	\$ 681,148
Total liabilities	<u>\$ 681,148</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 capacity 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. Excess receipts are transferred to the state general fund.

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 return 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. 61, *The Financial Reporting Entity: Omnibus*, effective for periods beginning after June 15, 2012, establishes standards for defining and reporting on the financial reporting entity. The requirements of GASB No. 61 apply at all levels to all state and local governments.

GASB No. 61 defines the financial reporting entity as consisting of the primary government, organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the

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

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 Comprehensive Annual Financial Report (CAFR) inclusive of all agencies of the primary government for fiscal year 2014.

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 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 Position, 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, 2014. 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 reduces gross expenses (including depreciation) by related program revenues, operating grants, 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 fund financial statements have an emphasis 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 unassigned 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 fund 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.

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.

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

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. The General Appropriation Act establishes the modified accrual basis of accounting for governmental funds as the budgetary basis of accounting for the State of New Mexico.

6. 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.

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

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
Data 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;
- 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.

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

9. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of resources that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Commission reports the unavailable revenues from one source: special appropriations from the State General Fund. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

10. 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, 2014:

Fund balance assigned at July 1, 2013	\$ 12,990
State general fund appropriation and other revenue	2,419,700
Budgetary basis expenditures	(2,238,381)
Reversion due to the State General Fund June 30, 2014	<u>(181,319)</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.

11. Net Position

The Government-Wide Fund financial statements utilize a net position presentation. Net position is 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, 2014.

Unrestricted Deficit - represents the deficit of total assets over total liabilities and net position invested in capital assets at June 30, 2014.

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

Restricted Net Position - net position should be reported as restricted when constraints placed on the net position 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 was no net position restricted by enabling legislation during the current year.

12. Fund Balance

GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions" provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's 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.)

13. 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 \$67,960 at June 30, 2014 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, 2014, the Commission's bank balances of \$67,960 were not exposed to custodial credit risk because they were fully insured by the FDIC.

NOTE C - INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL

For cash management and investment purposes, the Commission's funds are deposited in the State General Fund Investment Pool (Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by various agencies investing in the Pool, including the Commission.

In June 2012, an independent expert diagnostic report revealed that the 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. This report, entitled "Current State Diagnostic Cash Control", also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's (DFA) website at: [http://www.nmdfa.state.nm.us/Cash Control.aspx](http://www.nmdfa.state.nm.us/Cash%20Control.aspx).

NOTE C - INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL (cont.)

By state statute, the DFA is responsible for the performance of monthly reconciliations with the balances kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the DFA undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. The DFA has or is in the process of implementing all the recommendations resulting from the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled the DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis; however, it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through the DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

The Cash Management Remediation close out report dated April 29, 2013 indicates the project was able to deliver to the State, the DFA, and the New Mexico Department of Information Technology (Procuring Agency) strategic initiatives by working to improve data security, client service, and business performance through information technology solutions. Project accomplishments included improved financial data processing, functionality and system integrations, and reduced reliance on manual processes and system customizations.

The Commission does not have cash reconciliation policies and procedures in place which need to be performed on a monthly basis to ensure that the agency cash balances in SHARE are correct. See finding 2013-001.

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, 2014 is as follows:

	Fair Value 6/30/2014
Investment in New Mexico State Treasurer's Office General Fund Investment Pool	<u>\$ 637,963</u>

NOTE C - INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL (cont.)

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

Fund	SHARE Fund No.	Fair Value 6/30/2014
General Fund	69000	\$ 473,975
Agency Funds	95100	163,988
		\$ 637,963

Of the \$473,975 in the General Fund, \$3,516 is restricted for purposes of reverting the unexpended portion of the special appropriations back to the State General Fund.

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, 2014, 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, 2014:

	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Governmental Activities				
Capital assets being depreciated				
Furniture and fixtures	\$ 17,332	\$ -	\$ -	\$ 17,332
Equipment	58,301	-	(10,273)	48,028
Data processing equipment	198,872	-	-	198,872
	274,505	-	(10,273)	264,232
Less accumulated depreciation				
Furniture and fixtures	(17,332)	-	-	(17,332)
Equipment	(58,301)	-	10,273	(48,028)
Data processing equipment	(198,872)	-	-	(198,872)
	(274,505)	-	10,273	(264,232)
Governmental activities capital assets, net	\$ -	\$ -	\$ -	\$ -

NOTE D - CAPITAL ASSETS (cont.)

Depreciation expense was charged to governmental activities as follows:

General government	\$ <u> -</u>
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NOTE E - COMPENSATED ABSENCES PAYABLE

Long-term liability activity for the Commission for the year ended June 30, 2014, is as follows:

	Balance 6/30/2013	Increase	Decrease	Balance 6/30/2014	Due Within One Year
Governmental Activities					
Other Liabilities					
Compensated absences	\$ 44,742	\$ 45,004	\$ 40,316	\$ 49,430	\$ 26,210

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.

Funding Policy. Plan members are required to contribute 8.92% (ranges from 6.28% to 18.15% depending upon the plan - i.e., state general, state police and adult correctional officers, State Plan 3 - Peace Officer, Juvenile Correctional Officer Plan 2, 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, 2014, 2013 and 2012 were \$108,249, \$81,977, and \$75,315, respectively, which equal 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.

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 employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

NOTE G - POSTEMPLOYMENT BENEFITS - STATE RETIREE HEALTH CARE PLAN (cont.)

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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Commission's contributions to the RHCA for the years ended June 30, 2014, 2013, and 2012 were \$13,591, \$11,001, and \$10,845, 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	\$ 2,238,381
Increase in compensated absences	4,688
GAAP basis expenses	<u>\$ 2,243,069</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, 2014, State General Fund Appropriations consist of the following:

	<u>Amount</u>
Laws of 2013, Chapter 227, Section 4	\$ 2,352,200
Laws of 2013, Chapter 227, Section 5	67,500
	<u>\$ 2,419,700</u>

The Laws of 2013, Chapter 227, Section 5 appropriations were special appropriations appropriated to the Commission to fund new database software that enabled the Commission to have real time processing and connectivity with the various tracks around the state. These appropriations were received in the fiscal year ended June 30, 2013 and were are shown as deferred inflow of resources when received as they were funds being held for use in a future reporting period. For the current year, the Commission expended these funds for their intended purpose and as a result, the revenue related to these appropriations was recognized in the fiscal year ended June 30, 2014.

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>\$ 841,175</u>

NOTE L - TRANSFERS TO STATE GENERAL FUND (cont.)

Occupational License Fund:	
Transfer from Fund #37900 to Fund #85300	<u>\$ 50,677</u>
General Fund Reversions:	
Transfer from Fund #19200 to Fund #85300 for FY13 fund balance	<u>\$ 47,258</u>

NOTE M - DUE TO STATE GENERAL FUND

Due to state general fund consists of the following items as of June 30, 2014:

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
FY14 reversion	181,319
Stale dated warrants	7,567
	<u>\$ 309,628</u>

NOTE O - NET POSITION- UNRESTRICTED (DEFICIT)

The net position - unrestricted (deficit) of \$36,440 in the Statement of Net Position is primarily due to the following: created from \$49,430 of compensated absences that were accrued at June 30, 2014 but will be paid for out of future appropriations.

NOTE P - SUBSEQUENT ACCOUNTING STATNDARD PRONOUNCEMENTS

In fiscal year 2015, the Public Employees Retirement Association will implement GASB 68 *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27*. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period. The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer primarily result from changes in the components of the net pension liability—that is, changes in the total pension liability and in the pension plan's fiduciary net position. Management has not determined the impact of this GASB pronouncement on the Statement of Net Position or the Statement of Activities, however management anticipates that the fiscal year 2015 financial statements will include a material liability.

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITES - AGENCY FUNDS

June 30, 2014

	Occupational License	Racing Receipts	Suspense Refunds	Total
Assets				
Cash and cash equivalents	\$ -	\$ 67,960	\$ -	\$ 67,960
Investment in the State				
General Fund Investment Pool	14,052	116,811	33,125	163,988
Fines Receivable	-	449,200	-	449,200
	<u>\$ 14,052</u>	<u>\$ 633,971</u>	<u>\$ 33,125</u>	<u>\$ 681,148</u>
Liabilities				
Due to state general fund	\$ 14,052	\$ 633,971	\$ 33,125	\$ 681,148
	<u>\$ 14,052</u>	<u>\$ 633,971</u>	<u>\$ 33,125</u>	<u>\$ 681,148</u>

COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS

For the Year Ended June 30, 2014

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Occupational License - Assets				
Investment in SGF investment pool	\$ 4,394	\$ 50,677	\$ 41,019	\$ 14,052
Due from other funds	51,046	-	51,046	-
Total assets	<u>\$ 55,440</u>	<u>\$ 50,677</u>	<u>\$ 92,065</u>	<u>\$ 14,052</u>
Occupational License - Liabilities				
Due to state general fund	\$ 55,440	43,681	85,069	\$ 14,052
Total liabilities	<u>\$ 55,440</u>	<u>\$ 43,681</u>	<u>\$ 85,069</u>	<u>\$ 14,052</u>
Racing Receipts - Assets				
Investment in SGF investment pool	\$ 357,593	\$ 957,986	\$ 1,198,768	\$ 116,811
Cash and cash equivalents	62,246	902,830	897,116	67,960
Fines Receivable	-	449,200	-	449,200
Due from other funds	116,811	-	116,811	-
Total assets	<u>\$ 536,650</u>	<u>\$ 2,310,016</u>	<u>\$ 2,212,695</u>	<u>\$ 633,971</u>
Racing Receipts - Liabilities				
Due to state general fund	\$ 536,650	\$ 1,275,689	\$ 1,178,368	\$ 633,971
Total liabilities	<u>\$ 536,650</u>	<u>\$ 1,275,689</u>	<u>\$ 1,178,368</u>	<u>\$ 633,971</u>
Suspense Funds - Assets				
Investment in SGF investment pool	\$ 34,125	\$ -	\$ 1,000	\$ 33,125
Total assets	<u>\$ 34,125</u>	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ 33,125</u>
Suspense Funds - Liabilities				
Due to state general fund	\$ 34,125	\$ -	\$ 1,000	\$ 33,125
Total liabilities	<u>\$ 34,125</u>	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ 33,125</u>
All Agency Funds - Total Assets				
Cash and cash equivalents	\$ 62,246	\$ 902,830	\$ 897,116	\$ 67,960
Investment in SGF investment pool	396,112	1,008,663	1,240,787	163,988
Fines Receivable	-	449,200	-	449,200
Due from other funds	167,857	-	167,857	-
Total assets	<u>\$ 626,215</u>	<u>\$ 2,360,693</u>	<u>\$ 2,305,760</u>	<u>\$ 681,148</u>
All Agency Funds - Total Liabilities				
Due to state general fund	626,215	1,319,370	1,264,437	681,148
Total liabilities	<u>\$ 626,215</u>	<u>\$ 1,319,370</u>	<u>\$ 1,264,437</u>	<u>\$ 681,148</u>

For the Year Ended June 30, 2014

Account Name	Account Type	Financial Statement Balance
Cash and cash equivalents in area banks:		
Compass Bank - Albuquerque	Checking	\$ 23,999
Compass Bank - Albuquerque	Checking	731
Wells Fargo Bank - Farmington	Checking	3,883
Wells Fargo Bank - Ruidoso	Checking	26,187
Wells Fargo Bank - Hobbs	Checking	10,254
Wells Fargo Bank - Dona Ana County	Checking	2,906
		\$ 67,960

Investment in State Treasurer General Fund Investment Pool

	NMRC Fund Number	Fund Balance
General Fund	19200	\$ 473,975
Occupational License Fund	37900	14,052
Racing Receipts Fund	81400	116,811
Suspense Refunds Fund	84500	33,125
		\$ 637,963

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.

For the Year Ended June 30, 2014

	<u>Amount Appropriated</u>	<u>Appropriation Period</u>	<u>Current Year Expenditures</u>	<u>Project to Date Expenditures</u>	<u>Unexpended Portion</u>	<u>Unexpended Portion to be Reverted</u>
Special Appropriations:						
Laws of 2013, Chapter 227, Section 5	\$ 67,500	2013-2014	\$ 63,984	\$ 63,984	\$ 3,516	\$ 3,516

**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, in accordance with the 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, the financial statements of the governmental activities, the general fund, the aggregate remaining fund information, and the budgetary comparison for the general fund of the Commission as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the New Mexico Racing Commission's (Commission) financial statements, and the combining statement of fiduciary assets and liabilities presented as supplemental information and have issued our report thereon dated December 8, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, including items 2013-001 and 2013-002.

Compliance and Other Matters

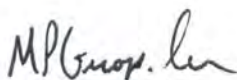
As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and responses as items 2014-001 and 2014-002.

The Commission's Response to Findings

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



December 8, 2014

**NEW MEXICO RACING COMMISSION
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Finding	Status
2004-004 Cash Management	Resolved
2013-001 Monthly Reconciliation	Repeated
2013-002 Reversion to the State General Fund	Repeated
2013-003 Agency Fund Receipts Collected are Not Deposited on a Daily Basis	Resolved
2013-004 Earned Leave	Resolved

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal Control Over Financial Reporting:

- Material weakness(es) identified? No

- Significant deficiencies identified that are not considered to be material weakness(es)? Yes
 - Finding 2013-001
 - Finding 2013-002

- Noncompliance and other matters identified? Yes
 - Finding 2014-001
 - Finding 2014-002

Section II - Financial Statement Findings

2013-001 - Monthly Reconciliation (Significant deficiency)

CONDITION

The Commission does not perform monthly reviews of transactions for the Investment in the State General Fund Investment Pool to ensure that the agency's balances in SHARE are correct.

CRITERIA

Sound financial accounting policies require the agency to perform monthly reconciliations to ensure that Investment in the State General Fund Investment balances are fairly stated.

CAUSE

The Commission has not implemented procedures that require cash reconciliations to ensure that the agency's cash balances in SHARE are correct.

EFFECT

The Investment in the State General Fund Investment Pool balances in SHARE could be misstated.

RECOMMENDATION

Establish and implement policies and procedures related to reconciliations to ensure that the agency's Investment in the State General Fund Investment balances in SHARE are correct.

MANAGEMENT RESPONSE

Management has relied of the Department of Finance and Administration for assistance with this in the past. With the addition of financial staff, the cash balances will be reconciled to SHARE during the current fiscal year to ensure cash balances are correct.

Section II - Financial Statement Findings

2013-002 - Reversion to the State General Fund (Significant deficiency)

CONDITION

The Commission has not reverted residual undesignated fund balances from fiscal years 2009, 2010, and 2011 of 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 to the general fund. The division may adjust the reversion within forty-five days of release of the audit report for that fiscal year.

CAUSE

The Commission failed to remit remaining unexpended general fund balances by the required due date.

EFFECT

The Commission violated state statutes and owes the State of New Mexico \$120,742.

RECOMMENDATION

Develop and implement internal accounting control procedures to monitor reversion of unexpended general fund balances to comply with state statutes. Work with the Department of Finance and Administration to revert the balance due.

MANAGEMENT RESPONSE

During FY14, several outstanding balances were transferred and financial staff will work to clear all balances and revert funds to State General Fund as required.

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

2014-001 - Reversion of Special Appropriations to the State General Fund (other)

CONDITION

The Commission did not revert the unexpended portion of its special appropriations to the State General Fund on a timely basis. The unexpended funds not reverted totaled \$3,516 for fiscal year 2014.

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

Due to the infrequent nature of the special appropriation, management at the Commission was not familiar with the reverting requirements for the unexpended funds.

EFFECT

The Commission violated state statutes and owes the State of New Mexico \$3,516.

RECOMMENDATION

We recommend that the Commission develop and implement internal accounting control procedures to monitor reversion of unexpended special appropriations to comply with state statutes.

MANAGEMENT RESPONSE

This was an oversight by Admin Manager. The FY14 reversion was completed timely but management did not realize a reversion was required for Special Appropriation funds. The reversion will be submitted to the State General Fund for compliance.

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

2014-002 - Procurement (Other)

CONDITION

During our internal control testwork over disbursements, we noted one instance where the Commission negotiated and executed a contract for professional services for a contract exceeding \$60,000 without regard to the State mandated procurement process.

CRITERIA

Pursuant to NMSA 1978 Section 13-1-102, all procurement shall be achieved by the competitive sealed bids method or the competitive sealed proposals method unless the purchase can be achieved pursuant to sections 98-100, and 102-103. The contract examined in our testwork did not qualify as a purchase that could be achieved by other sections as outlined in the Procurement code and thus must be achieved by the competitive sealed bids method or the request for proposals method.

CAUSE

Management failed to comply with State Procurement Code by not obtaining competitive sealed bids or competitive sealed proposals from potential vendors.

EFFECT

The Commission violated state statutes. The Commission may have paid more than necessary for the professional services.

RECOMMENDATION

We recommend that the Commission develop and implement internal accounting control procedures to monitor large purchases and to work with the State Purchasing Division at the General Services Department for future guidance on compliance with state statutes.

MANAGEMENT RESPONSE

Historically, bids for veterinary services have met procurement requirements, however this was the first to exceed the small purchases limit. We are aware of procedures for bids that exceed the threshold amounts. Future purchases will follow state statutes and ensure compliance.

For the Year Ended June 30, 2014

An exit conference was held on December 8, 2014, with the following in attendance:

New Mexico Racing Commission

Jerry G. Cospers, DVM, Board Member

Vince Mares, Agency Director

MP Group, Inc.

Scott Peck, Partner

Aaron Turrietta, Staff Accountant

MP Group, Inc. 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.