

Timothy M. Keller
State Auditor



Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

VIA EMAIL AND U.S. MAIL

January 11, 2017

Ismael "Izzy" Trejo
Executive Director
New Mexico Racing Commission
4900 Alameda NE
Albuquerque, New Mexico 87113

Dear Mr. Trejo:

The Office of the State Auditor (OSA) has released the Fiscal Year 2016 financial and compliance audit for the New Mexico Racing Commission (Commission).

It is disappointing that the findings highlighted in the Fiscal Year 2015 audit concerning the Commission's lack of oversight of gaming taxes and purse requirements have not been adequately resolved. In a January 21, 2015 letter to former Executive Director Dan Flick, the OSA expressed serious concerns regarding the Commission's failure to comply with state law and the potential that the state may not be receiving the revenue it is owed.

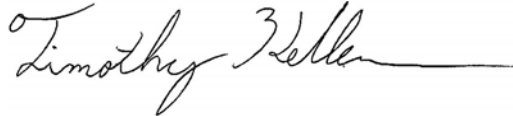
The Commission is responsible for ensuring racetracks abide by state law in the payment of pari mutuel taxes. While independent audits of payments are occurring for periods during live race sessions, the Commission is still not auditing the remainder of the year to verify that tax revenues are correct. Additionally, the Commission is still not in compliance with statutory and regulatory requirements pertaining to monthly reconciliations of purses (amounts collected and bank statements) from the New Mexico Horsemen's Association and the New Mexico Horse Breeders' Association.

Over the last year, we expected these findings to be successfully resolved and we are considering additional actions by our office, including, but not limited to, designating the Commission for a special audit. Please provide our office with a detailed corrective action plan by no later than February 15, 2017 outlining the steps the Commission will be taking to address these shortfalls and the timeframes for any such actions.

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Thank you for your attention to this issue. Please let us know if you have any questions or if we can be of assistance in any way.

Sincerely,

A handwritten signature in cursive script that reads "Timothy M. Keller". The signature is written in black ink and includes a horizontal line extending to the right from the end of the name.

Timothy M. Keller
State Auditor

cc: Ray Willis, Chairman
Gayla McCulloch, Vice Chair
Beverly Bourguet, Commissioner
Jerry Coper, DVM, Commissioner
Ken Corazza, Commissioner

**STATE OF NEW MEXICO
RACING COMMISSION**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2016**



NEW MEXICO RACING COMMISSION

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COMMISSIONERS

Name	Title
Ray Willis	Chairman
Gayla McCulloch	Vice Chairman
Jerry G. Cospers, DVM	Member
Beverly Bourguet	Member
Ken Corazza	Member

ADMINISTRATIVE OFFICIALS

Name	Title
Ismael Trejo	Executive Director
Laura Valencia	CFO

INDEPENDENT AUDITORS' REPORT

Tim Keller
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 major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund and equine testing fund of the New Mexico Racing Commission (Commission), as of and for the year ended June 30, 2016, and the related notes to the financial statements 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, 2016, 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 misstatement, 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 above previously present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Commission, as of June 30, 2016, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund and equine testing 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 above present fairly, in all material respects, the respective financial position of the fiduciary funds of the Commission as of June 30, 2016, 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 major fund, the budgetary comparison for the general fund and equine testing 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, 2016 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 Commission's financial statements, and the combining and individual fund financial statements and budgetary comparisons. The additional schedules required by Section 2.2.2.NMAC 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 basic financial statements.

The supplemental information and the schedule of cash accounts and investments required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 required by 2.2.2 NMAC are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Vendor Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2016 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 1, 2016

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, 2016. 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 *Statement of Net Position* (Unrestricted and Restricted Net Position) 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 and collection of pari-mutuel taxes finance these activities. The SHARE accounts General Fund and the Equine Testing Fund are included in the government-wide financial statements and all receivables and payables have been eliminated as well as transfers.

Fund Financial Statements

The SHARE Accounts General Fund (19200) and the Equine Testing Fund (12140) are combined to make up the general fund. Only individual governmental or individual proprietary 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 uses.

USING THIS ANNUAL REPORT (cont.)

Governmental Funds. All of the Commission's basic and designated services are reported in the governmental funds, which focus on the establishment of an appropriation by the state legislature and taxes collected and the expenditures of these monies in accordance with the budgets. If the General fund account (SHARE Acct# 19200) monies not expended or encumbered at the year-end, they revert to the State of New Mexico's General Fund. The Equine Testing Fund (SHARE Acct. # 12140) monies remain in the fund, unless the balance exceeds \$600,000 at year-end. Any monies greater than \$600,000 must revert to the State of New Mexico's General Fund. The fund is 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 and through the collection of pari-mutuel taxes. The Commission is responsible for the regulation of the State's pari-mutuel horse racing industry. During the fiscal year ending June 30, 2016, there were 284 live race days regulated.

Condensed Statement of Net Position
Table A-1

	Governmental Activities 2016	2015	Increase (Decrease)
Current assets	\$ 385,956	\$ 473,258	\$ (87,302)
Capital and non-current assets (net of depreciation)	12,126	-	12,126
Total Assets	\$ 398,082	\$ 473,258	\$ (75,176)
Current liabilities	\$ 351,354	\$ 279,610	\$ 71,744
Long-term liabilities	56,945	27,040	29,905
Due to State General Fund	24,313	160,616	(136,303)
Total Liabilities	\$ 432,612	\$ 467,266	\$ (34,654)
Net Position:			
Restricted	\$ 178,866	93,302	\$ 85,564
Unrestricted (deficit)	(213,396)	(87,310)	(126,086)
Total Net Position	\$ (34,530)	\$ 5,992	\$ (40,522)

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

As summarized in Table A-1, Current liabilities increased due to an increase in accounts payable which was related to payment for equine testing. Net Position of \$(34,530) represents the difference between assets and liabilities of the Agency. The deficit presented in unrestricted net position is not a reflection that the agency overspent its funding authority. It represents the estimated future cost of compensated absences that will be funded and paid from future appropriations. The restricted portion relates to the availability of funds for the use of additional equine testing.

Condensed Statement of Activities
Table A-2

	<u>Governmental Activities</u>		<u>Increase (Decrease)</u>
	<u>2016</u>	<u>2015</u>	
General Revenues/Transfers:			
General fund appropriations	\$ 2,412,800	\$ 2,430,200	\$ (17,400)
Other sources	750,464	416,002	334,462
Transfer out - reversion	(144,875)	(157,070)	12,195
Total revenues/transfers	<u>3,018,389</u>	<u>2,689,132</u>	<u>329,257</u>
Expenses			
Racing regulation	<u>3,058,911</u>	<u>2,646,700</u>	<u>412,211</u>
Increase (decrease) in net position	(40,522)	42,432	(82,954)
Beginning of year, net position (deficit)	5,992	(36,440)	42,432
End of year, net position (deficit)	<u>\$ (34,530)</u>	<u>\$ 5,992</u>	<u>\$ 85,564</u>

ANALYSIS OF FINANCIAL POSITION

The Commission receives 88% of its governmental fund revenues from an appropriation from the state legislature and the remainder from the collection of pari-mutuel taxes for equine testing which was established the previous fiscal year. These SHARE fund accounts 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 Equine Testing fund created by the legislature for expenditures related to testing of urine and blood samples drawn from race horses.

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 \$2,412,800 from the General Fund appropriation and \$750,464 in collection of gaming taxes.

Governmental funds expenditures totaled \$3,053,537 and differs from the government-wide expenses of \$3,058,911 by one item as follows:

Government fund expenditures	\$ 3,053,537
Decrease in expenditures for capital outlay net of depreciation	(12,126)
Increase in liability for compensated absences	17,500
Agency government-wide expenses	<u>\$ 3,058,911</u>

ANALYSIS OF BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

The Commission maintains the General Fund and three fiduciary funds. The General Fund receives an appropriation by the state legislature and pari-mutuel taxes. The expenditures of this money are in accordance with a budget. The Commission's two fiduciary funds consist of Racing Receipts and Horse Racing Suspense Account.

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 2016 fiscal year was \$750,464.

The Horse Racing Suspense Account Fund is a statutory required fund to allow for the refund of fines and licensing fees adjudicated to be refunded.

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 and 16.

The budgetary basis expenditures for the General Fund account was within their budgeted amount in all functions as was the Equine Testing Fund account. The difference in budget to actual expenditures for the SHARE General Fund and Equine Testing fund total categories is \$24,163 respectively. The Commission came under budget in the other budget categories mostly due to staff turnover and delayed hiring of new staff which caused personnel related expenditures to be lower than budget amounts. The SHARE General Fund account had \$400 adjustment within expenditures.

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, \$13,217 were acquired that required to be capitalized. The Commission did recognize \$1,091 in depreciation on assets acquired in the current year.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

New Mexico has carried on the tradition of horse racing since 1938, with an industry that brings economic prosperity and viability to many New Mexico communities that contain horse race tracks located in their respective cities. However, there are many factors contributing to a decline within the industry itself, such as tougher competition, internet gaming and illegal horse race tracks. These factors challenge the Commission to confront these issues and seek to enhance efficiency in

The challenge of an ever changing industry has also defied the New Mexico racing industry. Yet the NM Racing Commission continues to move forward with its goal to improve the integrity of racing within the State. During the fiscal year ending June 30, 2016, management and its staff concentrated on improvement to its regulation practices to ensure consistency and accountability. Our goal for enhanced regulation will continue through the following fiscal year and staff will seek out alternative resources available to the agency to provide accountability to the citizens and racing participants.

During fiscal year 2016, the agency had three vacant positions (medical director, investigator and secretary positions), with funding for these positions being allocated to the hiring of a new executive director and a fourth steward.

The new executive director has begun to set objectives for the subsequent years' budget appropriation including working with legislators and reaching out to other jurisdictions and agencies. He has already begun to seek out direction from law makers on internet gaming and participating in a task force that will encompass other agencies such as Gaming Control Board, law enforcement, etc., in addressing illegal bush tracks in New Mexico. A stricter enforcement of rules and regulations and an improved audit plan. These changes will help to strengthen and re-establish integrity to New Mexico horse racing.

The major challenge for the Commission and its staff is budget availability without impeding its services or regulation.

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, 2016

	Governmental Activities
Assets:	
Investment in the State General Fund Investment Pool	\$ 385,795
Other receivables	161
Capital assets, net of accumulated depreciation	<u>12,126</u>
Total assets	<u>\$ 398,082</u>
Liabilities:	
Accounts payable	\$ 265,522
Accrued salaries and benefits	52,307
Due to state general fund	24,313
Compensated absences payable	
Due within one year	33,525
Due after one year	<u>56,945</u>
Total liabilities	<u>432,612</u>
Net Position:	
Investment in capital assets	12,126
Restricted	178,866
Unrestricted (deficit)	<u>(213,396)</u>
Total net position	<u>(34,530)</u>
Total liabilities and net position	<u>\$ 398,082</u>

For the Year Ended June 30, 2016

	Governmental Activities
Program Expenses:	
Personal services / employee benefits	\$ 1,412,431
Contractual services	1,375,214
Other	<u>271,266</u>
Total program expenses	<u>3,058,911</u>
General Revenues/Transfers:	
State general fund appropriations	2,412,800
Pari-mutuel taxes	750,464
Transfers - reversion to the state general fund	<u>(144,875)</u>
Total general revenues/transfers	<u>3,018,389</u>
Change in net position	(40,522)
Net Position:	
Beginning of year	<u>5,992</u>
End of year	<u><u>\$ (34,530)</u></u>

June 30, 2016

	General Fund
Assets:	
Unrestricted investment in the State General Fund	
Investment Pool	\$ 385,795
Other receivables	161
Total assets	<u>\$ 385,956</u>
Liabilities:	
Accounts payable	\$ 265,522
Accrued salaries and benefits	52,307
Due to state general fund	24,313
Total liabilities	<u>342,142</u>
Fund Balance:	
Restricted:	
Equine testing	178,866
Assigned to:	
General operations	(135,052)
	<u>43,814</u>
Total liabilities and fund balance	<u>\$ 385,956</u>

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

Fund Balance - Government Funds	\$ 43,814
Capital outlay in the current period net of depreciation of \$1,091	12,126
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(90,470)</u>
Net Position of Governmental Activities	<u>\$ (34,530)</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

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

For the Year Ended June 30, 2016

	General Fund
Expenditures	
Personal services / employee benefits	\$ 1,394,931
Contractual services	1,375,214
Other	283,392
Total expenditures	<u>3,053,537</u>
Other Financing Sources (Uses)	
State general fund appropriations	2,412,800
Other Sources - pari-mutuel taxes	750,464
Transfers - reversion to the state general fund	(144,875)
Total other financing sources (uses)	<u>3,018,389</u>
Net change in fund balance	(35,148)
Fund balance	
Beginning of year	78,962
End of year	<u>\$ 43,814</u>

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

Net Change in Fund Balances - Total Government Funds \$ (35,148)

Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation. 12,126

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 (17,500)

Change in Net Position - Governmental Activities \$ (40,522)

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, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
State general fund appropriations	\$ 2,412,800	\$ 2,412,800	\$ 2,412,800	\$ -
Other sources	664,900	664,900	664,900	-
Total revenues	<u>\$ 3,077,700</u>	<u>\$ 3,077,700</u>	<u>\$ 3,077,700</u>	<u>\$ -</u>
Expenditures				
Personal service/employee benefits	\$ 1,392,800	\$ 1,409,800	\$ 1,394,931	\$ (14,869)
Contractual services	1,447,800	1,375,400	1,375,214	(186)
Other	237,500	292,500	283,392	(9,108)
Total expenditures	<u>\$ 3,078,100</u>	<u>\$ 3,077,700</u>	<u>\$ 3,053,537</u>	<u>\$ (24,163)</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

BUDGET TO ACTUAL COMPARISON STATEMENT - GENERAL FUND- EQUINE TESTING FUND

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Revenues				
Other Sources-pari-mutuel taxes	\$ 664,900	\$ 664,900	\$ 750,464	\$ 85,564
Total revenues	<u>\$ 664,900</u>	<u>\$ 664,900</u>	<u>\$ 750,464</u>	<u>\$ 85,564</u>
Expenditures				
Other uses	\$ 664,900	\$ 664,900	\$ 664,900	\$ -
Total expenditures	<u>\$ 664,900</u>	<u>\$ 664,900</u>	<u>\$ 664,900</u>	<u>\$ -</u>

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

June 30, 2016

	Agency Funds
Assets:	
Cash and cash equivalents	\$ 55,024
Investment in the State General Fund Investment Pool	132,278
Fines Receivable	<u>275,200</u>
Total assets	<u><u>\$ 462,502</u></u>
Liabilities:	
Vouchers payables	\$ 21,000
Due to state general fund	<u>441,502</u>
Total liabilities	<u><u>\$ 462,502</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 capacity for individuals, private organizations, other governments, and/or other funds.

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 Tourism Department. The Commission consists of five members, all of whom are appointed by the Governor of the State of New Mexico. Section 60-1A-4, NMSA 1978 empowers the state racing commission to make rules and regulations for the holding, conducting and operating of all race meets and races. Section 60-1A-20, NMSA 1978 empowers the racing commission to establish such qualifications for licenses to conduct horse race meets as it deems to be in the public interest. The duties include collecting taxes on behalf of the State of New Mexico Taxation and Revenue Department and other parties. 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 primary government.

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 2016.

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, 2016. 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 funds in the governmental category. The Commission has one governmental fund, the General Fund, which consists of the general fund (Share Account# 19200) and the Equine Testing Fund (Share Account # 12140) and is the only major fund.

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 is combined with the SHARE accounts General Fund and the Equine Testing Fund as the 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.

Equine Testing Fund - The fund is combined with the SHARE account General Fund by the New Mexico Legislature under Chapter 60, Article 1A, Section 14.1. The Equine Testing fund purpose is to provide additional funding for equine testing. The fund is required to revert funds to the State General Fund all monies greater than \$600,000.

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.

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 an amendment of \$400 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.

In accordance with GASB 16, accrued compensated absences consist of accumulated annual leave, sick leave between 600 and 720 hours, and compensatory leave for employees, including the related employers' matching FICA and Medicare payroll taxes. Office general fund resources have been used to liquidate accrued compensated absences.

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 has no deferred inflows at year end June 30, 2016.

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, 2016 for fund 19200:

Fund balance assigned at July 1, 2015	\$ (14,340)
State general fund appropriation and other revenue	3,077,700
Budgetary basis expenditures	(3,053,537)
Reversion due to the State General Fund June 30, 2016	(24,163)
Reversion overpayment	<u>(120,712)</u>
Fund balance-assigned	<u><u>\$ (135,052)</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, 2015.

Unrestricted Deficit - represents the deficit of total assets over total liabilities and net position invested in capital assets at June 30, 2016.

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.

The Equine Testing Fund account is restricted by enabling legislation under Chapter 60, Article 1A, Section 14.1.

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 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.)

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 \$55,024 at June 30, 2016 in two 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, 2016, the Commission's bank balances of \$55,024 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. The Commission has restricted cash that is restricted for the purpose of additional equine testing.

State law (Section 8-6-3 NMSA 1978) requires the Commission's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Office consist of their pro-rata interest in the State General Fund Investment Pool in the amount of \$518,073. The Commission's general program share of the GFIP investment balance held at the State Treasury. The Commission's fund is reverting which does not allow excessive build up of cash at the end of the year. Unspent funding is reverted and appropriations and corresponding reversions have been audited each year. The consumer settlement fund is characterized by larger, less numerous transactions that are reviewed in depth by the legislature in addition to the Commission.

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

Such transactions have been validated by the Office each year. Additionally, the Commission maintains certain compensating controls for the monitoring of cash receipts and cash disbursements.

Due to characteristics of the primary revenue sources for the Commission and the presence of compensating controls, management believes that the GFIP balance of \$518,073 materially approximates their share of the GFIP at June 30, 2016. Any adjustments to the SGFIP balance that might exist at June 30, 2016 are not known at this time.

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, 2016 is as follows:

	Fair Value 6/30/2016
Investment in New Mexico State Treasurer's Office	
General Fund Investment Pool	<u>\$ 518,073</u>

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

Fund	SHARE Fund No.	Fair Value 6/30/2016
General Fund	69000	\$ 385,795
Agency Funds	95100	132,278
		<u>\$ 518,073</u>

Of the \$518,073 in the State General Fund Investment Pool, \$178,866 is restricted for purposes of additional equine testing.

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, 2016, 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, 2016:

	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016
Governmental Activities				
Capital assets being depreciated				
Furniture and fixtures	\$ 17,332	\$ -	\$ -	\$ 17,332
Equipment	48,028	-	-	48,028
Data processing equipment	198,872	-	-	198,872
Leasehold improvements	-	13,217	-	13,217
	<u>264,232</u>	<u>13,217</u>	<u>-</u>	<u>277,449</u>
Less accumulated depreciation				
Furniture and fixtures	(17,332)	-	-	(17,332)
Equipment	(48,028)	-	-	(48,028)
Data processing equipment	(198,872)	-	-	(198,872)
Leasehold improvements	-	(1,091)	-	(1,091)
	<u>(264,232)</u>	<u>(1,091)</u>	<u>-</u>	<u>(265,323)</u>
Governmental activities capital assets, net	<u>\$ -</u>	<u>\$ 12,126</u>	<u>\$ -</u>	<u>\$ 12,126</u>

Depreciation expense of \$1,091 is included in "Other" function I the statement of activities.

NOTE E - COMPENSATED ABSENCES PAYABLE

Long-term liability activity for the Commission for the year ended June 30, 2016, is as follows:

	Balance 6/30/2015	Increase	Decrease	Balance 6/30/2016	Due Within One Year
Governmental Activities					
Other Liabilities					
Compensated absences	\$ 72,970	\$ 52,516	\$ 35,016	\$ 90,470	\$ 33,525

Compensated absences are paid out of the general fund.

NOTE F - PENSION PLAN - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Compliant with the requirements of Government Accounting Standards Board Statement No.68, Accounting and Financial Reporting for Pensions, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2016. The Commission, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

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 (cont.)

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.

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, 2016, the statutes 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, 2016, 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, 2016, 2015, and 2014 were \$16,898, \$15,651, and \$13,591, 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.

NOTE H - DEFERRED COMPENSATION PLAN (cont.)

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	\$ 3,053,537
Fixed asset addition	(12,126)
Increase in compensated absences	17,500
GAAP basis expenses	<u>\$ 3,058,911</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, 2016, State General Fund Appropriations consist of the following:

Laws 2015, 1st Session Chapter 101, Section 4	\$ 2,412,800
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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>
Occupational License Fund (Closed) Transfer from Fund #37900 to Fund #85300	<u>\$ 14,052</u>
Racing Receipts Fund: Transfer from Fund #81400 to Fund #85300	<u>\$ 956,941</u>
Suspense Fund Transfer from Fund #84500 to Fund #85300	<u>\$ 33,125</u>
General Fund Reversions: Transfer from Fund #19200 to Fund #85300 for FY15 fund balance	<u>\$ 160,616</u>

NOTE M - DUE TO STATE GENERAL FUND

Due to state general fund consists of the following items as of June 30, 2016:

General Fund Reversions:	
FY16 reversion	\$ 24,163
Overpayment to State General Fund	120,712
	<u>\$ 144,875</u>

NOTE N - NET POSITION- UNRESTRICTED (DEFICIT)

The net position - unrestricted (deficit) of \$213,396 in the Statement of Net Position is primarily due to the following: created from \$90,078 of compensated absences that were accrued at June 30, 2016 but will be paid for out of future appropriations and a \$120,762 overpayment to the State General Fund

NOTE O - MEMORANDUM OF UNDERSTANDING

The Commission has a memorandum of understanding (MOU) with the State Personnel Office (SPO) for the fiscal year ending June 30, 2016. The SPO provided the maintenance of the personnel files and performed other human resource functions. The commission paid SPO \$12,700 for these services.

NOTE P - SUBSEQUENT EVENTS

Events subsequent to June 30, 2016 have been evaluated by management through December 1, 2016, the date the financial statements are available for issuance. In the opinion of management, no events occurring after June 30, 2016 required disclosure or adjustment to the financial statements.

NOTE Q - LEASES

In October 2015, the Commission signed a 9 year 7 month lease of office space ending in April 2025. The lease has yearly escalation clauses, but can be terminated if certain conditions are met by the Lessee with penalty.

NOTE R - GENERAL FUND INVESTMENT POOL NOT RECONCILED

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller/Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of 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. Phase I of the Cash Management Remediation Project (completed in May 2013) implemented statewide business process changes and corrected numerous SHARE system configurations. As a result of the changes and corrections, DFA/FCD was able to begin reconciling activity reported by the State's fiscal agent bank to the SHARE general ledger on a go-forward basis beginning February 1, 2013. However, additional critical business process changes and corrections to configurations within the SHARE system remain to be completed; therefore, Cash Management Remediation Project, Phase II, commenced July 2014. Its scope was to perform reconciliations from July 2000 to January 2013.

The results of the historical Cash Reconciliation Project did not reconcile the accounts, but, progress was made in the overall reconciliation process and FCD has an operational model that effectively compares statewide claims against the SGFIP and resources held at the State Treasurer's office. This process has been operational since March 2015.

DFA/FCD provides the following assertions for FY2016:

1. The calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range (« \$200k standard deviation) over the last twelve months;
2. Resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP;
3. All claims will be honored at face value.

**NEW MEXICO RACING COMMISSION
COMBINING BALANCE SHEET - GENERAL FUND ACCOUNTS**

June 30, 2016

	19200 General Fund	12140 Equine Testing Fund	Total
Assets:			
Unrestricted investment in the State General Fund Investment Pool	\$ 206,929	\$ 178,866	\$ 385,795
Due to other fund	-	-	-
Other receivables	161	-	161
Total assets	<u>\$ 207,090</u>	<u>\$ 178,866</u>	<u>\$ 385,956</u>
Liabilities:			
Accounts payable	\$ 265,522	\$ -	\$ 265,522
Accrued salaries and benefits	52,307	-	52,307
Due to other fund	-	-	-
Due to state general fund	24,313	-	24,313
Total liabilities	<u>\$ 342,142</u>	<u>\$ -</u>	<u>\$ 342,142</u>
Fund Balance:			
Assigned to:			
Equine testing	-	178,866	178,866
General operations	(135,052)	-	(135,052)
	<u>(135,052)</u>	<u>178,866</u>	<u>43,814</u>
Total liabilities and fund balance	<u>\$ 207,090</u>	<u>\$ 178,866</u>	<u>\$ 385,956</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GENERAL FUND ACCOUNTS

For the Year Ended June 30, 2016

	19200	12140	
	General	Equine	
	Fund	Testing	Total
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
Expenditures			
Personal services / employee benefits	1,394,931	\$ -	\$ 1,394,931
Contractual services	1,375,214	-	1,375,214
Other	283,392	-	283,392
Total expenditures	<u>3,053,537</u>	<u>-</u>	<u>3,053,537</u>
Other Financing Sources (Uses)			
State general fund appropriations	2,412,800	-	2,412,800
Other Sources - Para Mutuel Tax	664,900	750,464	1,415,364
Transfers - reversion to the state general fund	(144,875)	-	(144,875)
Other uses -Equine Testing fund	-	(664,900)	(664,900)
Total other financing sources (uses)	<u>2,932,825</u>	<u>85,564</u>	<u>3,018,389</u>
Net change in fund balance	(120,712)	85,564	(35,148)
Fund balance			
Beginning of year	(14,340)	93,302	78,962
End of year	<u>\$ (135,052)</u>	<u>\$ 178,866</u>	<u>\$ 43,814</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS

June 30, 2016

	Racing Receipts	Suspense Refunds	Total
Assets			
Cash and cash equivalents	\$ 55,024	\$ -	\$ 55,024
Investment in the State			
General Fund Investment Pool	132,278	-	132,278
Fines Receivable	275,200	-	275,200
	<u>\$ 462,502</u>	<u>\$ -</u>	<u>\$ 462,502</u>
Liabilities			
Vouchers payable	\$ 21,000	\$ -	\$ 21,000
Due to state general fund	441,502	-	441,502
	<u>\$ 462,502</u>	<u>\$ -</u>	<u>\$ 462,502</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS

For the Year Ended June 30, 2016

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Occupational License - Assets				
Investment in SGF investment pool	\$ 14,052	\$ -	\$ 14,052	\$ -
Due from other funds	-	-	-	-
Total assets	<u>\$ 14,052</u>	<u>\$ -</u>	<u>\$ 14,052</u>	<u>\$ -</u>
Occupational License - Liabilities				
Due to state general fund	\$ 14,052	\$ -	\$ 14,052	\$ -
Total liabilities	<u>\$ 14,052</u>	<u>\$ -</u>	<u>\$ 14,052</u>	<u>\$ -</u>
Racing Receipts - Assets				
Investment in SGF investment pool	\$ 334,866	\$ 947,966	\$ 1,150,554	\$ 132,278
Cash and cash equivalents	107,954	904,011	956,941	55,024
Fines Receivable	530,350	-	255,150	275,200
Total assets	<u>\$ 973,170</u>	<u>\$ 1,851,977</u>	<u>\$ 2,362,645</u>	<u>\$ 462,502</u>
Racing Receipts - Liabilities				
Voucher payables	\$ -	\$ 21,000	\$ -	\$ 21,000
Due to state general fund	973,170	1,830,977	2,362,645	441,502
Total liabilities	<u>\$ 973,170</u>	<u>\$ 1,851,977</u>	<u>\$ 2,362,645</u>	<u>\$ 462,502</u>
Suspense Funds - Assets				
Investment in SGF investment pool	\$ 33,125	\$ -	\$ 33,125	\$ -
Total assets	<u>\$ 33,125</u>	<u>\$ -</u>	<u>\$ 33,125</u>	<u>\$ -</u>
Suspense Funds - Liabilities				
Due to state general fund	\$ 33,125	\$ -	\$ 33,125	\$ -
Total liabilities	<u>\$ 33,125</u>	<u>\$ -</u>	<u>\$ 33,125</u>	<u>\$ -</u>
All Agency Funds - Total Assets				
Cash and cash equivalents	\$ 107,954	\$ 904,011	\$ 956,941	\$ 55,024
Investment in SGF investment pool	382,043	947,966	1,197,731	132,278
Fines Receivable	530,350	-	255,150	275,200
Total assets	<u>\$ 1,020,347</u>	<u>\$ 1,851,977</u>	<u>\$ 2,409,822</u>	<u>\$ 462,502</u>
All Agency Funds - Total Liabilities				
Voucher payables	\$ -	\$ 21,000	\$ -	\$ 21,000
Due to state general fund	1,020,347	1,830,977	2,409,822	441,502
Total liabilities	<u>\$ 1,020,347</u>	<u>\$ 1,851,977</u>	<u>\$ 2,409,822</u>	<u>\$ 462,502</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

For the Year Ended June 30, 2016

Account Name	Account Type	Financial Statement Balance
Cash and cash equivalents in area banks:		
Compass Bank - Albuquerque	Checking	\$ 8,902
Compass Bank - Albuquerque	Checking	10,847
Wells Fargo Bank - Farmington	Checking	4,850
Wells Fargo Bank - Ruidoso	Checking	19,739
Wells Fargo Bank - Hobbs	Checking	1,761
Wells Fargo Bank - Dona Ana County	Checking	8,925
		<u>\$ 55,024</u>

Investment in State Treasurer General Fund Investment Pool

	NMRC Fund Number	Fund Balance
General Fund:		
General Fund	19200	\$ 206,929
Equine Testing Fund	12140	178,866
Racing Receipts Fund	81400	132,278
Suspense Refunds Fund	84500	-
		<u>\$ 518,073</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.

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor Win Contract ?</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
40-469-16-00001	Competitive (RFP or RFB)	Dave E. Fly, D.V.M.	Winner	\$ 63,943.00	\$ 63,943.00	Edgewood, NM 87015	N	N	Veterinary services for live horse race meets at Sunland Park Racetrack

**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**

Tim Keller
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 major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund and the equine testing fund of the Commission as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the New Mexico Racing Commission's (Commission) basic financial statements, and the combining statement of fiduciary assets and liabilities presented as supplemental information and have issued our report thereon dated December 1, 2016.

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, included as item 2015-001.

Compliance and Other Matters

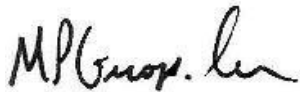
As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 item 2015-002.

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 1, 2016

**NEW MEXICO RACING COMMISSION
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

Finding	Status
2015-001 Review of Licensee Taxes	Repeated
2015-002 Reconciliation of Purses	Repeated

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 2015-001

“ Noncompliance and other matters identified? Yes

Finding 2015-002

Section II - Financial Statement Findings

2015-001 - Review of Licensee Taxes (Significant Deficiency)

CONDITION

Agreed upon procedures performed by independent public accountants (IPA) were performed in FY 15 & FY16 during certain periods of time at each race track. The Commission did not have a process in place to monitor the reporting of gaming taxes requirement during the times that the agreed upon procedures did not cover. The Commission was not able to address the finding during FY16 due to obtaining approval from the tracks to access the live data from the NM Gaming Commission.

CRITERIA

The Commission requires taxes paid to be tested during live race meets by their contracted auditors, and to confirm to the LFC that they randomly check tax revenues at other points in the year as well. The Taxation and Revenue Department (TRD) does not track these tax dollars, so the Commission becomes the de facto enforcement entity to ensure racetracks are abiding by state law in payment of gaming taxes and purse requirements.

CAUSE

The Commission has contracted with the IPA's during periods of the live race sessions and has been working on the process of monitoring the periods that the IPA's have not tested.

EFFECT

The Commission is not auditing the remainder of the year that the race track is not running live races. Because of this, the tracks could be improperly reporting the information to the Commission.

RECOMMENDATION

The Commission should establish policies and procedures to monitor the tracks activity that is not compromised during live race days tested by the IPA's.

MANAGEMENT RESPONSE

In September of 2016, the internal auditor established a procedure to bring the gaming numbers provided weekly to the Commission, in compliance with the Gaming Control Board's centralized gaming system. It is currently being conducted on a weekly basis and record of the testing is maintained on the secure drive, without compromise to the Gaming Control Board's centralized system or unauthorized disclosure of information that falls under the confidentiality agreement. In conjunction with the newly established internal procedure, the contracted IPA has gone back and tested the previous years' gaming numbers for compliance to the Gaming monthly reports. It should be noted that we received approval from four of the five racetracks to allow the internal auditor review of gaming control numbers. To this date, the legal team of the Downs at Albuquerque has not provided authorization and release of confidential information to us.

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

2015-002 - Reconciliation of Purses (Other noncompliance)

CONDITION

The NM Horsebreeder's and NM Horsemen's Associations are required to provide monthly reconciliations of amounts collected and the bank account statements. Some of the reconciliations could not be located. The Commission has communicated during the year to the Associations in regards to the statute, but they have not complied.

CRITERIA

Per that state statutes Chapter 60 NMSA 1978, and NMAC 15.2.2.9, The Commission is required to receive and maintain the monthly reconciliations provided by the NM Horseman's and Horsebreeder's Associations.

CAUSE

The Commission didn't appropriate sufficient resources to require the Horsebreeder's to provide the monthly reconciliations of the purses from the tracks.

EFFECT

The Commission is not in compliance with the State statutes in Section 60 of the Horse Racing Compliance Act

RECOMMENDATION

The management at the Commission should establish policies and procedures related to reconciliations to ensure that they are maintained and reviewed on a regular basis. In addition the Commission should ensure that monthly reports from the NM Horsebreeder's Associations are maintained and reviewed.

MANAGEMENT RESPONSE

The previous fiscal year a request was made to both the NM Horsemen's Association and the NM Horse Breeder's Association for compliance with 15.2.2.9. After this request was made, The NM Horsemen's Association have sent monthly bank statements; and both entities have sent their respective account of authorizing signatures. However the NM Horse Breeder's Association are currently sending a bank statement quarterly, and both entities continue to send quarterly reconciliation reports that detail the disbursements from the accounts. The internal auditor has requested each entity submit the reports monthly, but to date the request for monthly submission has not been met. All received bank statements, signatures and reports (quarterly) are maintained on the secure drive at the Commission. During the month of December 2016, the Director will issue a letter to both entities to request compliance and importance of monthly submission of information to ensure the reports are reviewed regularly for compliance.

For the Year Ended June 30, 2016

An exit conference was held on December 1, 2016, with the following in attendance:

New Mexico Racing Commission

Jerry G. Cospers, DVM, Board Member

Laura Valencia, CFO

MP Group, Inc.

Scott Peck, Partner

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.