

WEST VIRGINIA RACING COMMISSION

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2014

WITH
INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Honorable Members of the Commission
West Virginia Racing Commission
Charleston, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the West Virginia Racing Commission (the Commission), a component unit of the State of West Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements 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 present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Commission as of June 30, 2014, and the respective changes in financial position 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 budgetary comparison information on pages 19 and 20 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 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 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.



Charleston, West Virginia
October 14, 2014

WEST VIRGINIA RACING COMMISSION
 GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET POSITION
 JUNE 30, 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Special Revenue Fund	Adjustments	Statement of Net Position
Cash and equivalents	\$ 3,203,302	\$ -	\$ 3,203,302
Restricted cash	20,084,005	-	20,084,005
Accounts receivable	52,221	-	52,221
Restricted receivable	720,098	-	720,098
Capital assets, net	-	8,544	8,544
Total assets	<u>24,059,626</u>	<u>8,544</u>	<u>24,068,170</u>
Deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Total assets plus deferred outflows	<u>\$ 24,059,626</u>	<u>\$ 8,544</u>	<u>\$ 24,068,170</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Accounts payable	\$ 9,059	\$ -	\$ 9,059
Restricted payable	720,098	-	720,098
Funds held in agency capacity	20,084,005	-	20,084,005
Accrued transfers	96,953	-	96,953
Accrued wages	72,774	-	72,774
Other post-employment benefits liability	967,628	-	967,628
Compensated absences	-	196,405	196,405
Total liabilities	<u>21,950,517</u>	<u>196,405</u>	<u>22,146,922</u>
Deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities plus deferred inflows	<u>21,950,517</u>	<u>196,405</u>	<u>22,146,922</u>
FUND BALANCE/NET POSITION			
Fund Balances:			
Restricted	96,953	(96,953)	-
Unassigned	2,012,156	(2,012,156)	-
Total fund balances	<u>2,109,109</u>	<u>(2,109,109)</u>	<u>-</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 24,059,626</u>		
Net position:			
Net investment in capital assets		8,544	8,544
Unrestricted		<u>1,912,704</u>	<u>1,912,704</u>
Total net position		<u>\$ 1,921,248</u>	<u>\$ 1,921,248</u>

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA RACING COMMISSION
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

	Special Revenue Fund	Adjustments	Statement of Activities
Revenues:			
Pari-mutuel and daily tax	\$ 2,075,542	\$ -	\$ 2,075,542
Thoroughbred development fees	341,577	-	341,577
Greyhound development fees	472,138	-	472,138
Occupational permits and fines	471,649	-	471,649
Miscellaneous revenue	7,164	-	7,164
	3,368,070	-	3,368,070
Expenditures/Expenses:			
Administrative operations	2,668,057	1,825	2,669,882
Thoroughbred development	303,129	(2,146)	300,983
Greyhound development	807,175	357	807,532
	3,778,361	36	3,778,397
Excess of revenues over (under) expenditures	(410,291)	(36)	(410,327)
Other Financing Uses:			
Transfers out - Statutory distributions to State of West Virginia	2,105,865	-	2,105,865
Excess of revenues over (under) expenditures and transfers out	(2,516,156)	2,516,156	-
Change in net position	-	(2,516,192)	(2,516,192)
Fund Balance/Net Position:			
Beginning of year	4,625,265	(187,825)	4,437,440
End of year	\$ 2,109,109	\$ (187,861)	\$ 1,921,248

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA RACING COMMISSION
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

ASSETS	<u>Agency Funds</u>
Cash and equivalents	<u>\$ 5,450,677</u>
Total assets	<u><u>\$ 5,450,677</u></u>
LIABILITIES	
Due to other funds	<u>\$ 5,450,677</u>
Total liabilities	<u><u>\$ 5,450,677</u></u>

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The West Virginia Racing Commission (the Commission) was created under the provisions of Chapter 19, Article 23, Section 1 (the Act), of the Code of West Virginia 1931, as amended. Under the Act, the Commission is involved in the promotion of thoroughbred horse and greyhound dog breeding in the state of West Virginia, and "has full jurisdiction over and shall supervise all horse race meetings, all dog race meetings, and all persons involved in the holding or conducting of horse or dog race meetings."

The Commission consists of three members appointed by the governor by and with the advice and consent of the Senate, with not more than two of the members belonging to the same political party. The Commission is considered a component unit of the State of West Virginia and its financial statements are blended with the financial statements of the primary government in the State's comprehensive annual financial report.

Management has considered all potential component units to be included in the Commission's reporting entity by applying the criteria set forth in accounting principles generally accepted in the United States of America (GAAP). These criteria include consideration of organizations for which the Commission is financially accountable, or organizations for which the nature and significance of their relationship with the Commission are such that exclusion would cause the Commission's financial statements to be misleading or incomplete. Since no organizations meet these criteria, the Commission has no component units.

Basis of Presentation

The financial statements of the Commission have been prepared in conformity with 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 Commission's significant accounting policies are described below.

Government-Wide and Fund Financial Statements

The Commission's financial statements present the government-wide financial statements (i.e., the statement of net position and the statement of activities) and fund financial statements (i.e., the governmental funds balance sheet and statement of governmental fund revenues, expenditures, and changes in fund balances) in a combined format, which presents the fund financial statements with required adjustments as a separate column and the government-wide financial statements in the same respective statements.

The government-wide financial statements report on information on all activities of the Commission. The effect of interfund activity has been removed from these statements. The fund financial statements are provided for the major individual governmental fund as a separate column. Fiduciary funds are not included in these statements. The Commission does not have any non-major funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

Fiduciary agency funds are custodial in nature (assets equal liabilities) and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting.

The Commission reports the following major governmental funds:

Special Revenue Fund - This fund serves to account for all financial resources accumulated for the promotion of thoroughbred horse and greyhound dog breeding in the State of West Virginia and the supervision of all horse races, dog races, and persons involved in the holding or conducting of horse or dog racing. It is the operating fund of the Commission.

Agency Fund - This fund serves to account for assets that the Commission holds for others in an agency capacity. This includes pension funds for racetrack personnel.

Budgetary Accounting

The Commission's expenditures are subject to the legislative budget process for the State of West Virginia, with annual budgets adopted utilizing the cash basis of accounting. The cash basis is modified at year end to allow for payment of invoices up to 31 days after year end for goods and services received prior to year end. Appropriated budgeted expenditures, which lapse 31 days after the end of the fiscal year, are incorporated into the Commission's overall financial plan. Expenditures are budgeted using natural categories of activities. Any revisions that alter the budgeted expenditures for the expenditure categories for the Commission as a whole must be approved by the Legislature.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include investments with original maturities of less than three months.

Restricted Cash

Restricted cash is comprised of monies collected by the Commission on behalf of the West Virginia Lottery Commission. The Commission is required to distribute 100% of these monies to third parties in accordance with West Virginia Code.

Allowance for Doubtful Accounts

It is the Commission's policy to provide for future losses on uncollectible accounts based on an evaluation of the underlying accounts, the historical collectability experienced by the Commission on such balances and such other factors which, in the Commission's judgment, require consideration in estimating doubtful accounts.

The Commission believes that all accounts are collectible as of June 30, 2014 and an allowance for doubtful accounts is not necessary.

Capital Assets

Property and equipment with a cost of \$5,000 or more are capitalized at cost and depreciated over the estimated useful lives of the assets using the straight-line method. Useful lives are 5 years for computer and office equipment. Contributed assets are recorded at estimated fair value at date of donation.

Deferred Outflow of Resources

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. The Commission did not have any deferred outflow of resources at June 30, 2014.

Compensated Absences

In accordance with State policy, the Commission permits employees to accumulate earned but unused vacation and sick pay benefits. A liability for vacation pay is accrued when earned. To the extent that accumulated sick leave is expected to be converted to benefits on termination or retirement, an estimated liability is accrued.

Deferred Inflow of Resources

A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. The Commission did not have any deferred inflows of resources at June 30, 2014.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

In the governmental fund financial statements fund balance is reported in five classifications.

- Non-spendable – Represents fund balance amounts that are not in spendable form.
- Restricted – Represents fund balance which is restricted when constraints placed on its use of resources are either: (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislations.
- Committed – Represents fund balance that has been approved by the highest level of formal action of the Commission and does not lapse at year-end. The Commission does not have any committed fund balance.
- Assigned – Represents the amounts that are constrained by the Commission's intent to be used for a specific purpose, but are neither committed nor restricted. Assigned fund balance must be approved by formal action of the Commission. A modification to this amount requires action by the Commission; however, this approval lapses at the end of the fiscal year. The Commission does not have any assigned fund balance.
- Unassigned – Fund balance that has not been reported in any other classification.

Net Position

Net position is assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Net investment in capital assets consists of all capital assets, plus deferred refunding loss on debt related to the acquisition, construction or improvement of those assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net position is restricted when there are legal limitations imposed on their use by legislation or external restrictions by other governments, creditors, or grantors. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, restricted resources are applied first.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to financial statements. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Newly Adopted Statements Issued by GASB

The Governmental Accounting Standards Board has also issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for fiscal years beginning after June 15, 2013. This statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend and receive nonexchange financial guarantees. The adoption of this statement had no impact on the financial statements.

Recent Statements Issued by GASB

The Governmental Accounting Standards Board has also issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014. This Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The Commission has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for fiscal years beginning after December 15, 2013. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Commission has not yet determined the effect that the adoption of GASB Statement No. 69 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 71, *Pension Transition for Contributions made subsequent to the measurement date – an amendment of GASB Statement No. 68*. This statement eliminates a potential source of understatement in the first year of implementation of GASB 68 in accrual basis financial statements of contributing entities. The Commission has not yet determined the effect that the adoption of GASB Statement No. 71 may have on its financial statements.

WEST VIRGINIA RACING COMMISSION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Total fund balances on governmental funds balance sheet	\$ 2,109,109
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the governmental fund's balance sheet	8,544
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet	<u>(196,405)</u>
Net position of governmental activities	<u>\$ 1,921,248</u>

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

Net change in fund balance – total governmental funds	\$ (2,516,156)
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	<u>(36)</u>
Change in net position of governmental activities	<u>\$ (2,516,192)</u>

WEST VIRGINIA RACING COMMISSION
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2014

NOTE 3 - CASH AND CASH EQUIVALENTS

The State Treasurer has statutory responsibility for daily cash management activities of the State's agencies, departments, boards and commissions, and invests such deposits in accordance with West Virginia statutes. As of June 30, 2014, the Commission had \$9,119,475 on deposit with the West Virginia Treasurer's Office and \$19,618,509 in depository accounts with financial institutions. These deposits were covered by federal depository insurance or collateralized by an irrevocable letter of credit issued by another financial institution in the Commission's name.

The Commission has not formally adopted a deposit policy limiting the amount of deposits or addressing risks involved with deposit arrangements. However, the Commission is not currently exposed to credit, custodial credit, concentration of credit, interest rate, or foreign currency risks.

A reconciliation of the investments disclosed in this note to the amounts reported in the Balance Sheet is as follows:

As disclosed in this note:

Deposits with the West Virginia Treasurer's Office	\$ 9,119,475
Deposits with outside financial institutions	19,618,509
	<u>\$ 28,737,984</u>

As reported on the Balance Sheet:

Cash and cash equivalents	\$ 3,203,302
Restricted cash	20,084,005

As reported on the Statement of Fiduciary Net Position:

Cash and cash equivalents	<u>5,450,677</u>
	<u>\$ 28,737,984</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance June 30, <u>2013</u>	<u>Increase</u>	<u>Decrease</u>	Balance June 30, <u>2014</u>
Capital assets not being depreciated:				
Construction in process	<u>\$ 8,544</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,544</u>
Capital assets being depreciated:				
Equipment	<u>76,818</u>	<u>-</u>	<u>-</u>	<u>76,818</u>
Less accumulated depreciation for:				
Equipment	<u>(76,818)</u>	<u>-</u>	<u>-</u>	<u>(76,818)</u>
Total capital assets, net	<u>\$ 8,544</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,544</u>

WEST VIRGINIA RACING COMMISSION
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2014

NOTE 5 - TRANSACTIONS WITH THE STATE OF WEST VIRGINIA

West Virginia State Treasurer

Pursuant to West Virginia Code, the Commission made distributions to the Treasurer of the State of West Virginia (the Treasurer) of revenue collected in excess of the amounts appropriated by the West Virginia Legislature for the year ended June 30, 2014.

The Commission's distributions to the Treasurer for the year ended June 30, 2014, were as follows:

Statutory distributions to State of West Virginia (cash basis)	\$ 89,414
Prior year accrued distributions	(89,414)
Burdette Settlement	2,008,912
Current year accrued distributions	<u>96,953</u>
Statutory distributions to State of West Virginia	<u>\$ 2,105,865</u>

West Virginia Lottery Commission

Pursuant to West Virginia Code, the Commission received distributions from the West Virginia Lottery Commission (the Lottery) of amounts collected by the Lottery under the Racetrack Video Lottery Act. These monies are then passed through the Commission to the appropriate recipient and as such, no revenues or expenditures are recognized by the Commission as a result of this activity. Distributions for the year ended June 30, 2014, were as follows:

Pension funds for racetrack personnel	\$ 6,061,825
Thoroughbred Development Fund	6,605,999
Greyhound Development Fund	4,615,292
Video Lottery Fund	<u>5,511,228</u>
Total Lottery distributions	<u>\$ 22,794,344</u>

In addition to transactions previously described, as a State agency, the Commission utilized services, supplies, and equipment provided by other State agencies. The following is a summarization of these charges paid by the Commission for the year ended June 30, 2014.

West Virginia Attorney General's Office	\$ 164,744
West Virginia Public Employees Insurance Agency	12,436
West Virginia Lottery Commission	48,290
West Virginia Office of Technology	25,976
West Virginia State Budget Office	20,930
West Virginia Department of Administration	9,489
West Virginia Department of Corrections	246
West Virginia Insurance Commission	16,985
West Virginia Auditor's Office	3,608
West Virginia Secretary's Office – Tax & Revenue	2,215
West Virginia Treasurer's Office	165
WVNET	<u>1,427</u>
Total all agencies	<u>\$ 306,511</u>

NOTE 6 - COMPENSATED ABSENCES AND OPEB LIABILITY

Following is a summary of compensated absences and the other post-employment benefits (OPEB) liability reported in the government-wide financial statements for the year ended June 30, 2014:

	Balance <u>June 30, 2013</u>	<u>Increase</u>	<u>(Decrease)</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
Compensated absences	\$ 196,369	\$ 36	\$ -	\$ 196,405	\$ -
OPEB liability	<u>947,285</u>	<u>101,830</u>	<u>81,487</u>	<u>967,628</u>	<u>967,628</u>
	<u>\$ 1,143,654</u>	<u>\$ 101,866</u>	<u>\$ 81,487</u>	<u>\$ 1,164,033</u>	<u>\$ 967,628</u>

The Commission's obligation for compensated absences time includes leave time and related costs expected to be paid to employees in the future and are determined using wage levels in effect at the date the obligation is calculated.

OPEB Plan Description

The Commission participates in the West Virginia Other Post-Employment Benefit Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund (RHBT), a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the West Virginia Public Employees Insurance Agency (WVPEIA). The OPEB Plan provides retiree post-employment healthcare benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended, assigns the authority to establish and amend benefit provisions to the WVPEIA Finance Board. WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan, which can be obtained by contacting Public Employees Insurance Agency, 601 57th Street S.E., Suite 2, Charleston, West Virginia, 25304, by visiting peia.wv.gov or by calling 1-888-680-7342.

The West Virginia Legislature passed legislation to provide alternate funding sources for the RHBT OPEB unfunded liability. In addition the PEIA Finance Board imposed limits on the retiree subsidy currently provided for PEIA premiums for retirees. Future increases in the subsidy will be limited to no more than 3% per year. These actions are expected to have a material impact on the amounts billed by the RHBT to the Commission in the future, resulting in decreases in the recorded OPEB liability.

OPEB Funding Policy

The Code requires the OPEB Plan to bill the participating employers 100% of the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the regulations of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month.

NOTE 6 - COMPENSATED ABSENCES AND OPEB LIABILITY (Continued)

The Commission's contributions to the OPEB Plan were \$81,487, \$92,782, and \$86,339, and the billed ARC was \$101,830, \$116,154, and \$353,706 which represents 80.0%, 79.9% and 24.4% of the ARC, respectively for the years ended June 30, 2014, 2013 and 2012, respectively.

NOTE 7 - PENSION PLAN

Plan Description

All full-time Commission employees are eligible to participate in the State of West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer public employee retirement system. Employees who retire at or after age 60 with five or more years of credited service, or at least age 55 with age and service equal to 80, are entitled to a retirement benefit established by State statute, payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement. The PERS also provides deferred retirement, early retirement, and death and disability benefits. The PERS issues an annual report, a copy of which can be obtained by contacting PERS at the Consolidated Public Retirement Board, 4101 MacCorkle Avenue S.E., Charleston, West Virginia 25304-1636 or by calling 1-800-654-4406.

Funding Policy

Covered employees are required to contribute 4.5% and the Commission is required to contribute 14.5% for 2014, 14.0% for 2013, and 14.5% for 2012 of covered employee's salaries to the PERS. The required employee and employer contribution percentages are determined by actuarial advisement within ranges set by statute. A summary of the Commission and employee contributions required and made for the years ended June 30, 2014, 2013, and 2012, is as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Commission Contributions	\$ 289,135	\$ 314,905	\$ 335,556
Employee Contributions	<u>89,732</u>	<u>101,219</u>	<u>104,138</u>
Total Contributions	<u>\$ 378,867</u>	<u>\$ 416,124</u>	<u>\$ 439,694</u>

NOTE 8 - 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; injuries to and illnesses of employees; and natural disasters.

NOTE 8 - RISK MANAGEMENT (Continued)

The Commission has obtained coverage for job-related injuries of employees and health coverage for its employees through its participation in Brickstreet Mutual Insurance Company (BrickStreet) and the West Virginia Public Employees Insurance Agency (PEIA). In exchange for the payment of premiums to Brickstreet and PEIA, the Commission has transferred its risks related to health coverage for employees and job-related injuries of employees.

The Commission participates in the West Virginia Board of Risk and Insurance Management to obtain coverage for general liability, personal injury liability, professional liability, stop gap liability, wrongful act liability, and comprehensive auto liability. Such coverage is offered in exchange for an annual premium.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Commission is involved in certain claims and legal actions arising from matters in the ordinary course of conducting business. The outcome of these claims and actions are presently indeterminable; however, in the opinion of the Commission's management, after consulting legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial statements.

NOTE 10 - LEASE PAYABLE

The Commission entered into an operating lease agreement with the West Virginia Lottery Commission for half of the 5th floor of the West Virginia Lottery Building. The yearly lease agreement began in May 2012 and automatically renews each year. Rent expense was \$46,104 for the year ended June 30, 2014. The lease was renewed for the 2015 fiscal year under the same terms. Future minimum lease payments amount to \$46,104 for the year ended June 30, 2015.

WEST VIRGINIA RACING COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Revenues:			
Pari-mutuel and daily tax	\$ 1,800,000	\$ 1,800,000	\$ 2,075,542
Thoroughbred development fees	355,000	355,000	310,332
Greyhound development fees	600,000	600,000	428,896
Occupational permits and fines	672,000	672,000	471,649
	<u>3,427,000</u>	<u>3,427,000</u>	<u>3,286,419</u>
Expenditures:			
Administrative operations	3,099,578	3,099,578	2,713,933
Thoroughbred development	355,000	355,000	293,006
Greyhound development	1,294,880	1,294,880	751,079
	<u>4,749,458</u>	<u>4,749,458</u>	<u>3,758,018</u>
Excess of revenues over (under) expenditures	(1,322,458)	(1,322,458)	(471,599)
Fund Balance:			
Beginning of year	<u>-</u>	<u>-</u>	<u>3,422,814</u>
End of year	<u>\$ (1,322,458)</u>	<u>\$ (1,322,458)</u>	<u>\$ 2,951,215</u>

WEST VIRGINIA RACING COMMISSION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014

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NOTE I - RECONCILIATION OF BUDGET INFORMATION

A reconciliation of the excess of expenditures over revenues for the year ending June 30, 2014, on the budgetary basis to the GAAP basis fund financial statements follows:

Excess of expenditures over revenues - budgetary basis	\$ (471,599)
The Commission budgets for administrative transfers from the Greyhound and Thoroughbred Development Funds to the extent that cash is received and not on the modified accrual basis	74,487
Distributions to the State of West Virginia General Revenue Fund are not an outflow for budgetary purposes but are an expenditure for financial reporting purposes	(2,105,865)
The OPEB annual required contribution portion of compensated absences is not an outflow for budgetary purposes but is an expenditure for financial reporting purposes	(20,343)
The Commission does not budget for inflows and outflows related to fingerprint charges and the cost of hearings but these items represent revenues and expenditures for financial reporting purposes	<u>7,164</u>
Excess of expenditures over revenues - GAAP basis	<u>\$ (2,516,156)</u>

NOTE II - BASIS OF PRESENTATION

The Commission's Special Revenue Fund is comprised of four budgeted West Virginia Financial Information Management (WVFIMS) accounts held in the West Virginia Treasurer's Office.

INDEPENDENT AUDITOR'S 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

Honorable Members of the Commission
West Virginia Racing Commission
Charleston, West Virginia

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 and each major fund of the West Virginia Racing Commission (the Commission) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated October 14, 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 audit 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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from 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* and which are described in the accompanying schedule of findings and questioned costs as item 2014-2.

The Commission's Response to Findings

The Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charleston, West Virginia
October 14, 2014

WEST VIRGINIA RACING COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014

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2014-1

Financial Reporting Process

Criteria: Management of the Commission is responsible for preparation of complete and accurate financial statements.

Condition: During fiscal year 2014, the Commission did not have a formal financial reporting process and procedures to provide for preparation of complete and accurate financial statements on a regular basis. General ledger software was obtained in fiscal year 2013 to accumulate financial data, but it has not been fully utilized to facilitate the preparation of periodic financial reports or annual financial statements. Supervisory review and approval procedures have not been designed and implemented to ensure that financial statements are complete and accurate.

Context: Maintaining a trial balance is the key to accurate financial reporting. As of and for the year ended June 30, 2014, government-wide assets total \$24.0 million, liabilities total \$22.0 million, revenues total \$3.4 million and expenses total \$3.8 million.

Cause: Formal financial reporting procedures have not been developed and the process for accumulating financial data and performing supervisory review and approval has not been designed.

Effect: Complete and accurate financial statements are not prepared on a regular basis to assist management in managing the Commission and to assist Commissioners in performing oversight duties.

Recommendation: We recommend that the Commission design a financial reporting process and procedures to accumulate financial reporting data, design and perform supervisory review and approval procedures, and prepare complete and accurate financial statements on a regular basis.

Management Response: *With the State's full implementation of WV OASIS, agencies will perform all financial reporting activities, including the preparation of financial statements, through the new system. While the Racing Commission does not currently provide the Commissioner's with completed monthly financial statements, the Commissioner's are provided account status reports, financial projections and racing activity recaps on a monthly basis for their review and consideration in performing oversight duties. The Racing Commission is also currently developing an Accounting Procedures Manual to design and implement financial reporting processed and procedures to ensure the Commission's financial statements are accurately presented.*

WEST VIRGINIA RACING COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014

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2014-2

Thoroughbred Development Fund Distributions

- Criteria:** West Virginia State Code §19-23-13b, subsections (e)(5), (f)(1), and (f)(5), require that any balance in the Thoroughbred Development Fund above \$250,000 after yearly distributions should first be deposited into "West Virginia Accredited Race Fund" and used for restricted race purses. If less than 75% of the restricted races fail to receive enough entries to race, the Commission shall on a quarterly basis, dedicate funds in each fund back to the general purse fund of the racing association or licensee. Any funds still not distributed should revert into the general account of the Thoroughbred Development fund for distribution in the following year.
- Condition:** The Commission has not deposited any funds into the "West Virginia Accredited Race Fund" for restricted race purposes, or to the general purse fund, as required by West Virginia State Code.
- Context:** As of December 31, 2013, the Thoroughbred Development Fund cash balance totaled approximately \$9,227,978. Included in this balance was approximately \$7,816,788 that was subsequently used for annual distributions, leaving a cash balance of approximately \$1,411,190.
- Cause:** The Commission interprets West Virginia State Code such that any balance of current year income into the fund available after yearly distributions above \$250,000 should be deposited into the "West Virginia Accredited Race Fund" for restricted race purses. However, a literal reading of State Code does not include language to allow an evaluation of the remaining balance based on one fiscal year's activity.
- Effect:** The excess \$1,411,190 of December 31, 2013 Thoroughbred Development Fund cash balance after related distributions is well above the \$250,000 fund minimum that has not been deposited into the "West Virginia Accredited Race Fund" for restricted race purses, or to the general purse fund, as required by West Virginia State Code.
- Recommendation:** We recommend that the Commission establish policies and procedures to ensure that Thoroughbred Development Fund distributions are in compliance with West Virginia State Code.
- Management Response:* *The Racing Commission is seeking legal advice on the disbursement and balance in question. The balance is comprised of amounts that have been remaining over a number of years that reflects the remaining amount not distributed due to payment limitations the statute places on earnings of the Thoroughbred Development Fund. The Commission currently applies this code section to its annual distribution. That is, if there is not \$250,000 remaining from the total amount to be distributed in a given year, the Commission has determined it cannot make a deposit into the "West Virginia Accredited Race Fund".*