



VIRGINIA RACING COMMISSION

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2017

Auditor of Public Accounts
Martha S. Mavredes, CPA

www.apa.virginia.gov

(804) 225-3350



AUDIT SUMMARY

Our audit of the Virginia Racing Commission for the year ended June 30, 2017, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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COMMISSION HIGHLIGHTS

The Virginia Racing Commission (Commission) controls and prescribes regulations and conditions for all horse racing with pari-mutuel wagering privileges in the Commonwealth. The Code of Virginia requires licensing of all persons engaged in pari-mutuel horse racing in Virginia. The license process includes fingerprinting, criminal background checks, and investigations from other states. In this capacity, the Commission licenses horse racetracks and satellite wagering facilities, and ensures that all their employees have valid Commission licenses. The Commission also issues licenses to anyone associated with horse racing, including horse owners, trainers, jockeys, grooms, veterinarians, and blacksmiths. Pari-mutuel horse racing began in the Commonwealth in September 1997 at Colonial Downs, a privately held racetrack in New Kent County. Colonial Downs surrendered its racing license in October 2014. The Code of Virginia permits up to ten satellite wagering facilities. Currently, there are two satellite wagering facilities open in the state of Virginia.

Financial Summary

The results of the fiscal year 2017 financial operations of the Virginia Racing Commission are on page five. The total amount wagered on horse racing in the Commonwealth increased from fiscal year 2016 to 2017 by approximately \$4.2 million or 5.5 percent. This increase is attributable to more total race days in fiscal year 2017, as compared to total race days in fiscal year 2016. Tax revenue continued to increase due to the enactment of Chapter 731 of the 2015 Acts of Assembly, which increased the percentage received by the Commission of advance deposit wagering conducted in Virginia from 0.5 percent to 1.5 percent. Breeders Fund revenue remained fairly stable as legislation did not change the amount the fund receives.

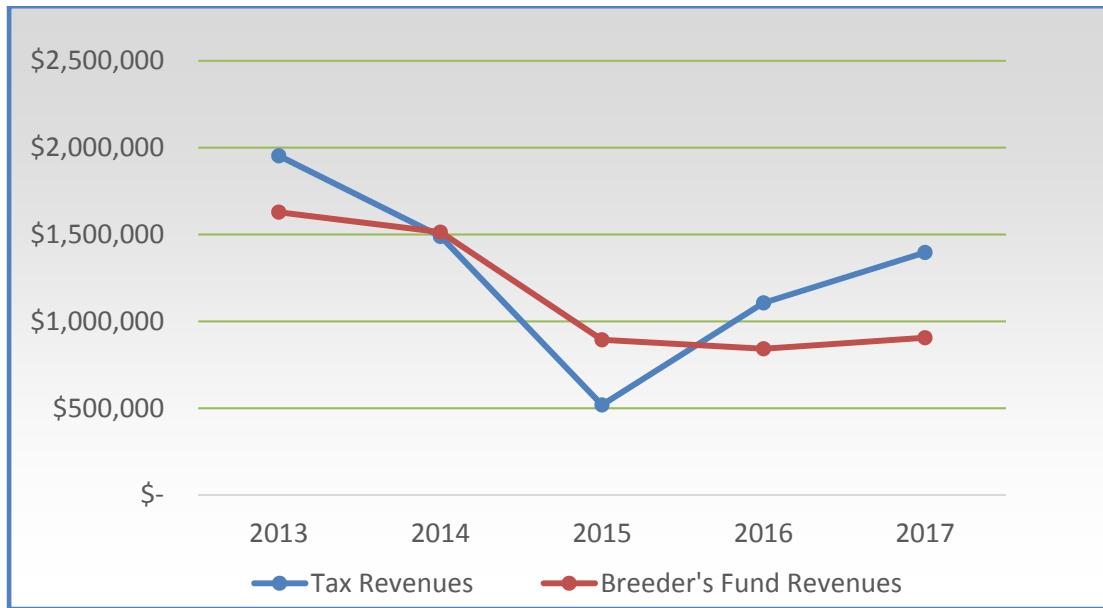
Change in Wagers and Revenues 2017 and 2016

Table 1

	Total In-State Race Wagers	Total Online Wagers	Tax Revenue	Breeders Fund Revenue
FY 2017	\$ 290,351	\$ 79,382,375	\$1,396,609	\$905,837
FY 2016	296,026	75,210,920	1,106,457	842,304
Variance	(5,676)	4,171,455	290,152	63,533
% Variance	(2%)	6%	26%	8%

Breeders Fund and Tax Revenues By Fiscal Year

Chart 1



The Code of Virginia directs the distribution of the funds in the horse racing wagering pools. The percentage distribution varies based on factors such as the type of wagering, whether the race took place within or outside of the Commonwealth, and whether the wagering occurred at the racetrack or at a satellite facility. The Commonwealth retains, as a license tax, a portion of the wagering pools ranging from 1.50 to 2.75 percent. All revenues received by the Commission go to a special fund known as the State Racing Operations Fund.

The Appropriation Act requires the Commission to transfer any funds in excess of the Commission's operating expenses to the General Fund of the Commonwealth. However, the Appropriation Act contains language allowing the Commission to carry forward a portion of its unspent appropriation for the promotion and marketing, sustenance, and growth of the Virginia horse industry as long as it makes its required transfer to the General Fund. Due to the reduction in revenues as a result of Colonial Downs closing, language in the Appropriation Act was revised to defray this transfer. Pursuant to §3-1.01 II.1. of the Appropriation Act, the State Comptroller transferred \$8,212 from the Commission to the General Fund in order to fund a portion of the non-general share of costs for the expedited repayment of deferred contributions to the Virginia Retirement System authorized in Chapter 732, 2016 Acts of Assembly. At June 30, 2017, the Commission had a cash balance of \$1,275,783 in its operating fund. Due to the uncertainty of revenues and expenses in fiscal year 2017, the Commission retained the excess cash balance to ensure it will be able to support operations in the upcoming race season.

**Year-End Operating Cash Balances and General Fund Transfers
by Fiscal Year**

Table 2

	2011	2012	2013	2014	2015	2016	2017
Operating Cash Balance	\$ 33,434	\$224,791	\$193,118	\$285,605	\$33,999	\$528,190	\$1,275,783
Transfers to General Fund	\$577,685	\$511,978	\$749,609	\$184,356	\$ -	\$ -	\$ 8,212

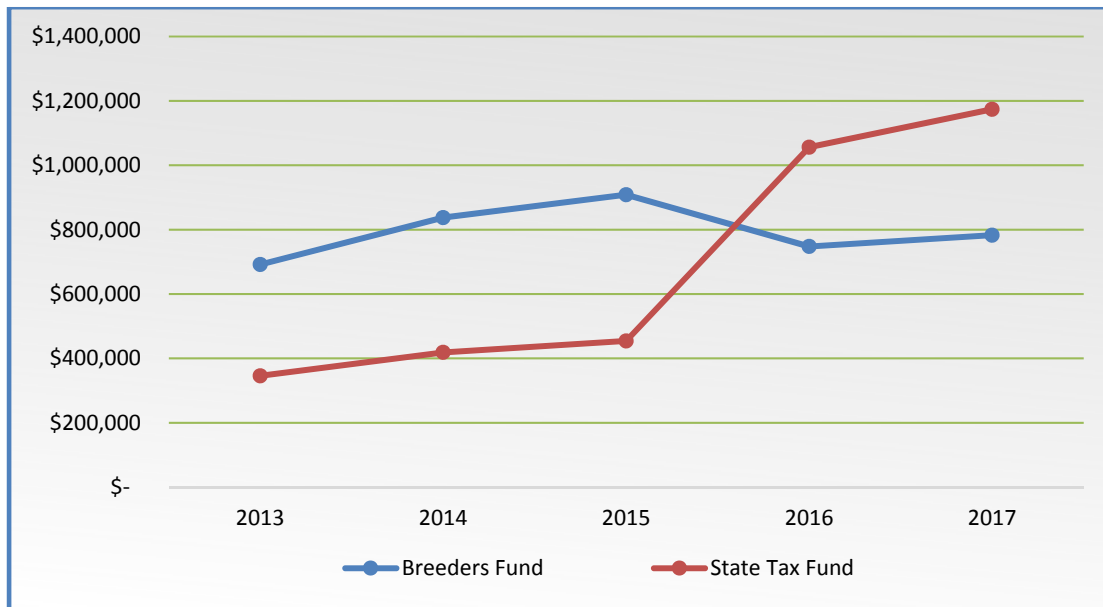
The Code of Virginia also created the Virginia Breeders Fund to support an incentive program to foster the industry of breeding racehorses in Virginia. It receives a one percent distribution of the horse racing wagering conducted in the Commonwealth. The Commission contracted with the Virginia Thoroughbred Association and the Virginia Harness Horse Association to manage the funds. The incentive program provides purses for races, restricted to Virginia bred or sired horses, and awards to the owners and breeders of Virginia bred horses that win or earn purse money in races designated by the Commission. During fiscal year 2017, the Commission made payments totaling \$823,900 from the Breeders Fund consisting of \$583,900 in incentives to owners and breeders, and \$240,000 in management fees to the Virginia Thoroughbred Association and the Virginia Harness Horse Association. At year-end, the cash balance in the Breeder's Fund was \$426,091. This cash balance does not revert to the General Fund.

Advance Deposit Wagering

Section 59.1-369(5) of the Code of Virginia directs the Commission to collect a licensing fee for any provider wishing to offer advance deposit wagering (ADW) to its customers. Currently, these online providers pay \$1,000 annually to renew this license. ADW includes online or other electronic forms of wagering on horse races simulcast from around the world. Once the provider verifies an applicant's Virginia residency to establish an ADW account, the customer must deposit funds into the account, from which the provider deducts any race wagers. Total wagers from ADW accounts, less any refunds and cancellations, yields gross handle. The Commission ensures that the ADW licensees who operate in Virginia pay a monthly fee of one and a half percent based on the gross ADW handle from Virginia residents. For fiscal year 2017, ADW fee deposits into the Commission's operating fund totaled \$1,173,973. The Commission also collects one percent of the gross ADW handle for wagers placed by Virginia residents and deposits these funds into the Virginia Breeders Fund. For fiscal year 2017, total deposits to the Virginia Breeders Fund from ADW licensees were \$782,649.

ADW Revenues by Fiscal Year

Chart 2



Future of Horseracing in the Commonwealth

Despite the surrender by Colonial Downs of their license in February 2014, there were two days of thoroughbred racing and ten days of harness racing held during the 2016/2017 racing season. Great Meadow Racecourse in Fauquier County played host to the Gold Cup International in September 2016 and the Virginia Gold Cup in May 2017. Ten days of harness racing took place at Shenandoah Downs Racecourse in Woodstock.

The Commission is optimistic that both thoroughbred and harness racing will remain in Virginia well into the future. Another ten days of harness racing will take place in the Fall of 2017 at Shenandoah Downs, located in Woodstock. In 2016, Shenandoah Downs completed an extensive \$700,000 track renovation. There will also be two days of Steeplechase racing at Great Meadow Racecourse in Fauquier County; one in the Fall and the second in the Spring.

Two satellite wagering facilities opened in Richmond during fiscal year 2017. The Virginia Racing Commission granted approval for the Virginia Equine Alliance to open another off-track betting facility in Chesapeake. In combination with the increased number of race days, planned off-track betting facilities, and the increase in the percentage of advance deposit wagering tax revenues received by the Commission's operating fund, the Commission is optimistic there will be a continued increase in revenues in the future.

VIRGINIA RACING COMMISSION
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN CASH BALANCES - BUDGET AND ACTUAL
For the Twelve Months Ending June 30, 2017

	<u>Budget</u>	<u>Actual</u>			Total Variance
	Total Budget	Breeders Fund	Operations Fund	Total	Positive/ (Negative)
Revenues:					
Taxes and pari-mutuel wagering	\$ 2,050,000	\$ 905,837	\$ 1,396,609	\$ 2,302,446	\$ 252,446
Application fees	45,000	-	47,915	47,915	2,915
Fines and assessments	2,000	-	1,450	1,450	(550)
Surplus supplies and equipment	-	-	-	-	-
Interest	-	2,803	719	3,522	3,522
Total revenues:	<u>2,097,000</u>	<u>908,640</u>	<u>1,446,693</u>	<u>2,355,333</u>	<u>258,333</u>
Expenses:					
Personal services	908,563	-	377,734	377,734	(530,829)
Contractual services	397,900	-	185,893	185,893	(212,007)
Supplies and materials	14,330	-	12,668	12,668	(1,662)
Incentive and marketing payments	1,679,890	823,900	8,038	831,938	(847,952)
Continuous charges	<u>151,108</u>	<u>-</u>	<u>105,105</u>	<u>105,105</u>	<u>(46,003)</u>
Total expenses:	<u>3,151,791</u>	<u>823,900</u>	<u>689,438</u>	<u>1,513,338</u>	<u>(1,638,453)</u>
Transfers out:					
General fund	-	-	8,212	8,212	8,212
Literary fund	<u>2,000</u>	<u>-</u>	<u>1,450</u>	<u>1,450</u>	<u>(550)</u>
Total transfers:	<u>2,000</u>	<u>-</u>	<u>9,662</u>	<u>9,662</u>	<u>7,662</u>
Revenues over (under) expenses and transfers out	<u>\$ (1,056,791)</u>	<u>84,740</u>	<u>747,593</u>	<u>832,333</u>	<u>\$ 1,889,124</u>
Cash balance at June 30, 2016		<u>\$ 341,351</u>	<u>\$ 528,190</u>	<u>\$ 869,541</u>	
Cash balance at June 30, 2017		<u>\$ 426,091</u>	<u>\$ 1,275,783</u>	<u>\$ 1,701,874</u>	



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 28, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Virginia Racing Commission** for the year ended June 30, 2017. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system, review the adequacy of the Commission's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Contractual services expenses
Payroll expenses
Financial assistance and incentives payments
Appropriations
Cash receipting and collections

We performed audit tests to determine whether the Commission's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Commission's operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in Commonwealth's accounting and financial reporting system. The financial information presented in this report came directly from the Commonwealth's accounting and financial reporting system.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on October 4, 2017.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

DS/alh

VIRGINIA RACING COMMISSION

As of June 30, 2017

D.G. Van Clief, Jr.
Chairman

I. Clinton Miller
J. Sargeant Reynolds, Jr.
Dr. Charles Steger
Stuart C. Siegel

David Lermond, Jr.
Executive Secretary