



VIRGINIA RACING COMMISSION

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2013

AUDIT SUMMARY

Our audit of the Virginia Racing Commission for the year ended June 30, 2013, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and 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 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. The Code of Virginia permits up to 10 satellite wagering facilities. Currently, there are nine satellite facilities operated by Colonial Downs, which are located in Alberta, Chesapeake (two), Hampton, Martinsville, Richmond (two), Scott, and Vinton. The Commission monitors each of these facilities as a part of their regulatory oversight.

ADVANCE DEPOSIT WAGERING

Section 59.1-369(5) of the Code of Virginia directs the Racing Commission to collect a licensing fee for any provider wishing to offer advance deposit wagering (ADW) to its customers. ADW includes online or other electronic forms of wagering on horse races simulcast from around the world. Once the provider verifies the wager'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 license fee of one-half percent based on the gross ADW handle from Virginia residents. For fiscal year 2013 license fee deposits into the Commission's operating fund totaled \$345,854. The Commission also collects one percent of the gross ADW handle from Virginia residents from the ADW licensees and deposits these funds into the Virginia Breeders Fund. For fiscal year 2013, total deposits to the Virginia Breeders Fund from ADW licensees were \$691,708.

FINANCIAL SUMMARY

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 0.50 to 2.75 percent as directed by the Code of Virginia. 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. At June 30, 2013, the Commission had a cash balance of \$193,118 in its operating fund. The Commission transferred \$749,609 to the General Fund as required by the Appropriation Act. Following several years of downward trends, the transfers to the General Fund increased in fiscal year 2013 as shown in the following table:

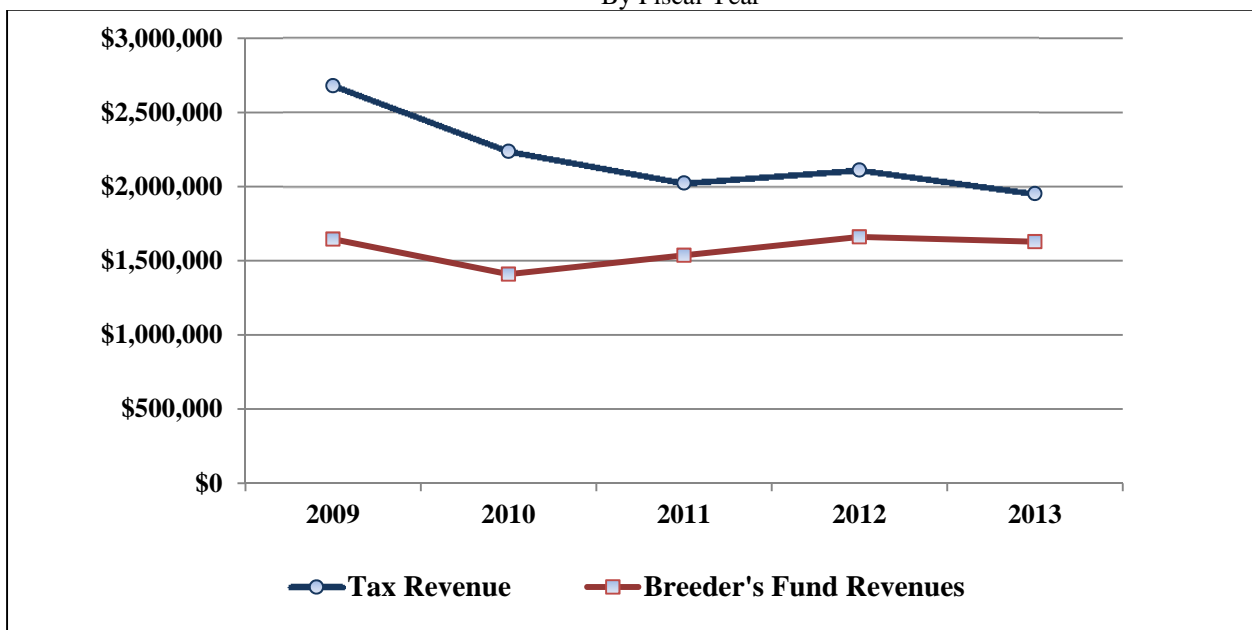
Year-end Operating Cash Balances and General Fund Transfers
By Fiscal Year

	2009	2010	2011	2012	2013
Operating Cash Balance	\$216,012	\$121,875	\$ 33,434	\$224,791	\$193,118
Transfers to General Fund	\$815,870	\$607,182	\$577,685	\$511,978	\$749,609

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 2013, the Commission made payments totaling \$1,967,467 from the Breeders Fund consisting of \$1,727,467 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 \$169,576. This cash balance does not revert to the General Fund.

The results of the fiscal year 2013 financial operations of the Virginia Racing Commission are on page four. The total amount wagered on horse racing in the Commonwealth decreased from fiscal year 2012 to 2013 by 8.1 percent which is attributable to the current economic conditions. The amount of tax revenue in the operating fund generated from wagering on horse racing decreased 7.5 percent from 2012 compared to an increase of 9.6 percent from fiscal years 2011 to 2012. This decrease is consistent with the decrease on overall wagering. Breeders Fund revenue decreased by 1.2 percent from 2012 compared to the 8.1 percent increase in revenue from fiscal years 2011 to 2012. A similar decrease is evident in receipts from advance deposit wagering. The 2013 cash balance decreased by \$370,940 due to the increase in the General Fund transfer from the Commission's operating fund, set by Chapter 3 of the 2013 Virginia Acts of Assembly Special Session.

Breeders Fund and Tax Revenues
By Fiscal Year



FUTURE CHANGES

As of September 2013, in an effort to further reduce operating costs, and the desire of Colonial Downs to reclaim the current office space, the Commission has moved its operations from New Kent County to Sandston, Virginia. Colonial Downs will continue to provide limited office space for stewards, veterinarians, and licensing during the two racing sessions.

VIRGINIA RACING COMMISSION
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN CASH BALANCES - BUDGET AND ACTUAL
For the Twelve Months Ending June 30, 2013

	Budget	Actual			Total Variance
	Total Budget	Breeders Fund	Operations Fund	Total	Positive/ (Negative)
Revenues:					
Taxes and pari-mutuel wagering	\$ 3,489,900	\$ 1,628,200	\$ 1,952,830	\$ 3,581,030	\$ 91,130
Application fees	175,500	-	177,442	177,442	1,942
Fines and assessments	15,000	-	8,350	8,350	(6,650)
Total revenues	3,680,400	1,628,200	2,138,622	3,766,822	86,422
Expenses:					
Personal services	921,849	-	715,472	715,472	206,377
Contractual services	491,094	-	316,481	316,481	174,613
Supplies and materials	17,685	-	11,276	11,276	6,409
Incentive and marketing payments	2,334,765	1,967,467	287,965	2,255,432	79,333
Continuous charges	119,833	-	81,142	81,142	38,691
Total expenses:	3,885,226	1,967,467	1,412,336	3,379,803	505,423
Transfers out:					
General fund	734,356	-	749,609	749,609	(15,253)
Literary fund	15,000	-	8,350	8,350	6,650
Total transfers	749,356	-	757,959	757,959	(8,603)
Revenues over (under) expenditures and transfers out	\$ (954,182)	(339,267)	(31,673)	(370,940)	\$ 583,242
Cash balance at June 30, 2012		508,843	224,791	733,634	
Cash balance at June 30, 2013		\$ 169,576	\$ 193,118	\$ 362,694	

Source: Commonwealth Accounting and Reporting System



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 11, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
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, 2013. 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 Accounting and Reporting System, review the adequacy of the Commission's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. 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
- Small purchase charge card
- 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 tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Commission records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and 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.

The Commission has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on September 24, 2013.

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

MR/alh

COMMISSION OFFICIALS

Virginia Racing Commission

Stuart Siegel
Chairman

J. Sargeant Reynolds, Jr.
Vice Chairman

Carol G. Dawson
Stran Trout
D.G. Van Clief, Jr.

Bernard J. Hettel
Executive Secretary

David Lermond, Jr.
Deputy Executive Secretary