



VIRGINIA RACING COMMISSION

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2016

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Virginia Racing Commission for the year ended June 30, 2016, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and Cardinal;
- 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. The Code of Virginia permits up to 10 satellite wagering facilities. Currently, there are no satellite wagering facilities as Colonial Downs surrendered its racing license in October 2014.

Financial Summary

The results of the fiscal year 2016 financial operations of the Virginia Racing Commission are on page five. The total amount wagered on horse racing in the Commonwealth decreased from fiscal year 2015 to 2016 by approximately \$20.3 million or 21 percent. This decrease is attributable to less total race days in fiscal year 2016, as compared to total race days in fiscal year 2015. The increase in tax revenue is attributable to the passing of House Bill 1826 by the 2015 General Assembly which increased the percentage received by the Commission of advance deposit wagering conducted in Virginia from .5 percent to 1.5 percent. Breeders Fund revenue decreased by six percent from 2015 as legislation did not change the amount the fund receives.

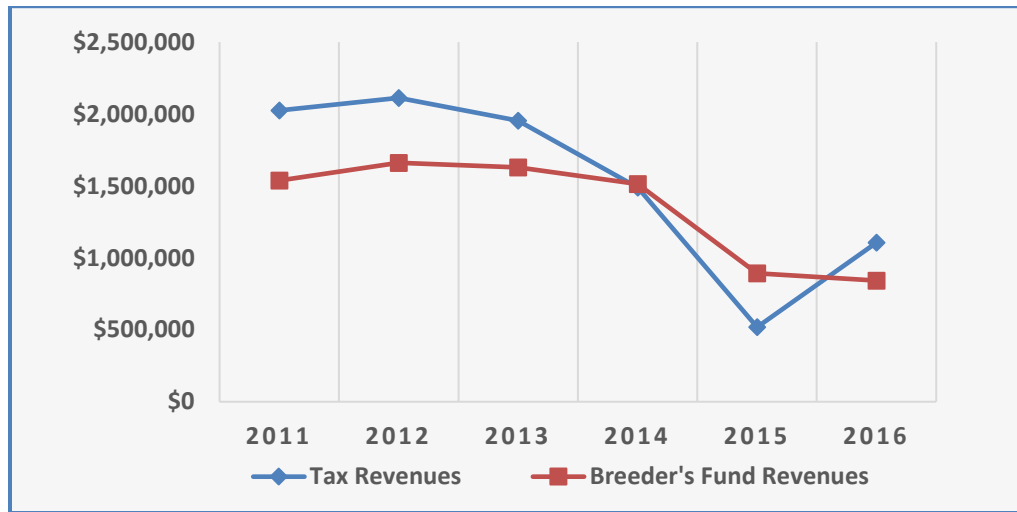
Change in Wagers and Revenues 2015 and 2016

Table 1

	Total In-State Race Wagers	Total Online Wagers	Tax Revenue	Breeders Fund Revenue
FY 2016	\$ 296,026	\$ 75,210,920	\$1,106,457	\$842,304
FY 2015	4,930,282	90,860,350	518,499	893,701
Variance	(4,634,256)	(15,649,430)	587,958	(51,397)
% Variance	(94%)	(17%)	113%	(6%)

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 Act was revised to defray this transfer at least for fiscal years 2015 and 2016. At June 30, 2016, the Commission had a cash balance of \$528,190 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
Operating Cash Balance	\$ 33,434	\$224,791	\$193,118	\$285,605	\$33,999	\$528,190
Transfers to General Fund	577,685	511,978	749,609	184,356	-	-

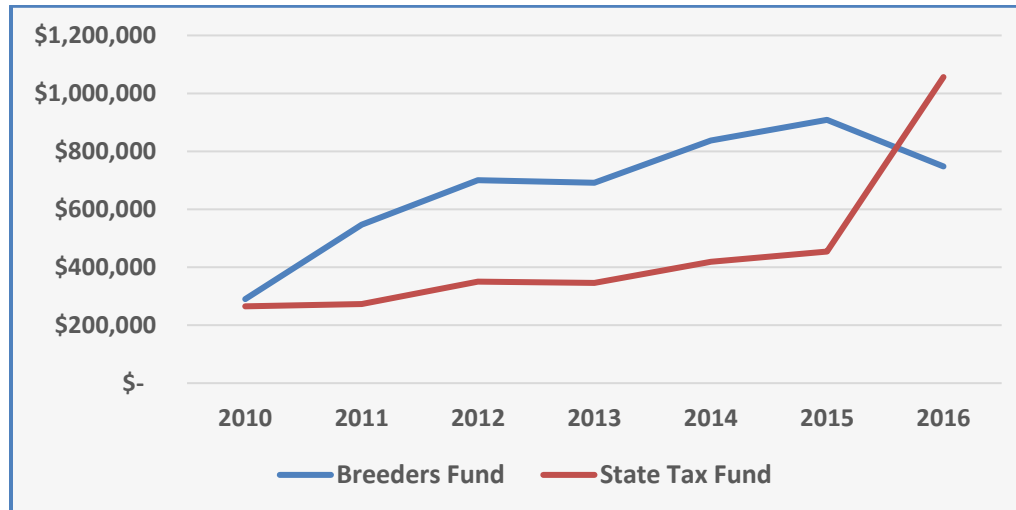
The Code of Virginia also created the Virginia Breeders Fund to support an incentive program to foster the industry of breeding racehorses in Virginia. It receives a one percent distribution of the horse racing wagering conducted in the Commonwealth. The Commission contracted with the Virginia Thoroughbred 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 2016, the Commission made payments totaling \$889,800 from the Breeders Fund consisting of \$697,300 in incentives to owners and breeders, and \$192,500 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 \$341,351. 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 2016, ADW fee deposits into the Commission's operating fund totaled \$1,056,258. 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 2016, total deposits to the Virginia Breeders Fund from ADW licensees were \$747,775.

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 five days of thoroughbred racing and four days of harness racing held during the 2015/2016 racing season. Great Meadow Racecourse in Fauquier County played host to the Gold Cup in May, flat racing in September, and the Gold Cup International in October. Four days of harness racing took place at Oak Ridge Racecourse in Nelson County.

The Commission is optimistic that both thoroughbred and harness racing will remain in Virginia well into the future. Ten days of harness racing will occur in the Fall of 2016 at Shenandoah Downs, located in Woodstock, VA. Shenandoah Downs just 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.

Plans are underway to open two satellite wagering facilities in Richmond. The Virginia Racing Commission granted approval for the Virginia Equine Alliance to open an off-track betting facility at Breakers Sports Grille in Henrico County. The Alliance is planning to seek approval for a second off-track betting facility with hopes of opening a site in downtown Richmond. 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, 2016

	<u>Budget</u>	<u>Actual</u>			Total Variance
	<u>Total Budget</u>	<u>Breeders Fund</u>	<u>Operations Fund</u>	<u>Total</u>	<u>Positive/ (Negative)</u>
Revenues:					
Taxes and pari-mutuel wagering	\$ 1,750,000	\$ 842,304	\$ 1,106,457	\$ 1,948,761	\$ 198,761
Application fees	30,000	-	46,695	46,695	16,695
Fines and assessments	2,000	-	2,200	2,200	200
Surplus supplies & equipment	-	-	193	193	193
Interest	-	2,671	-	2,671	2,671
Total revenues:	<u>1,782,000</u>	<u>844,975</u>	<u>1,155,545</u>	<u>2,000,520</u>	<u>218,520</u>
Expenses:					
Personal services	\$ 683,559	-	433,229	433,229	\$ (250,330)
Contractual services	578,944	-	121,017	121,017	(457,927)
Supplies and materials	(173,825)	-	3,542	3,542	177,367
Incentive and marketing payments	1,907,400	937,300	973	938,273	(969,127)
Continuous charges	<u>120,083</u>	<u>-</u>	<u>100,393</u>	<u>100,393</u>	<u>(19,690)</u>
Total expenses:	<u>3,116,161</u>	<u>937,300</u>	<u>659,154</u>	<u>1,596,454</u>	<u>(1,519,707)</u>
Transfers out:					
General fund	-	-	-	-	-
Literary fund	<u>2,000</u>	<u>-</u>	<u>2,200</u>	<u>2,200</u>	<u>200</u>
Total transfers:	<u>2,000</u>	<u>-</u>	<u>2,200</u>	<u>2,200</u>	<u>200</u>
Revenues over (under) expenses and transfers out	<u>(1,336,161)</u>	<u>(92,325)</u>	<u>494,191</u>	<u>401,866</u>	<u>1,738,027</u>
Cash balance at June 30, 2015		<u>\$ 433,676</u>	<u>\$ 33,999</u>	<u>\$ 467,675</u>	
Cash balance at June 30, 2016		<u>\$ 341,351</u>	<u>\$ 528,190</u>	<u>\$ 869,541</u>	



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 18, 2016

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, 2016. 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 and Cardinal, review the adequacy of the Commission's internal controls, and test compliance with applicable laws, regulations, and contracts. The Commission transitioned to using Cardinal, the Commonwealth's new accounting and financial reporting system, on October 1, 2014.

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 of accounts receivable

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, and contracts. 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 and Cardinal. 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 and Cardinal.

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 September 13, 2016.

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, 2016

D.G. Van Clief, Jr.
Chairman

Carol G. Dawson
Vice Chairman

I. Clinton Miller
J. Sargeant Reynolds, Jr.
Charles Steger, Ph.D.

David Lermond, Jr.
Executive Secretary