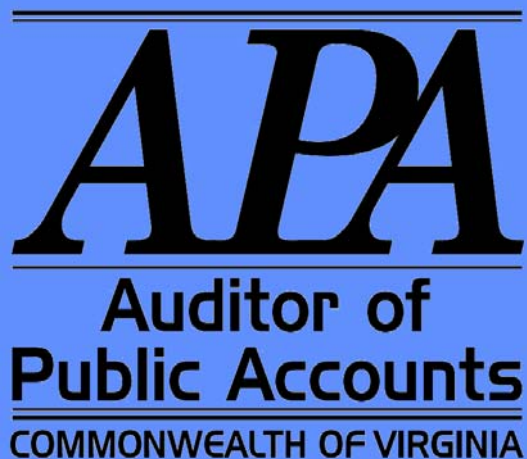


VIRGINIA RACING COMMISSION

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2008**



AUDIT SUMMARY

Our audit of the Virginia Racing Commission for the year ended June 30, 2008, 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 operations 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 controls and prescribes regulations and conditions for all horse racing with pari-mutuel wagering privileges in the Commonwealth. It licenses horse racetracks and satellite facilities and ensures that all their employees have valid Commission permits. The Commission also issues permits 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 ten 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.

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 0.75 to 2.25 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 related to 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, 2008, the Commission had a cash balance of \$453,595 in its operating fund related mostly to unspent marketing funds. The Commission transferred the amount required by the Appropriation Act to the General Fund during fiscal year 2008.

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 fund. 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 2008, the Commission made payments of \$1,934,254 from the Breeders Fund consisting of \$1,082,467 in purse money, \$521,787 in incentives to owners and breeders, and \$330,000 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 \$685,734. The cash balance does not revert to the General Fund.

Below are the results of the fiscal year 2008 financial operations of the Virginia Racing Commission. There was a decline in the amount wagered on horse racing in the Commonwealth due primarily to the conditions of the economy and the price of fuel. The decline started in November of 2007 and continued through the end of fiscal year 2008. The total amount wagered in this eight month period, when compared to the same eight month period of the prior year, was down 8.4 percent. The commission spent less than budgeted for Personal Services mainly due to the fact that the commission has two unfilled full-time positions that are included in the budgeted amount. The variance in the incentive and marketing payments line item is mainly due to unspent marketing funds in the amount of \$322,000.

VIRGINIA RACING COMMISSION

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES

IN CASH BALANCES - BUDGET AND ACTUAL

For the year ended, June 30, 2008

	Total Budget	Actual		Total	Total Variance Positive/ (Negative)
		Breeders Fund	Operating Fund		
Revenues:					
Taxes and pari-mutuel wagering	\$ 5,010,000	\$ 1,608,579	\$ 3,035,407	\$ 4,643,986	\$ (366,014)
Application fees	150,000	-	144,719	144,719	(5,281)
Fines and assessments	12,000	-	12,775	12,775	775
Interest	<u>35,000</u>	<u>42,564</u>	<u>3,816</u>	<u>46,380</u>	<u>11,380</u>
Total revenues	<u>5,207,000</u>	<u>1,651,143</u>	<u>3,196,717</u>	<u>4,847,860</u>	<u>(359,140)</u>
Expenditures:					
Personal services	1,210,209	-	1,042,751	1,042,751	167,458
Contractual services	555,454	-	575,507	575,507	(20,053)
Supplies and materials	16,000	-	21,160	21,160	(5,160)
Incentive and marketing payments	3,137,000	1,934,254	858,343	2,792,597	344,403
Continuous charges	42,650	-	95,246	95,246	(52,596)
Equipment	<u>21,239</u>	<u>-</u>	<u>1,297</u>	<u>1,297</u>	<u>19,942</u>
Total expenditures	<u>4,982,552</u>	<u>1,934,254</u>	<u>2,594,304</u>	<u>4,528,558</u>	<u>453,994</u>
Transfers out:					
General fund	815,870	-	816,049	816,049	(179)
Literary Fund	<u>12,000</u>	<u>-</u>	<u>12,775</u>	<u>12,775</u>	<u>(775)</u>
Total Transfers	<u>827,870</u>	<u>-</u>	<u>828,824</u>	<u>828,824</u>	<u>(954)</u>
Revenues over (under) expenditures and transfers out	(603,422)	(283,111)	(226,411)	(509,522)	93,900
Cash Balance at June 30,2007	<u>1,648,851</u>	<u>968,845</u>	<u>680,006</u>	<u>1,648,851</u>	<u>-</u>
Cash Balance at June 30, 2008	<u>\$ 1,045,429</u>	<u>\$ 685,734</u>	<u>\$ 453,595</u>	<u>\$ 1,139,329</u>	<u>\$ 93,900</u>

Source: Commonwealth Accounting and Reporting System



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

September 28, 2008

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Virginia Racing Commission** for the year ended June 30, 2008. We conducted this performance audit in accordance with generally accepted Government Auditing Standards, issued by the Comptroller General of the United States. 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 on the Commonwealth Accounting and Reporting System, review the adequacy of the Commission's internal controls, test compliance with applicable laws and regulations, 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 and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control 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 expenditures
Incentive and marketing payments
License and permit fees
Payroll expenditures

Small Purchase Charge Card
Tax and pari-mutuel wagering revenues
TRAC V System

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 and regulations. Our audit procedures included inquiries of appropriate personnel and observation of the Commission's operations. We inspected documents including reconciliations, deposit slips and certificates, wagering reports provided by Colonial Downs, revenue summary reports and contracts. We tested transactions and performed analytical procedures.

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 and regulations 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 October 2, 2008.

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

DM:clj

VIRGINIA RACING COMMISSION

Peter C. Burnett
Chairman

Mark T. Brown	Clinton Miller
William (Trip) H. Ferguson	David C. Reynolds

Vic Harrison
Executive Secretary

Stanley Bowker
Executive Secretary/Chief Steward

