

**VIRGINIA RACING COMMISSION
NEW KENT, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2004**



AUDIT SUMMARY

Our audit of the Virginia Racing Commission for the year ended June 30, 2004, found:

- proper recording and reporting of transactions, in all material aspects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in internal controls; and
- no instances of noncompliance with applicable laws and regulations that are required to be reported.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

August 27, 2004

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
And Review Commission

Commission Members
Virginia Racing Commission

We have audited the accounts and records of the **Virginia Racing Commission** for the year ended June 30, 2004, and submit herewith our complete reports on the financial statement and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying Statement of Revenues Collected, Expenditures Paid, and Changes in Cash Balance - Budget and Actual - Special Revenue Funds of the Virginia Racing Commission for the year ended June 30, 2004. The financial statement is the responsibility of the Commission's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statement of the Virginia Racing Commission is intended to present the results of its operations on only that portion of the financial reporting entity of the Commonwealth of Virginia that is attributable to the transactions of the Commission. The financial statement is presented 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, and includes only the special revenue funds.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues collected, expenditures paid, and changes in cash balances of the Virginia Racing Commission as of June 30, 2004, on the basis of accounting described above.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statement of the Virginia Racing Commission for the year ended June 30, 2004, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants 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.

Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Virginia Racing Commission, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on September 30, 2004.

AUDITOR OF PUBLIC ACCOUNTS

WHC/kva

Virginia Racing Commission
Statement of Revenues Collected, Expenditures Paid, and Changes in Cash Balances
Budget and Actual – Special Revenue Funds
For the Year Ended June 30, 2004

	Total Budget Amount	Actual Breeder's Fund	Actual Operating Funds	Total Variance Favorable (Unfavorable)
Revenues:				
Taxes and pari-mutuel wagering	\$3,800,000	\$1,379,013	\$2,419,195	\$ (1,792)
Application fees	125,000	-	151,727	26,727
Fines and assessments	-	-	10,755	10,755
Interest	30,000	13,004	1,050	(15,946)
Total revenues	3,955,000	1,392,017	2,582,727	19,744
Expenditures:				
Personal services	899,496	-	752,230	147,266
Contractual services	371,405	-	398,558	(27,153)
Supplies and materials	10,000	-	10,456	(456)
Transfer payments	1,655,000	1,331,588	204,411	119,001
Continuous charges	29,000	-	45,143	(16,143)
Equipment	30,000	-	3,580	26,420
Total expenditures	2,994,901	1,331,588	1,414,378	248,935
Transfers out:				
General fund	930,100	-	1,157,594	(227,494)
Literary fund	-	-	10,755	(10,755)
Total transfers out	930,100	-	1,168,349	(238,249)
Excess of revenue over expenditures and transfers	29,999	60,429	-	30,430
Cash balance - June 30, 2003	860,082	859,082	1,000	-
Cash balance - June 30, 2004	\$ 890,081	\$ 919,511	\$ 1,000	\$ 30,430

VIRGINIA RACING COMMISSION

NOTES TO THE FINANCIAL STATEMENT

AS OF JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Racing Commission controls all horse racing with pari-mutuel wagering in the Commonwealth and prescribes regulations and conditions for racing and wagering. The mission of the Commission is to maintain horse racing in the Commonwealth of the highest quality with complete honesty and integrity.

A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Commission is an agency of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

B. Fund Accounting

The accounts of the Commission are organized in accordance with the Commonwealth Accounting and Reporting System, which has been established to account for specified financial activities of the Commonwealth. Resources are allocated to and accounted for in individual funds based upon the financing sources. Each fund is an independent fiscal and accounting entity with a self-balancing set of accounts. For the financial statement, similar individual funds are combined into the following governmental fund type.

Special Revenue Funds - account for the proceeds of revenue sources that are legally restricted to expenditures for specific purposes. Special revenue funds are comprised of the following:

State Racing Operations Fund - accounts for revenues and expenditures relating to the operation and administration of the Commission.

Virginia Breeder Fund - accounts for the revenues and expenditures relating to the establishment of an award and incentive program to foster the industry of breeding racehorses in Virginia.

Fines and Assessments Fund - accounts for the revenues and expenditures relating to fines assessed.

C. Basis of Accounting

The accompanying financial statement is presented on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. The Commonwealth uses the cash basis of accounting to prepare its budget and to record revenues and expenditures on the Commonwealth Accounting and Reporting System. Under the cash basis, revenues are recognized when they are collected rather than

when earned. Expenditures are recognized under the cash basis when paid rather than when incurred.

D. Budgets and Budgetary Accounting

The Appropriation Act as enacted by the General Assembly of Virginia establishes the Commission's budget for the biennium ending June 30, 2004. No payments can be made out of the state treasury except in pursuance of appropriations made by law.

Budgeted amounts reported in the financial statement are amounts originally appropriated to the Commission as adjusted by subsequent appropriations authorized by the General Assembly.

2. CASH

The Treasurer of Virginia, pursuant to Section 2.2-1800 et seq of the Code of Virginia, holds all state funds of the Commission. The Treasurer is responsible for the collection, disbursement, custody, and investment of state funds.

3. PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS

Employees of the Commission are employees of the Commonwealth of Virginia. The employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health-related plans for retired employees. Information related to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth of Virginia, not the Commission, has the overall responsibility for contributions to these plans.

4. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Commission participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The Commission pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

5. VIRGINIA BREEDERS FUND

At June 30, 2004, the Virginia Breeders fund had a balance of \$920,511 to be used primarily for purse supplements for Virginia-bred horses.

6. CONTINGENT LIABILITIES

The Virginia Racing Commission is currently involved in litigation, which could result in judgments against them. Per the Attorney General of the Commonwealth of Virginia, the litigation is a result of the Commission's decision in the matter of a trainer's permit. The appellant seeks reversal of that decision, restoration of the purse, and attorney's fees. At the present time, it is not reasonably possible to estimate the ultimate outcome or liability of the Virginia Racing Commission with respect to these proceedings. If the appellant prevails and the Court awards attorney's fees, Code of Virginia §2.2-4030(A) places a \$25,000 limit on awarded fees.

VIRGINIA RACING COMMISSION
New Kent, Virginia

COMMISSION MEMBERS

Anne D.W. Poulson
Chairman

Peter C. Burnett
Mark T. Brown

James G. Davis
George W. Rimler

Stanley K. Bowker
Executive Secretary