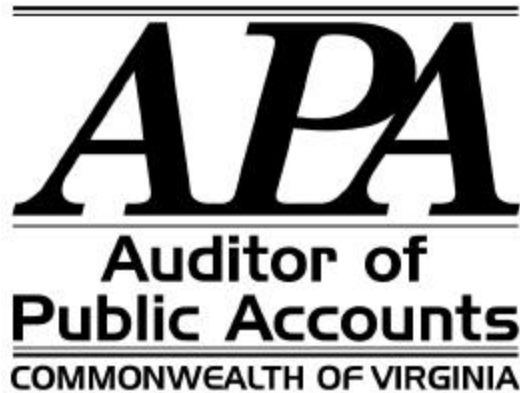


**VIRGINIA RACING COMMISSION
NEW KENT, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Virginia Racing Commission for the year ended June 30, 2001, 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.

Over 98 percent of the Commission's special revenue funding comes from licenses, permits, and taxes collected from Colonial Holdings, Inc. racing and satellite betting facilities. The Certified Public Accounting firm doing the 1999 audit of Colonial Holdings raised a going concern issue about the ability of Colonial Holdings continuing as a viable operation.

In the 2000 audit, the accounting firm noted that Colonial Holdings continues to be largely dependent on the financial support of its principal stockholder, who through an affiliated entity is the holder of \$25.7 million of debt from Colonial Holdings. The principal stockholder, who owns approximately 43 percent of Colonial Holdings outstanding shares, has offered to acquire all of the remaining shares of common stock. Consummation of this transaction could improve Colonial Holdings financial status, as it would cease being a public company. However, changes in the Commonwealth of Virginia's general economic conditions could adversely affect the success of Colonial Holdings, and ultimately, the Commission.

August 28, 2001

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the accounts and records of the **Virginia Racing Commission** for the year ended June 30, 2001, and submit herewith our complete reports on the financial statement and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENT

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, 2001. The financial statement is the responsibility of the Commission's management. Our responsibility is to express an opinion on this financial statement 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.

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In the 2000 audit, the accounting firm noted that Colonial Holdings continues to be largely dependent on the financial support of its principal stockholder, who through an affiliated entity is the holder of \$25.7 million of debt from Colonial Holdings. The principal stockholder, who owns approximately 43 percent of Colonial Holdings outstanding shares, has offered to acquire all of the remaining shares of common stock. Consummation of this transaction could improve Colonial Holdings financial status, as it would cease being a public company. However, changes in the Commonwealth of Virginia's general economic conditions could adversely affect the success of Colonial Holdings, and ultimately, the Commission.

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 for the year ended June 30, 2001, 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, 2001, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance 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 statement 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.

We discussed this report with management on September 25, 2001.

AUDITOR OF PUBLIC ACCOUNTS

DBC:whb
whb:26

FINANCIAL STATEMENT

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, 2001

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes on pari-mutual wagering	\$ 3,500,000	\$ 3,370,969	\$ (129,031)
Application fees	150,000	113,616	(36,384)
Interest	30,000	79,716	49,716
Total revenues	3,680,000	3,564,301	(115,699)
Expenditures:			
Personal services	858,740	718,658	140,082
Contractual services	587,642	508,707	78,935
Supplies and materials	10,000	13,899	(3,899)
Transfer payments	1,929,000	1,866,834	62,166
Continous charges	29,000	29,592	(592)
Equipment	30,000	62,880	(32,880)
Total expenditures	3,444,382	3,200,570	243,812
Transfers to the General Fund of the Commonwealth	-	521,058	(521,058)
Excess (deficiency) of revenues over (under) expenditures and transfers	235,618	(157,327)	(392,945)
Cash balance, July 1, 2000	1,316,602	1,316,602	-
Cash balance, June 30, 2001	\$ 1,552,220	\$ 1,159,275	\$ (392,945)

The accompanying notes to the financial statement are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENT

VIRGINIA RACING COMMISSION
NOTES TO THE FINANCIAL STATEMENT

AS OF JUNE 30, 2001

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 general-purpose 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.

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 Commission's budget is established by the Appropriation Act as enacted by the General Assembly of Virginia for the biennium ending June 30, 2002. 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

All state funds of the Commission are held by the Treasurer of Virginia pursuant to Section 2.1-177 et.seq. of the Code of Virginia. 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, 2001, the Virginia Breeders fund had a balance of \$1,158,275 to be used primarily for purse supplements for Virginia-bred horses.

VIRGINIA RACING COMMISSION
New Kent, Virginia

COMMISSION MEMBERS

Robin Traywick Williams, Chairman

Robert G. Beck	Alan Kirschner
John deK. Bowen, III	Ernest M. Oare

Stan Bowker, Executive Secretary

