



# VIRGINIA RACING COMMISSION

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2014

Auditor of Public Accounts  
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## AUDIT SUMMARY

Our audit of the Virginia Racing Commission for the year ended June 30, 2014, 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.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AGENCY HIGHLIGHTS	1-4
INDEPENDENT AUDITOR'S REPORT	5-6
COMMISSION OFFICIALS	7

## AGENCY HIGHLIGHTS

### **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 three satellite facilities operated by Colonial Downs, which are located in Chesapeake, Hampton, and Richmond. The satellite wagering facilities in Alberta, Martinsville, Scott, Vinton, as well as the second facilities in Chesapeake and Richmond, were closed in March 2014. The Commission continues to monitor each of the remaining facilities as a part of their regulatory oversight.

### **Thoroughbred Racing**

The contract between Colonial Downs and the Virginia Horsemen's Benevolent and Protective Association (Association) expired in February 2014. The Code of Virginia §59.1-369 requires a contract between the licensee (Colonial Downs) and the majority houseman's group (Association) to be in place for live thoroughbred racing, thus there were no live thoroughbred races in Commonwealth during the 2014 racing season. As of September 2014, there has been no resolution in the contract dispute between the Association and Colonial Downs. Further, since there is no thoroughbred racing, simulcast of live thoroughbred races to all off-track betting parlors in Virginia has ceased resulting in significant loss of revenues to the Commission. Thoroughbred races are still viewable on advance deposit wagering sites (EZ-Horseplay, TwinSpires, TVG, and ExpressBet) and the Commission receives revenues from wagers completed through these sites; however, the percentage is significantly less than what is received from off-track betting facilities. It is estimated that the loss of revenues to the Commission for calendar year 2014 has totaled approximately \$600,000 and additional losses in 2015 could be 50 percent more.

### **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. 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 2014 license fee deposits into the Commission’s operating fund totaled \$418,692. 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 2014, total deposits to the Virginia Breeders Fund from ADW licensees were \$837,383.

**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. 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, 2014, the Commission had a cash balance of \$285,606 in its operating fund. The Commission transferred \$184,536 to the General Fund as required by the Appropriation Act. The transfers to the General Fund decreased in fiscal year 2014 as shown in the following table.

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

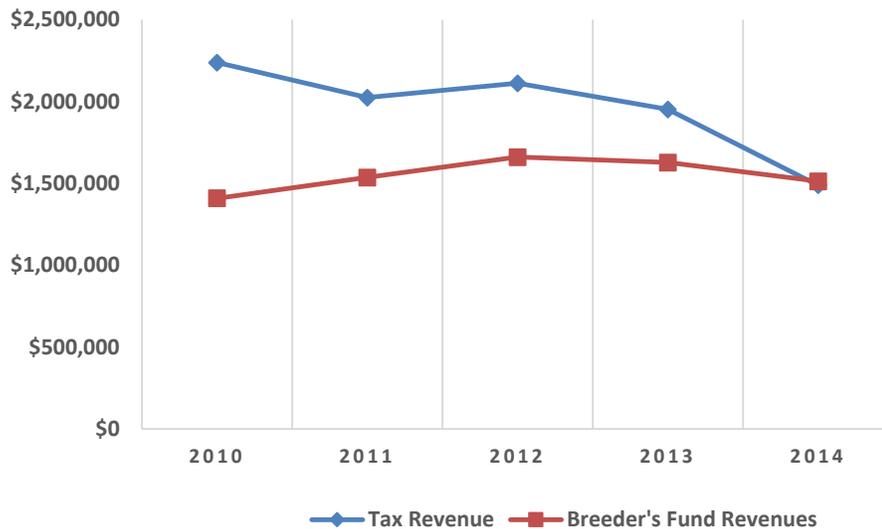
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>Operating Cash Balance</b>	\$121,875	\$ 33,434	\$224,791	\$193,118	\$285,606
<b>Transfers to General Fund</b>	\$607,182	\$577,685	\$511,978	\$749,609	\$184,536

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 2014, the Commission made payments totaling \$1,000,152 from the Breeders Fund consisting of \$760,152 in incentives to owners and breeders, and \$240,000 in management fees to the Virginia Thoroughbred Association and the Virginia Harness Horse Association. The incentives payments decreased by 49 percent between fiscal years 2013 and

2014 due to the lack of any thoroughbred racing at Colonial Downs in 2014. At year-end, the cash balance in the Breeder's Fund was \$682,982. This cash balance does not revert to the General Fund.

The results of the fiscal year 2014 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 2013 to 2014 by \$31 million or 35.2 percent. This decrease is attributable to an impasse in completion of a new contract between the Virginia Thoroughbred Association and Colonial Downs. The lack of thoroughbred racing in 2014 also led to a 16.2 percent decrease in total tax revenue generated from wagering on horse racing. Breeders Fund revenue decreased by 7 percent from 2013 compared to 1.2 percent from fiscal years 2012 to 2013. However, receipts from advance deposit wagering increased by 21 percent, as more wagering is now occurring online. The 2014 cash balance in the operating fund increased by \$92,488 due to the decrease in the required General Fund transfer as a result of an amendment by Chapter 1 of the Virginia Acts of Assembly 2014 Special Session I.

**Breeders Fund and Tax Revenues**  
By Fiscal Year



VIRGINIA RACING COMMISSION  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES  
IN CASH BALANCES - BUDGET AND ACTUAL  
For the Twelve Months Ending June 30, 2014

	Budget	Actual			Total Variance Positive/ (Negative)
	Total Budget	Breeders Fund	Operations Fund	Total	
Revenues:					
Taxes and pari-mutuel wagering	\$ 3,222,927	\$ 1,513,558	\$ 1,488,786	\$ 3,002,344	\$ (220,583)
Application fees	145,748	-	74,050	74,050	(71,698)
Fines and assessments	7,500	-	12,500	12,500	5,000
Surplus supplies and equipment	-	-	2,636	2,636	2,636
Interest	-	-	-	-	-
Total revenues	<u>3,376,175</u>	<u>1,513,558</u>	<u>1,577,972</u>	<u>3,091,530</u>	<u>(284,645)</u>
Expenses:					
Personal services	784,159	-	664,499	664,499	119,660
Contractual services	491,094	-	299,161	299,161	191,933
Supplies and materials	17,250	-	12,121	12,121	5,129
Incentive and marketing payments	1,738,392	1,000,152	197,396	1,197,548	540,844
Continuous charges	<u>119,833</u>	<u>-</u>	<u>115,271</u>	<u>115,271</u>	<u>4,562</u>
Total expenses:	<u>3,150,728</u>	<u>1,000,152</u>	<u>1,288,448</u>	<u>2,288,600</u>	<u>862,128</u>
Transfers out:					
General fund	184,536	-	184,536	184,536	-
Literary fund	<u>12,500</u>	<u>-</u>	<u>12,500</u>	<u>12,500</u>	<u>-</u>
Total transfers	<u>197,036</u>	<u>-</u>	<u>197,036</u>	<u>197,036</u>	<u>-</u>
Revenues over (under) expenses and transfers out	<u>28,411</u>	<u>513,406</u>	<u>92,488</u>	<u>605,894</u>	<u>577,483</u>
Cash balance at June 30, 2013		<u>\$ 169,576</u>	<u>\$ 193,118</u>	<u>\$ 362,694</u>	
Cash balance at June 30, 2014		<u>\$ 682,982</u>	<u>\$ 285,606</u>	<u>\$ 968,588</u>	



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

September 3, 2014

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable John C. Watkins  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Virginia Racing Commission** (Commission) for the year ended June 30, 2014. 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 objective was to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of the Commission's internal control, and test compliance with applicable laws, regulations, contracts, and grant agreements.

## **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.

### **Exit Conference and Report Distribution**

We discussed this report with management on September 25, 2014.

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

JMR/clj

## COMMISSION OFFICIALS

### Virginia Racing Commission

J. Sargeant Reynolds, Jr.  
Chairman

D.G. Van Clief, Jr.  
Vice Chairman

Carol G. Dawson  
Stran Trout  
Clinton Miller

Bernard J. Hettel  
Executive Secretary

David Lermond, Jr.  
Deputy Executive Secretary