

**VIRGINIA RACING
COMMISSION**

2010 ANNUAL REPORT



COMMONWEALTH of VIRGINIA

Virginia Racing Commission

10700 Horsemen's Road

New Kent, Virginia 23124

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February 25, 2010

TO: THE HONORABLE ROBERT F. MCDONNELL. GOVERNOR OF VIRGINIA AND THE MEMBERS OF
THE GENERAL ASSEMBLY

Pursuant to the provisions of the Code of Virginia Title 59, Chapter 29, Section 59.1-369 (9) relating to horse racing with pari-mutuel wagering, it is my privilege and pleasure to submit the 2010 Annual Report of the Virginia Racing Commission.

VRC Revenue is generated from a percentage of every pari-mutuel wager made in Virginia – in person at Colonial Downs and its ten satellite wagering facilities as well as online and over the phone. This revenue serves to fund the operation of this regulatory agency and allows us to meet our obligation to the General Fund as per the provisions of the Appropriations Act.

This Racing Commission remains committed to ensuring the integrity of racing for the participants and patrons alike and appreciates the continued support for horse racing and the equine industry from the Administration and the members of the General Assembly.

Respectfully Submitted,

David S. Lermond, Jr.

David S. Lermond, Jr.
Acting Executive Secretary

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VIRGINIA RACING COMMISSION

- Peter C. Burnett Chairman, Leesburg



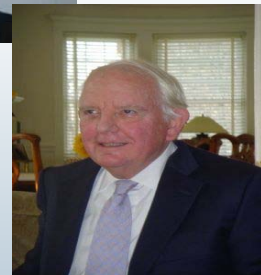
- I. Clinton Miller Vice-Chairman, Woodstock



- Mark T. Brown, Palmyra



- David C. Reynolds, Richmond



- Stuart C. Siegel, Richmond



VRC STAFF

- David S. Lermond, Jr.—Acting Executive Secretary
- Joseph M. Roney—Director of Security & Enforcement
- Dennis E. West—Director of Operations
- Kimberly M. Carter—Office Manager
- Peggy E. Mason—Permit Manager
- Marilyn A. Bauer – Administrative Assistant and Assistant to the Deputy Secretary
- Dr. Richard Harden—Equine Medical Director

Activities of the Commission

The Racing Act, Title 59, Chapter 29, effective on January 1, 1989, vests control of all horse racing with pari-mutuel wagering conducted in the Commonwealth to the Virginia Racing Commission (VRC). The Commission:

- Prescribes regulations and conditions under which racing and wagering is conducted;
- Maintains horse racing in the Commonwealth of the highest quality free of corrupt, incompetent, dishonest or unprincipled practices, and;
- Maintains in such racing complete honesty and integrity.

Horse racing with pari-mutuel wagering is permitted in the Commonwealth for the “promotion, sustenance and growth of the native industry, in a manner consistent with the health, safety and welfare of the people.”

Taxable Wagering From Inception

<u>YEAR</u>	<u>Race Track and SWF's</u>	<u>Internet And Telephone Wagering</u>	<u>Total Wagering Handle</u>
1996	\$36,952,607	\$0	\$36,952,607
1997	95,094,161	0	95,096,158
1998	120,717,190	0	120,717,190
1999	121,324,249	0	121,324,249
2000	121,754,800	0	121,754,800
2001	123,879,396	0	123,879,396
2002	124,064,569	0	124,064,569
2003	130,382,875	0	130,382,875
2004	145,394,480	1,287,541	146,682,021
2005	151,758,202	12,691,398	164,449,600
2006	164,208,077	28,300,972	192,509,049
2007	167,684,686	33,206,726	200,891,412
2008	149,629,200	47,303,439	196,932,639
2009	122,461,456	49,850,493	172,311,949
2010	105,505,800	53,392,088	158,897,888
TOTAL	\$1,880,811,748.00	\$226,032,657.00	\$2,106,844,405.00

Total Wagering - Colonial Downs and SWF's

<u>YEAR</u>	<u>Race Track and SWF's</u>	<u>Total Attendance</u>	<u>Daily Average Attendance</u>	<u>Wagering Per Capita</u>
1996	\$36,952,607	178,570	528	\$207
1997	95,094,161	578,831	689	164
1998	120,717,190	446,859	324	270
1999	121,324,249	544,744	403	223
2000	121,754,800	490,868	319	248
2001	123,879,396	511,856	354	242
2002	124,064,569	523,216	363	237
2003	130,382,875	552,632	360	236
2004	145,394,480	613,084	310	237
2005	151,758,202	665,555	267	228
2006	164,208,077	678,426	221	242
2007	167,684,686	720,325	230	233
2008	149,629,200	659,974	218	227
2009	122,461,456	572,149	225	214
2010	105,505,800	474,242	192	222
TOTAL	\$1,880,811,748.00	8,211,331	N/A	N/A

Out-of-State Wagering on VA Racing

<u>Year</u>	<u>Thoroughbred</u>	<u>Standardbred</u>	<u>TOTAL</u>
1997	\$19,412,236	0	\$19,412,236
1998	16,232,300	\$3,766,052	19,998,352
1999	18,640,650	3,707,615	22,348,265
2000	22,716,226	3,890,775	26,607,001
2001	22,545,623	1,496,404	24,042,027
2002	25,171,620	2,092,793	27,264,413
2003	29,488,341	2,139,393	31,627,734
2004	28,402,323	3,409,887	31,812,210
2005	36,507,736	3,822,592	40,330,328
2006	43,828,004	4,787,501	48,615,505
2007	42,153,392	3,821,288	45,974,680
2008	43,237,534	3,597,309	46,834,843
2009	25,102,402	2,505,420	27,607,822
2010	29,287,463	1,609,979	30,897,442
TOTAL	\$402,725,850	\$38,141,588	\$440,867,438

Advance Deposit Account Wagering

<u>Year</u>	<u>EZ Horseplay</u>	<u>TVG</u>	<u>Xpress Bet</u>	<u>America Tab</u>	<u>TwinSpires</u>	<u>Youbet</u>	<u>TOTAL</u>
2004	1,287,541	0	0	0	0	0	1,287,541
2005	3,939,764	4,080,824	4,670,810	0	0	0	12,691,398
2006	3,736,391	8,169,546	7,816,430	8,578,605	0	0	28,300,972
2007	4,523,353	11,929,412	9,742,446	6,390,447	621,068	0	33,206,726
2008	5,326,767	11,386,057	11,036,049	0	8,269,673	11,284,893	47,303,439
2009	4,151,786	12,995,763	10,998,074	0	9,974,871	11,729,999	49,850,493
2010	6,935,096	17,104,569	8,493,683	0	11,050,050	9,808,690	53,392,088
TOTALS	\$29,900,698	\$65,665,171	\$52,757,492	\$14,969,052	\$29,915,662	\$32,823,582	\$226,032,657

Thoroughbred Meet Wagering

<u>YEAR</u>	<u>Total Thoroughbred Meet Handle</u>	<u>Daily Average, All Sources, In-state and Out</u>	<u>Daily Average at Colonial Downs, Live and Imported*</u>	<u>Daily On-Track-Only Average Attendance</u>	<u>Average Wagering Per Capita</u>
1997	\$28,182,006	\$939,400	\$183,594	\$3,620	\$51
1998	21,293,467	881,473	141,154	2,263	62
1999	23,420,243	975,854	107,881	1,628	66
2000	27,923,752	872,617	90,589	1,247	73
2001	27,579,707	1,103,188	117,818	1,940	61
2002	31,039,485	1,193,826	140,067	2,202	64
2003	36,090,262	1,203,009	140,305	2,193	64
2004	36,205,494	1,064,867	138,236	2,155	64
2005	44,710,190	1,117,755	124,122	2,028	61
2006	51,587,415	1,258,230	113,438	1,804	63
2007	50,507,580	1,262,689	164,557	1,996	82
2008	50,343,446	1,118,743	126,195	1,668	76
2009	31,241,633	781,041	128,093	1,712	75
2010	29,287,463	732,187	131,908	1499	88
TOTAL	\$489,412,143.00	N/A	N/A	N/A	N/A

Standardbred Meet Wagering

<u>YEAR</u>	<u>Total Harness Meet Handle</u>	<u>Daily Average, All Sources, In-state and Out</u>	<u>Daily Average at Colonial Downs, On Track and Imported (Non-Internet)*</u>	<u>Daily On-Track-Only Average Attendance</u>	<u>Average Wagering Per Capita</u>
1998	\$7,260,770	\$172,875	\$56,661	1,379	\$41
1999	5,795,265	193,175	41,319	909	45
2000	5,903,010	147,575	19,270	258	75
2001	2,459,010	163,934	30,912	486	64
2002	3,716,853	154,869	30,860	478	65
2003	4,148,072	148,145	34,585	580	60
2004	5,815,294	181,728	40,361	645	63
2005	6,217,238	172,701	36,959	620	60
2006	6,562,653	182,296	20,498	312	66
2007	5,726,362	178,949	43,183	613	70
2008	5,320,909	156,497	35,945	509	71
2009	3,885,199	107,922	27,552	353	78
2010	2,748,428	98,194	40,575	511	79
TOTAL	\$65,560,063.00	N/A	N/A	N/A	N/A

About Colonial Downs

Now 14 years young, Colonial Downs has been the catalyst for a sport that generates nearly \$159,000,000 in annual pari-mutuel wagering in Virginia. In 2010, total combined attendance at the VA track and its satellite wagering facilities (SWFs) was 474,242. Since opening its initial SWF in 1996, over 8 million people have wagered at the track and its SWFs.

§ 59.1-364 of the Code of Virginia states that horse racing with pari-mutuel wagering is permitted in the Commonwealth for the promotion, sustenance and growth of the native industry. The stakeholders in Virginia have strived to work together to build the horse breeding and racing industries. Quality racing has always been and continues to be the goal of all Virginia stakeholders.

Colonial Downs is owned by Jacobs Entertainment and controlled by Jeffrey Jacobs. Since the inception of live Thoroughbred racing in September of 1997, Colonial Downs has developed a solid reputation as North America's Thoroughbred turf (grass) racing capital. On average, 90% of the Thoroughbred races run at Colonial Downs are contested over the 180-foot wide Secretariat Turf Course (named after Virginia's famous Triple Crown winner, arguably the greatest Thoroughbred horse ever).

About Colonial Downs ²

The 2009 Standardbred (harness racing) race meet was highly competitive and entertaining. The annual harness meet features a one-turn mile for most of its races; a long straightaway into the turn and then a long homestretch out of the turn to the finish line. As such, each year a number of record and career best times are established in Virginia. For the fifth straight year, in 2009, Colonial Downs hosted the Invitational Pace with a purse of \$40,000 which drew some of the top pacers in the nation. The 2010 winner, (VLOS) paced the mile distance in 1:48, which is just a fifth of a second off of the track record for pacers going 1 mile. One of the highlights of this year's harness meet was the Night of Champions - an evening filled with stakes races showcasing Virginia-bred and Virginia-owned horses.

About Colonial Downs ³

Advance deposit account wagering - ADW - (internet and telephone wagering) is the second largest source of pari-mutuel wagering in Virginia. In 2010, \$53,392,088 in such internet and phone wagering was generated by the five account wagering companies currently licensed in Virginia. This represented an increase of more than 7% over the \$49,850,493 wagered through the ADW providers in 2009.

RICHMOND SATELLITE WAGERING FACILITY (SWF)



4700 West Broad Street Richmond, VA 23230

- Size: 20,000 Sq. Ft.
- The busiest of the track's OTBs. Offers an accommodating VIP room. The Broad Street SWF is centrally located in the near west-end of Richmond. The facility accommodates up to 500 patrons and is partitioned for smokers and non-smokers alike. The facility has parking capacity for 350 vehicles.

Richmond SWF

<u>YEAR</u>	<u>Total Handle</u>	<u>Racing Days</u>	<u>Average Daily Handle</u>	<u>Total Attendance</u>	<u>Daily Average Attendance</u>	<u>Wagering Per Capita</u>
1996	\$3,391,418	21	\$161,496	17,403	829	\$195
1997	51,556,304	363	142,028	206,530	569	250
1998	50,183,501	363	138,247	178,841	493	281
1999	51,347,173	361	142,236	173,378	480	296
2000	49,096,147	361	136,000	162,921	451	301
2001	50,475,896	362	139,436	164,372	454	307
2002	49,986,746	360	138,852	159,222	442	314
2003	47,927,303	357	134,250	156,339	438	307
2004	40,821,803	362	112,767	123,682	342	330
2005	38,066,496	363	104,866	118,343	326	322
2006	31,823,009	302	105,374	94,348	312	337
2007	36,142,095	362	99,840	107,834	298	335
2008	32,302,808	357	90,484	98,200	275	329
2009	25,103,242	309	81,240	86,263	279	291
2010	23,050,643	309	74,598	75,218	243	306
TOTALS	\$581,274,584	4,912	\$118,338	1,922,894	N/A	\$302

SOUTH RICHMOND (Hull Street) SWF

6550 Hull Street Road Richmond, VA 23224

- Size: 11,500 Sq. Ft.
- The South Richmond Satellite Wagering Facility opened on November 12, 2003. Located just off the Hull Street exit from the Midlothian Turnpike, in Haynes Plaza. The facility accommodates 300 patrons with seating for 180. Partitioned smoking and non-smoking areas are provided.



South Richmond (Hull Street) SWF

<u>YEAR</u>	<u>Total Handle</u>	<u>Racing Days</u>	<u>Average Daily Handle</u>	<u>Total Attendance</u>	<u>Daily Average Attendance</u>	<u>Wagering Per Capita</u>
2003	\$ 2,001,182	48	\$41,691	8,634	180	\$232
2004	17,832,357	361	49,397	64,479	179	277
2005	18,318,539	363	50,464	63,337	174	289
2006	23,560,440	362	65,084	74,216	205	317
2007	19,436,532	359	54,141	66,265	185	293
2008	17,090,463	357	47,872	61,347	172	279
2009	14,614,926	314	46,544	54,604	174	268
2010	10,758,379	301	35,742	40,662	137	265
TOTALS	\$123,612,818	2,465	\$50,147	433,544	N/A	\$285

NEW CHESAPEAKE (Indian River) SWF

4301 Indian River Road, Chesapeake, VA 23325

- Size: 10,000 Sq. Ft.
- This Chesapeake Satellite Wagering Facility opened on October 12, 2005. It is the SWF located nearest to the VA population centers of Norfolk and Virginia Beach. The facility can accommodate 291 patrons with seating for 156. Smoking and non-smoking partitioned areas are provided.



New Chesapeake (Indian River) SWF

<u>YEAR</u>	<u>Total Handle</u>	<u>Racing Days</u>	<u>Average Daily Handle</u>	<u>Total Attendance</u>	<u>Daily Average Attendance</u>	<u>Wagering Per Capita</u>
2005	\$4,963,971	80	\$62,050	15,648	196	\$317
2006	23,666,541	362	65,377	69,818	193	339
2007	23,829,721	362	65,828	78,627	217	303
2008	24,461,630	363	67,387	76,704	211	319
2009	27,502,892	358	76,824	86,313	241	319
2010	23,164,159	346	66,948	71,909	208	322
TOTALS	\$127,588,914	1,871	\$68,193	399,019	N/A	\$320

HAMPTON SWF

1909 Commerce Drive Hampton, VA 23666

- Size: 13,500 Sq. Ft.
- The Hampton Satellite Wagering Facility is centrally located just off I-64 near the Hampton Coliseum. The facility accommodates up to 580 patrons and is partitioned for smokers and non-smokers alike. There is one central main bar area, and 16 teller windows. The facility has parking capacity for 270 vehicles.



Hampton SWF

<u>YEAR</u>	<u>Total Handle</u>	<u>Racing Days</u>	<u>Average Daily Handle</u>	<u>Total Attendance</u>	<u>Daily Average Attendance</u>	<u>Wagering Per Capita</u>
1997	\$ 327,811	7	\$46,830	1,651	236	\$199
1998	22,765,994	363	62,716	114,679	316	199
1999	23,298,797	361	64,540	103,945	288	224
2000	24,999,787	362	69,060	99,618	275	251
2001	26,083,186	362	72,053	99,718	275	262
2002	25,058,151	361	69,413	98,362	272	255
2003	25,947,756	358	72,480	95,064	266	273
2004	28,321,244	363	78,020	95,269	262	297
2005	26,720,455	363	73,610	85,723	236	312
2006	25,638,907	362	70,826	82,352	227	311
2007	24,536,734	362	67,781	77,128	213	318
2008	21,505,334	363	59,243	74,903	206	287
2009	19,709,082	362	54,445	72,346	200	272
2010	17,350,653	346	50,146	61,231	178	283
TOTALS	\$312,263,891	4,695	66,510	1,161,989	N/A	\$269

BRUNSWICK (Alberta) SWF

24 Colonial Downs Place Alberta, VA 23821

- Size: 20,000 Sq. Ft.
- The Brunswick Satellite Wagering Facility is located two miles off Route 1 in Brunswick County, which is 15 miles from the North Carolina border. Easily accessible from US Interstate I-85, the facility can accommodate up to 400 patrons. There is one main bar area, and 10 teller windows. The facility has parking capacity for 500 vehicles.



Brunswick (Alberta) SWF

<u>YEAR</u>	<u>Total Handle</u>	<u>Racing Days</u>	<u>Average Daily Handle</u>	<u>Total Attendance</u>	<u>Daily Average Attendance</u>	<u>Wagering Per Capita</u>
1997	\$ 226,146	14	\$ 16,153	1,460	104	\$155
1998	10,573,166	292	36,209	38,657	132	274
1999	11,404,545	269	42,396	27,925	104	408
2000	11,888,170	279	42,610	28,018	100	424
2001	12,085,136	265	45,604	24,821	94	487
2002	11,882,404	259	45,878	27,243	105	436
2003	14,094,878	292	48,270	28,548	98	494
2004	14,152,950	311	45,508	28,067	90	504
2005	12,620,398	309	40,843	25,276	82	499
2006	9,967,380	269	37,053	21,825	81	457
2007	10,646,527	270	39,432	23,708	88	449
2008	9,566,019	275	34,786	22,249	81	430
2009	7,085,370	263	26,941	17,729	67	400
2010	6,694,722	259	25,848	15,442	60	434
TOTALS	\$142,887,811	3,626	\$39,406	330,968	N/A	\$432

VINTON SWF

1135 Vinyard Road, Vinton, VA 24179

- Size: 14,600 Sq. Ft.
- The Vinton Satellite Wagering Facility opened in October, 2004 and is located in suburban Roanoke. The facility can accommodate 450 patrons with seating for 260. Smoking is not allowed.



Vinton SWF

<u>YEAR</u>	<u>Total Handle</u>	<u>Racing Days</u>	<u>Average Daily Handle</u>	<u>Total Attendance</u>	<u>Daily Average Attendance</u>	<u>Wagering Per Capita</u>
2004	\$ 2,455,993	81	\$30,321	13,447	166	\$183
2005	10,807,394	357	30,273	49,607	139	218
2006	10,471,558	286	36,614	42,806	150	245
2007	10,754,287	361	29,790	45,969	127	234
2008	7,976,405	282	28,285	36,294	129	220
2009	7,333,049	262	27,989	38,896	148	189
2010	5,792,107	259	22,363	25,444	98	228
TOTALS	\$55,590,793	1,888	\$29,444	252,463	N/A	\$220

MARTINSVILLE SWF

3951 Greensboro Road, Martinsville, VA 24148

- Size: 12,500 Sq. Ft.
- The Martinsville Satellite Wagering Facility opened on August 15, 2005. Located near Martinsville Raceway, the facility accommodates 539 patrons with seating for 241. Smoking is prohibited.



Martinsville SWF

<u>YEAR</u>	<u>Total Handle</u>	<u>Racing Days</u>	<u>Average Daily Handle</u>	<u>Total Attendance</u>	<u>Daily Average Attendance</u>	<u>Wagering Per Capita</u>
2005	\$ 3,529,839	137	\$25,765	18,978	139	\$186
2006	10,358,670	323	32,070	36,231	112	286
2007	12,014,060	270	44,497	35,512	132	338
2008	9,765,317	275	35,510	33,715	123	290
2009	8,499,236	262	32,440	28,308	108	300
2010	7,421,714	259	28,655	21,679	84	342
TOTALS	\$51,588,836	1,526	\$33,807	174,423	N/A	\$296

SCOTT COUNTY SWF

358 U.S. Highway 23N, Weber City, VA 24290

- Size: 16,700 Sq. Ft.
- The newest satellite wagering facility is located in Scott County. It opened on January 18, 2006. The facility can accommodate 400 patrons with seating for 246. Kingsport, Johnson City, and Bristol, TN are all within a short drive of this OTB. Smoking is prohibited.



Scott County SWF

<u>YEAR</u>	<u>Total Handle</u>	<u>Racing Days</u>	<u>Average Daily Handle</u>	<u>Total Attendance</u>	<u>Daily Average Attendance</u>	<u>Wagering Per Capita</u>
2006	\$6,592,864	272	\$24,238	36,100	133	\$183
2007	7,184,714	270	26,610	32,029	119	224
2008	7,760,029	275	28,218	29,697	108	261
2009	6,118,592	262	23,353	25,252	96	242
2010	4,095,321	256	15,997	13,637	53	300
TOTALS	\$31,751,520	1,335	\$23,784	136,715	N/A	\$232

Finn McCool's SWF

<u>YEAR</u>	<u>Total Handle</u>	<u>Racing Days</u>	<u>Average Daily Handle</u>
2010	\$1,495,115	172	\$8,693

Mulligan's SWF

<u>YEAR</u>	<u>Total Handle</u>	<u>Racing Days</u>	<u>Average Daily Handle</u>
2010	\$294,338	88	\$3,345

Please note: Attendance numbers are not available for these two locations.

BREEDERS FUND

Historically funded by a 1% takeout from all wagering conducted in Virginia, funds have been established for both Thoroughbred and Standardbred breeders and owners. In July of 2009 legislation took effect giving the Breeders Fund 1% from advance deposit account wagering.

In 2010, \$1,266,614 was generated for the Thoroughbred Breeders' Fund. The 15-year total to the Fund is \$15,079,949. Harness racing, both live and simulcast, accounts for approximately 20% of total bricks-and-mortar wagering in Virginia. As a result, \$4,226,608 has been generated for the Standardbred Breeders Fund during the past fifteen years.

The Racing Commission has contracted with the Virginia Thoroughbred Association to administer the Thoroughbred Breeders' Fund program and the Virginia Harness Horse Association to manage the Standardbred Breeders' Fund.

Breeders Fund From Inception

<u>Year</u>	<u>VA Thoroughbred</u>	<u>VA Harness</u>	<u>TOTAL</u>
1996	\$263,517	\$105,288	\$368,805
1997	755,900	195,041	950,941
1998	917,484	289,688	1,207,172
1999	915,431	297,811	1,213,242
2000	942,714	274,834	1,217,548
2001	967,123	271,671	1,238,794
2002	970,555	270,091	1,240,646
2003	1,035,181	268,647	1,303,828
2004	1,136,789	317,156	1,453,945
2005	1,176,374	341,208	1,517,582
2006	1,285,476	356,604	1,642,080
2007	1,318,153	358,693	1,676,846
2008	1,167,875	328,417	1,496,292
2009	960,763	263,852	1,224,615
2010	1,266,614	287,607	1,554,221
TOTALS	\$15,079,949	\$4,226,608	\$19,306,557

TAX REVENUE TO LOCALITIES

<u>Year</u>	<u>New Kent</u>	<u>Chesapeake</u>	<u>Henrico</u>	<u>Richmond</u>	<u>Hampton</u>	<u>Brunswick</u>	<u>Vinton</u>	<u>Martinsville</u>	<u>Scott</u>	<u>TOTAL</u>
1996	\$157,871	\$144,304	\$ 6,783	\$ 6,783	0	0	0	0	0	\$315,741
1997	408,498	159,665	113,726	113,726	\$ 1,430	\$ 855	0	0	0	797,900
1998	520,316	128,530	107,693	107,693	101,062	43,538	0	0	0	1,008,832
1999	524,049	132,641	108,839	108,839	101,396	46,906	0	0	0	1,022,670
2000	532,156	129,419	104,967	104,967	108,412	49,836	0	0	0	1,029,757
2001	539,392	131,455	107,885	107,885	115,242	51,140	0	0	0	1,052,999
2002	544,937	136,127	107,043	107,043	110,778	50,791	0	0	0	1,056,719
2003	574,992	145,928	103,758	112,388	113,880	59,092	0	0	0	1,110,038
2004	645,979	146,406	89,652	167,027	125,476	59,268	\$ 9,817	0	0	1,243,625
2005	676,257	146,065	84,164	165,595	119,218	52,244	44,660	\$14,615	0	1,302,818
2006	727,828	171,176	70,299	175,246	114,814	41,761	44,349	43,288	\$26,478	1,415,239
2007	743,077	172,558	79,755	165,331	110,160	45,105	46,583	51,189	29,266	1,443,024
2008	656,347	160,286	71,940	148,229	96,737	40,619	35,164	41,901	32,365	1,283,588
2009	537,046	121,016	55,955	120,425	88,982	30,613	32,241	37,024	24,824	1,048,126
2010	463,010	102,607	57,802	100,312	77,853	29,467	25,096	31,866	17,070	904,813
TOTAL	\$8,251,755	\$2,128,183	\$1,270,261	\$1,811,489	\$1,385,170	\$601,235	\$237,910	\$219,883	\$105,179	\$16,011,065

APA REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2010

AUDIT SUMMARY

Our audit of the Virginia Racing Commission for the year ended June 30, 2010, 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.

Audit Observation:

We found a significant disparity between the amount contractors received as an administrative fee and the total incentive payments Virginia breeders received under these contracts. While the Virginia Thoroughbred Association and Virginia Harness Horse Association register horses as Virginia-bred in addition to distributing incentive payments, the administrative fees associated with these services reduce the Breeder Funds available to pay incentives by \$240,000, or roughly sixteen percent of the total fund each year. Since the majority of incentive payments go directly to Colonial Downs as a supplement to the winners' purse for Virginia-bred horses placing in stakes races, the Commission appears to be paying a considerable administrative fee for the funds distributed. With the substantial decline in wagering revenue and subsequent decline in funds available to the Commission to provide incentives for Virginia breeders, the Commission may wish to re-evaluate the scope and cost of its contracts with the Virginia Thoroughbred Association and Virginia Harness Horse Association.

Report On Audit 2

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Report On Audit 2

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. 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 ten satellite facilities operated by Colonial Downs, which are located in Alberta, Chesapeake, Hampton, Martinsville, Richmond (four), Scott, and Vinton. The Commission monitors each of these facilities as a part of their regulatory oversight.

SYSTEM UPGRADE

The Commission uses its TRACS-V system for a number of managerial functions, including tracking veterinary records for horses; reconciling wagering data from the Colonial Downs race track; tracking fines, penalties, and suspensions; and tracking ongoing investigations. In 2006 the Commission engaged Oracle USA, Inc. (Oracle) to upgrade their TRACS-V reports and racing application. Oracle did not deliver the upgrade to the satisfaction of the Commission and the contract was terminated. The Commission settled with Oracle for \$116 thousand for the work performed by Oracle. The Commission still wishes to replace its aging application, but due to budgetary constraints, has no immediate plans to do so.

Report On Audit 3

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 0.75 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 Appropriations 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 Appropriations 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, 2010, the Commission had a cash balance of \$216,014 in its operating fund related mostly to unspent marketing funds. The Commission transferred \$607,182 to the General Fund as required by the Appropriations Act and transferred \$16,950 to the Literary Fund.

Report On Audit 4

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 2010, the Commission made payments totaling \$1,387,261 from the Breeders Fund consisting of \$1,147,261 in incentives to owners and breeders, and \$240,000 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 \$423,936. The cash balance does not revert to the General Fund.

The results of the fiscal year 2010 financial operations of the Virginia Racing Commission may be found on page 5. There was a decline in the amount wagered on horse racing in the Commonwealth primarily due to the poor economy. The amount of tax revenue generated from wagering on horse racing was down more than 16 percent from 2009. The incentive and marketing budget from operations was reduced in the amended budget bill Chapter 781 from \$700,000 to \$0 for 2010.

Report On Audit 5

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES

IN CASH BALANCES - BUDGET AND ACTUAL

For the year ended, June 30, 2010

	Actual				Total Variance Positive/ (Negative)
	Total <u>Budget</u>	Breeders <u>Fund</u>	Operations <u>Fund</u>	<u>Total</u>	
Revenues:					
Taxes and pari-mutuel wagering	\$ 3,481,000	\$ 1,409,273	\$2,237,651	\$ 3,646,924	\$ 165,924
Application fees	150,000	-	177,413	177,413	27,413
Fines and assessments	15,000	-	18,350	18,350	3,350
Interest	<u>25,000</u>	<u>1,213</u>	<u>303</u>	<u>1,516</u>	<u>(23,484)</u>
Total revenues	<u>3,671,000</u>	<u>1,410,486</u>	<u>2,433,717</u>	<u>3,844,203</u>	<u>173,203</u>

Report On Audit 6

Expenses:

Personal services	1,275,474	-	906,909	906,909	368,565
Contractual services	329,474	-	620,193	620,193	(290,219)
Supplies and materials	16,000	-	15,323	15,323	677
Incentive and marketing payments	1,686,000	1,387,261	243,381	1,630,642	55,358
Continuous charges	42,650	-	117,918	117,918	(75,268)
Equipment	<u>21,239</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,239</u>
Total expenses:	<u>3,371,337</u>	<u>1,387,261</u>	<u>1,903,724</u>	<u>3,290,985</u>	<u>80,352</u>
Operating revenue over (under) expenses	299,663	23,225	529,993	553,218	92,851
Transfers out:					
General fund		-	607,182	607,182	-
Literary Fund		<u>-</u>	<u>16,950</u>	<u>16,950</u>	
Total transfers		<u>-</u>	<u>624,132</u>	<u>624,132</u>	

Report On Audit 7

Revenues over (under) expenditures

and transfers out

23,225

(94,139)

(70,914)

Cash Balance at July 1, 2009

400,711

216,014

616,725

Cash Balance at June 30, 2010

\$ 423,936

\$ 121,875

\$ 545,811

Source: Commonwealth Accounting and Reporting System

Report On Audit 8



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

September 16, 2010

The Honorable ***Robert F. McDonnell***
Governor of Virginia

The Honorable ***Charles J. Colgan***
Chairman, Joint Legislative Audit
and Review Commission

Report On Audit 9

We have audited the financial records and operations of the **Virginia Racing Commission** for the year ended June 30, 2010. 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 on the Commonwealth Accounting and Reporting System, review the adequacy of the Commission's internal controls, test compliance with applicable laws and regulations.

Report On Audit 10

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 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.

Tax and pari-mutuel wagering revenues
Incentive and marketing payments

License and permit fees

Purchases and Purchase Card Controls
Application Controls

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.

Report On Audit 11

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.

Exit Conference and Report Distribution

We discussed this report with management on September 24, 2010.

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

VIRGINIA RACING COMMISSION

Peter C. Burnett
Chairman

Clinton Miller
Vice Chairman

Mark T. Brown
Stuart Siegel
David C. Reynolds

Victor Harrison
Executive Secretary

David Lermond, Jr.
Deputy Executive Secretary