

**VIRGINIA RACING COMMISSION
2011 ANNUAL REPORT**

Virginia Racing Commission

2011

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Chairman
Woodstock

David C. Reynolds
Richmond

Mark T. Brown
Vice Chairman
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Stuart C. Siegel
Richmond

J. Sargeant Reynolds, Jr.
Richmond

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Bernard J. Hettel—Executive Secretary

David S. Lermond, Jr.—Deputy Executive Secretary/Fiscal Officer

Kimberly M. Carter—Office Administrator

Joseph M. Roney----Director of Security and Enforcement

Marilyn A. Bauer---Administrative Assistant and Licensing

C. Richard Harden DVM---Equine Medical Director



COMMONWEALTH of VIRGINIA

Virginia Racing Commission

*10700 Horsemen's Road
New Kent, Virginia 23124
(804) 966-7400; FAX (804) 966-7418*

February 22, 2012

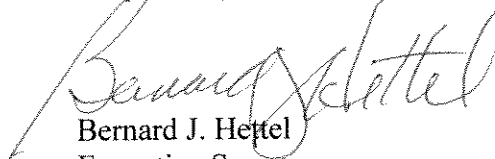
TO: THE HONORABLE ROBERT F. Mc DONNELL
GOVERNOR OF VIRGINIA AND THE MEMBERS
OF THE GENERAL ASSEMBLY

In compliance with the provisions of the Code of Virginia Title 59, Chapter 59.1-369 (9) as it relates to horse racing with pari-mutuel wagering, it is my honor and privilege to submit the 2011 Annual Report of the Virginia Racing Commission.

Virginia Racing Commission revenue is generated from a small percentage of every pari-mutuel wager made in the Commonwealth at Colonial Downs or at one of the satellite wagering facilities or by telephone and the internet. This revenue funds the operations of this regulatory agency, permitting us to meet our financial obligation to the General Fund as per the provisions of the Appropriations Act.

The Racing Commission remains committed to protecting the integrity of racing for those who participate and the enthusiastic customers who enjoy it. Additionally we rely on the continued support of horse racing and the equine industry from you and your Administration as well as the General Assembly.

Respectfully submitted,


Bernard J. Hettel
Executive Secretary

THE RACING COMMISSION

The Racing Act, Title 59, Chapter 29, effective as of 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 offering pari-mutuel wagering is permitted in the Commonwealth with the intention of “promotion, sustenance, and growth of the native industry, in a manner consistent with the health, safety, and welfare of the people”.

Commission Activities

Taxable Wagering Recapitulation

Year	Wagering at Racetrack and at Satellite Facilities	Account Wagering	Total Taxable Wagering
1996	\$36,952,607.00	\$0.00	\$36,952,607.00
1997	\$95,094,161.00	\$0.00	\$95,094,161.00
1998	\$120,717,190.00	\$0.00	\$120,717,190.00
1999	\$121,324,249.00	\$0.00	\$121,324,249.00
2000	\$121,754,800.00	\$0.00	\$121,754,800.00
2001	\$123,879,396.00	\$0.00	\$123,879,396.00
2002	\$124,064,569.00	\$0.00	\$124,064,569.00
2003	\$130,382,875.00	\$0.00	\$130,382,875.00
2004	\$145,394,480.00	\$1,287,541.00	\$146,682,021.00
2005	\$151,758,202.00	\$12,691,398.00	\$164,449,600.00
2006	\$164,208,077.00	\$28,300,972.00	\$192,509,049.00
2007	\$167,684,686.00	\$33,206,726.00	\$200,891,412.00
2008	\$149,629,200.00	\$47,303,439.00	\$196,932,639.00
2009	\$122,461,456.00	\$49,850,493.00	\$172,311,949.00
2010	\$105,505,800.00	\$53,392,088.00	\$158,897,888.00
2011	\$97,737,892.75	\$62,646,843.85	\$160,384,736.60
Totals	\$1,978,549,640.75	\$288,679,500.85	\$2,267,229,141.60

About Colonial Downs

On September 1, 1997, Colonial Downs opened the inaugural pari-mutuel horse race meeting in Virginia offering 30 days of live Thoroughbred racing. Live Harness racing was added in 1998. Since introduced, both breeds have annually raced at the New Kent facility.

Colonial Downs now enjoying its fifteenth year of operation is the catalyst of horse racing generating \$160,384,737 in annual pari-mutuel wagering in Virginia with a total attendance of 468,016 at the racetrack and its satellite wagering facilities (SWFs).

As provided in § 59.1-364 of the Code of Virginia, horse racing with pari-mutuel wagering is permitted in the Commonwealth for the promotion, sustenance and growth of a native industry. As a result, the stakeholders in Virginia have worked extremely well together to build the horse breeding and racing industries. Quality racing remains the ultimate goal of Virginia stakeholders as they strive to build upon the native horse industry in the Commonwealth.

Colonial Downs typically offers a large variety of distance and category options for horsemen, desiring to race on the turf. This commitment enables Virginia to enjoy the deserved reputation as the Thoroughbred turf racing capital of the United States. The vast majority, more than 90%, of the Thoroughbred races run at Colonial Downs are contested on the 180-foot wide turf Course, which is appropriately named for Virginia's famous equine son Triple Crown winner Secretariat. Colonial Downs is owned by Jacobs Entertainment, with Jeffery Jacobs, Chairman and Chief Executive Officer.

As has become the tradition, the 2011 Standardbred (harness racing) race meeting was highly competitive and entertaining. The annual meet features a one-turn mile for the majority of the races; a long straightaway into the expansive turn cumulating in a long homestretch to the finish line. As such, each year a number of record and career best times are established in Virginia. One of the highlights was the \$300,000 Virginia Harness Day of Champions contested on Saturday, November 5. These stakes races are specifically offered to Virginia bred and Virginia owned horses. This year's day was enhanced by the simulcast of the Thoroughbred Breeders' Cup Championships.

Colonial Downs operates 10 satellite wagering facilities. The satellite facilities provide the majority of pari-mutuel handle in the state which generates the purses distributed for live racing in addition to the awards for owners and breeders of Virginia bred horses.

Advance deposit account wagering (ADW) through the internet and telephone is the second largest source of pari-mutuel wagering in Virginia. In 2011, \$62,646,844 in such internet and telephone wagering was generated by four (4) account wagering companies currently licensed in Virginia. This represented an increase of more than 17 % over the \$53,392,088 wagered through the ADW providers in 2010.

As a result of the efforts in 2011, the horse racing industry in Virginia is poised to continue to grow.

Live Thoroughbred Racing Statistics

Year	Daily Average On-Track Handle	Total Handle	Daily Average Total Handle	Daily Average Attendance	On-Track Per Capita
1997	\$183,594.00	\$28,182,006.00	\$939,400.00	3620	\$50.72
1998	\$141,154.00	\$21,293,467.00	\$881,473.00	2263	\$62.37
1999	\$107,881.00	\$23,420,243.00	\$975,854.00	1628	\$66.27
2000	\$90,589.00	\$27,923,752.00	\$872,617.00	1247	\$72.65
2001	\$117,818.00	\$27,579,707.00	\$1,103,188.00	1940	\$60.73
2002	\$140,067.00	\$31,039,485.00	\$1,193,826.00	2202	\$63.61
2003	\$140,305.00	\$36,090,262.00	\$1,203,009.00	2193	\$63.98
2004	\$138,236.00	\$36,205,494.00	\$1,064,867.00	2155	\$64.15
2005	\$124,122.00	\$44,710,190.00	\$1,117,755.00	2028	\$61.20
2006	\$113,438.00	\$51,587,415.00	\$1,258,230.00	1804	\$62.88
2007	\$164,557.00	\$50,507,580.00	\$1,262,689.00	1996	\$82.44
2008	\$126,195.00	\$50,343,446.00	\$1,118,743.00	1668	\$75.66
2009	\$128,093.00	\$31,241,633.00	\$781,041.00	1712	\$74.82
2010	\$131,908.00	\$29,287,463.00	\$732,187.00	1499	\$88.00
2011	\$127,542.00	\$27,041,285.00	\$845,040.00	1864	\$68.42

Live Harness Racing Statistics

Year	Daily Average On-Track Handle	Total Handle	Daily Average Total Handle	Daily Average Attendance	On-Track Per Capita
1998	\$56,661.00	\$7,260,770.00	\$172,875.00	1379	\$41.09
1999	\$41,319.00	\$5,795,265.00	\$193,175.00	909	\$45.46
2000	\$19,270.00	\$5,903,010.00	\$147,575.00	258	\$74.69
2001	\$30,912.00	\$2,459,010.00	\$163,934.00	486	\$63.60
2002	\$30,860.00	\$3,716,853.00	\$154,869.00	478	\$64.56
2003	\$34,585.00	\$4,148,072.00	\$148,145.00	580	\$59.63
2004	\$40,361.00	\$5,815,294.00	\$181,728.00	645	\$62.58
2005	\$36,959.00	\$6,217,238.00	\$172,701.00	620	\$59.61
2006	\$20,498.00	\$6,562,653.00	\$182,296.00	312	\$65.70
2007	\$43,183.00	\$5,726,362.00	\$178,949.00	613	\$70.45
2008	\$35,945.00	\$5,320,909.00	\$156,497.00	509	\$70.62
2009	\$27,552.00	\$3,885,199.00	\$107,922.00	353	\$78.05
2010	\$40,575.00	\$2,748,428.00	\$98,194.00	511	\$79.40
2011	\$33,198.00	\$3,125,901.00	\$104,197.00	431	\$77.03

RICHMOND SATELLITE WAGERING FACILITY

4700 West Broad Street

Richmond, VA 23230

20,000 Sq. Ft.

The Richmond Satellite Wagering Facility is centrally located on one of the main thoroughfares of the city, accommodating 500 customers with smoking and non-smoking preference areas provided. The facility also includes a VIP Club room with a full service bar and tellers for patrons who desire additional privacy. Ample parking is available.

Statistics

Year	Days of Operation	Total Attendance	Daily Average Attendance	Total Handle	Daily Average Handle
1996	21	17,403	829	\$3,391,418	\$161,496
1997	363	206,530	569	\$51,556,304	\$142,028
1998	363	178,841	493	\$50,183,501	\$138,247
1999	361	173,378	480	\$51,347,173	\$142,236
2000	361	162,921	451	\$49,096,147	\$136,000
2001	362	164,372	454	\$50,475,896	\$139,436
2002	360	159,222	442	\$49,986,746	\$138,852
2003	357	156,339	438	\$47,927,303	\$134,250
2004	362	123,682	342	\$40,821,803	\$112,767
2005	363	118,343	326	\$38,066,496	\$104,866
2006	302	94,348	312	\$31,823,009	\$105,374
2007	362	107,834	298	\$36,142,095	\$99,840
2008	357	98,200	275	\$32,302,808	\$90,484
2009	309	86,263	279	\$25,103,242	\$81,240
2010	309	75,218	243	\$23,050,643	\$74,598
2011	313	89,138	285	\$20,216,154	\$64,588

HAMPTON SATELLITE WAGERING FACILITY

1909 Commerce Drive

Hampton, VA 23666

13,500 Sq. Ft.

The Hampton Satellite Wagering Facility is centrally located on Commerce Drive near the Hampton Coliseum, accommodating 580 patrons, with smoking and non-smoking preference areas, a central main bar area. Ample parking is available.

Statistics

Year	Days of Operation	Total Attendance	Daily Average Attendance	Total Handle	Daily Average Handle
1997	7	1,651	236	\$327,811	\$46,830
1998	363	114,679	316	\$22,765,994	\$62,716
1999	361	103,945	288	\$23,298,797	\$64,540
2000	362	99,618	275	\$24,999,787	\$69,060
2001	362	99,718	275	\$26,083,186	\$72,053
2002	361	98,362	272	\$25,058,151	\$69,413
2003	358	95,064	266	\$25,947,756	\$72,480
2004	363	95,269	262	\$28,321,244	\$78,020
2005	363	85,723	236	\$26,720,455	\$73,610
2006	362	82,352	227	\$25,638,907	\$70,826
2007	362	77,128	213	\$24,536,734	\$67,781
2008	363	74,903	206	\$21,505,334	\$59,243
2009	362	72,346	200	\$19,709,082	\$54,445
2010	346	61,231	177	\$17,350,653	\$50,146
2011	353	54,136	153	\$16,098,311	\$45,604

BRUNSWICK SATELLITE WAGERING FACILITY

24 Colonial Downs Place

Alberta, VA 23821

20,000 Sq. Ft.

The Brunswick Satellite Wagering Facility is located two miles off Route 1 in Brunswick County, 15 miles from the North Carolina border, accommodating 400 customers with smoking and non-smoking preferences areas. Ample parking is available.

Statistics

Year	Days of Operation	Total Attendance	Daily Average Attendance	Total Handle	Daily Average Handle
1997	14	1,460	104	\$226,146	\$16,153
1998	292	38,657	132	\$10,573,166	\$36,209
1999	269	27,925	104	\$11,404,545	\$42,396
2000	279	28,018	100	\$11,888,170	\$42,610
2001	265	24,821	94	\$12,085,136	\$45,604
2002	259	27,243	105	\$11,882,404	\$45,878
2003	292	28,548	98	\$14,094,878	\$48,270
2004	311	28,067	90	\$14,152,950	\$45,508
2005	309	25,276	82	\$12,620,398	\$40,843
2006	269	21,825	81	\$9,967,380	\$37,053
2007	270	23,708	88	\$10,646,527	\$39,432
2008	275	22,249	81	\$9,566,019	\$34,786
2009	263	17,729	67	\$7,085,370	\$26,941
2010	259	15,442	60	\$6,694,722	\$25,848
2011	262	14,123	54	\$5,750,997	\$21,950

SOUTH RICHMOND SATELLITE WAGERING FACILITY

6550 Hull Street Road

Richmond, VA 23224

11,500 Sq. Ft.

The South Richmond Satellite Wagering Facility may accommodate 300 customers with limited seating for 180. (Closed temporarily)

Statistics

Year	Days of Operation	Total Attendance	Daily Average Attendance	Total Handle	Daily Average Handle
2003	48	8,634	180	\$2,001,182	\$41,691
2004	361	64,479	179	\$17,832,357	\$49,397
2005	363	63,337	174	\$18,318,539	\$50,464
2006	362	74,216	205	\$23,560,440	\$65,084
2007	359	66,265	185	\$19,436,532	\$54,141
2008	357	61,347	172	\$17,090,463	\$47,872
2009	314	54,604	174	\$14,614,926	\$46,544
2010	301	40,662	135	\$10,758,379	\$35,742
2011	283	35,048	124	\$8,718,273	\$30,807

VINTON SATELLITE WAGERING FACILITY

1135 Vineyard Road

Vinton, VA 24179

14,600 Sq. Ft.

The Vinton Satellite Wagering Facility may accommodate 450 customers with seating for 260. Ample parking is available.

Statistics

Year	Days of Operation	Total Attendance	Daily Average Attendance	Total Handle	Daily Average Handle
2004	81	13,447	166	\$2,455,993	\$30,321
2005	357	49,607	139	\$10,807,394	\$30,273
2006	286	42,806	150	\$10,471,558	\$36,614
2007	361	45,969	127	\$10,754,287	\$29,790
2008	282	36,294	129	\$7,976,405	\$28,285
2009	262	38,896	148	\$7,333,049	\$27,989
2010	259	25,444	98	\$5,792,107	\$22,363
2011	264	22,713	86	\$5,524,253	\$20,925

MARTINSVILLE SATELLITE WAGERING FACILITY

3951 Greensborough Road

Martinsville, VA 24148

12,500 Sq. Ft.

The Martinsville Satellite Wagering Facility may accommodate 539 customers with seating for 241. Ample parking is available.

Statistics

Year	Days of Operation	Total Attendance	Daily Average Attendance	Total Handle	Daily Average Handle
2005	137	18,978	139	\$3,529,839	\$25,765
2006	323	36,231	112	\$10,358,670	\$32,070
2007	270	35,512	132	\$12,014,060	\$44,497
2008	275	33,715	123	\$9,765,317	\$35,510
2009	262	28,308	108	\$8,499,236	\$32,440
2010	259	21,679	84	\$7,421,714	\$28,655
2011	263	22,116	84	\$7,560,615	\$28,748

CHESAPEAKE SATELLITE WAGERING FACILITY

4301 Indian River Road
Chesapeake, VA 23325
10,000 Sq. Ft.

The second Chesapeake Satellite Wagering Facility is located near Virginia Beach. The facility may accommodate 291 customers with seating for 156. Smoking and non-smoking preference areas are provided. Ample parking is available.

Statistics

Year	Days of Operation	Total Attendance	Daily Average Attendance	Total Handle	Daily Average Handle
2005	80	15,648	196	\$4,963,971	\$62,050
2006	362	69,818	193	\$23,666,541	\$65,377
2007	362	78,627	217	\$23,829,721	\$65,828
2008	363	76,704	211	\$24,461,630	\$67,387
2009	358	86,313	241	\$27,502,892	\$76,824
2010	346	71,909	208	\$23,164,159	\$66,948
2011	359	69,507	194	\$21,289,630	\$59,303

SCOTT COUNTY SATELLITE WAGERING FACILITY

38 U.S. Highway 23N
Weber City, VA 24290
16,700 Sq. Ft.

The Scott County Satellite Wagering Facility may accommodate 400 customers with seating for 246. Smoking and non-smoking preference areas are provided. Ample parking is available.

Statistics

Year	Days of Operation	Total Attendance	Daily Average Attendance	Total Handle	Daily Average Handle
2006	272	36,100	133	\$6,592,864	\$24,238
2007	270	32,029	119	\$7,184,714	\$26,610
2008	275	29,697	108	\$7,760,029	\$28,218
2009	262	25,252	96	\$6,118,592	\$23,353
2010	256	13,637	53	\$4,095,321	\$15,997
2011	263	11,228	43	\$3,989,414	\$15,169

Colonial Downs has incorporated satellite wagering facilities into existing sports and entertainment dining locations. Both Mulligan's and Finn McCool's feature simulcasts of live horse racing which enables the existing horse player and the curious yet uninitiated observer a venue to participate and enjoy the excitement offered by racing. A minimal financial investment in the conversion to a small portion of a sports bar rather the construction of a stand alone SWF makes it a prudent business decision. This concept has been well received and may be duplicated as customer demands warrant. The Finn McCool's SWF began operation in April of 2010 and has bucked the national downward trend in horseracing with a 15% increase in its daily average handle in 2011 as compared to the prior year.

FINN MCCOOL'S SATELLITE WAGERING FACILITY

**4028 Cox Road
Glen Allen, VA 23060
588 Sq. Ft.**

The Finn McCool's SWF is located at 4028 Cox Road in Glenn Allen in the rear area of the bar and restaurant and has seating for approximately 24 patrons. Ample parking is available.

Statistics

Year	Days of Operation	Total Handle	Daily Average Handle
2010	172	\$1,495,115	\$8,693
2011	255	\$2,598,746	\$10,191

MULLIGAN'S SATELLITE WAGERING FACILITY

**1323 West Main Street
Richmond, VA 23220
500 Sq. Ft.**

The Mulligan's SWF is located at 1323 West Main Street in Richmond. The total occupancy is set at 250 and has seating for approximately 24 patrons on the right side of the bar area. Ample parking is available. The Mulligan's SWF discontinued operations in September of 2011.

Statistics

Year	Days of Operation	Total Handle	Daily Average Handle
2010	88	\$294,338	\$3,345
2011	185	\$622,017	\$3,362

The Breeders Fund

Funding for this initiative is derived from a one percent deduction of all wagers made in the Commonwealth. Separate funds are distributed to all participating Thoroughbred and Standardbred horse owners and breeders. In 2011, \$1,301,040 was generated for the Thoroughbreds totaling \$16,380,989 during the sixteen year history. Distribution during the live Colonial Downs race meeting offers the hugely popular one hundred percent (100%) bonus for Virginia bred horses racing in open competition. Live Harness racing when combined with simulcast of Standardbred racing accounts for in excess of twenty percent of the “bricks and mortar” wagering in Virginia. In 2011, \$286,961 when added, accounts for the historical amount of \$4,513,569. The administration of the fund is managed by the collaborative efforts of the Virginia Thoroughbred Association and the Virginia Harness Horse Association working in concert with the staff of the Racing Commission.

Breeders Fund Recapitulation

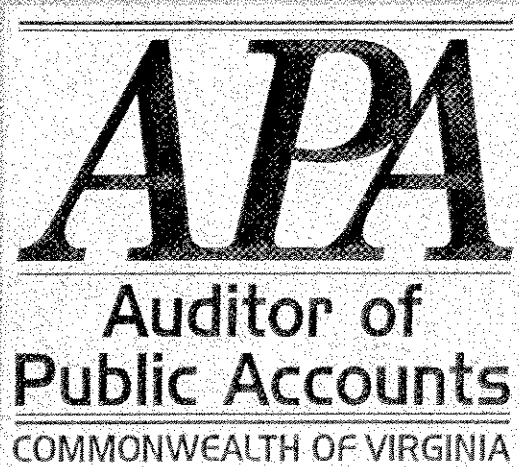
Year	Thoroughbred Contributions	Standardbred Contributions	Total Contributions
1996	\$263,517.00	\$105,288.00	\$368,805.00
1997	\$755,900.00	\$195,041.00	\$950,941.00
1998	\$917,484.00	\$289,688.00	\$1,207,172.00
1999	\$915,431.00	\$297,811.00	\$1,213,242.00
2000	\$942,714.00	\$274,834.00	\$1,217,548.00
2001	\$967,123.00	\$271,671.00	\$1,238,794.00
2002	\$970,555.00	\$270,091.00	\$1,240,646.00
2003	\$1,035,181.00	\$268,647.00	\$1,303,828.00
2004	\$1,136,789.00	\$317,156.00	\$1,453,945.00
2005	\$1,176,374.00	\$341,208.00	\$1,517,582.00
2006	\$1,285,476.00	\$356,604.00	\$1,642,080.00
2007	\$1,318,153.00	\$358,693.00	\$1,676,846.00
2008	\$1,167,875.00	\$328,417.00	\$1,496,292.00
2009	\$960,763.00	\$263,852.00	\$1,224,615.00
2010	\$1,266,614.00	\$287,607.00	\$1,554,221.00
2011	\$1,301,040.00	\$286,961.00	\$1,588,001.00
Totals	\$16,380,989.00	\$4,513,569.00	\$20,894,558.00

Tax Revenue to Localities

Year	New Kent	Chesapeake	Henrico	Richmond	Hampton	Brunswick	Vinton	Martinsville	Scott	Total
1996	\$157,871.00	\$144,304.00	\$6,783.00	\$6,783.00						\$315,741.00
1997	\$408,498.00	\$159,665.00	\$113,726.00	\$113,726.00	\$1,430.00	\$855.00				\$797,900.00
1998	\$520,316.00	\$128,530.00	\$107,693.00	\$107,693.00	\$101,062.00	\$43,538.00				\$1,008,832.00
1999	\$524,049.00	\$132,641.00	\$108,839.00	\$108,839.00	\$101,396.00	\$46,906.00				\$1,022,670.00
2000	\$532,156.00	\$129,419.00	\$104,967.00	\$104,967.00	\$108,412.00	\$49,836.00				\$1,029,757.00
2001	\$539,392.00	\$131,455.00	\$107,885.00	\$107,885.00	\$115,242.00	\$51,140.00				\$1,052,999.00
2002	\$544,937.00	\$136,127.00	\$107,043.00	\$107,043.00	\$110,778.00	\$50,791.00				\$1,056,719.00
2003	\$574,992.00	\$145,928.00	\$103,758.00	\$112,388.00	\$113,880.00	\$59,092.00				\$1,110,038.00
2004	\$645,979.00	\$146,406.00	\$89,652.00	\$167,027.00	\$125,476.00	\$59,268.00	\$9,817.00			\$1,243,625.00
2005	\$676,257.00	\$146,065.00	\$84,164.00	\$165,595.00	\$119,218.00	\$52,244.00	\$44,660.00	\$14,615.00		\$1,302,818.00
2006	\$727,828.00	\$171,176.00	\$70,299.00	\$175,246.00	\$114,814.00	\$41,761.00	\$44,349.00	\$43,288.00	\$26,478.00	\$1,415,239.00
2007	\$743,077.00	\$172,558.00	\$79,755.00	\$165,331.00	\$110,160.00	\$45,105.00	\$46,583.00	\$51,189.00	\$29,266.00	\$1,443,024.00
2008	\$656,347.00	\$160,286.00	\$71,940.00	\$148,229.00	\$96,737.00	\$40,619.00	\$35,164.00	\$41,901.00	\$32,365.00	\$1,283,588.00
2009	\$537,046.00	\$121,016.00	\$55,955.00	\$120,425.00	\$88,982.00	\$30,613.00	\$32,241.00	\$37,024.00	\$24,824.00	\$1,048,126.00
2010	\$463,010.00	\$102,607.00	\$57,802.00	\$100,312.00	\$77,853.00	\$29,467.00	\$25,096.00	\$31,866.00	\$17,070.00	\$905,083.00
2011	\$436,914.00	\$94,877.00	\$57,104.00	\$86,180.00	\$72,505.00	\$25,339.00	\$24,079.00	\$32,532.00	\$16,435.00	\$845,965.00
Totals	\$8,688,669.00	\$2,223,060.00	\$1,327,365.00	\$1,897,669.00	\$1,457,945.00	\$626,574.00	\$261,989.00	\$252,415.00	\$146,438.00	\$16,882,124.00

VIRGINIA RACING COMMISSION

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2011**



AUDIT SUMMARY

Our audit of the Virginia Racing Commission for the year ended June 30, 2011, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- a matter 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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AUDIT FINDING AND RECOMMENDATION

Use Supported Database Software

The Commission is using an unsupported version of the Oracle database system software for its central licensing, veterinary records management, and financial management applications. Industry best practices require that the information system software that supports agencies' essential business functions should be a version that the vendor currently supports and maintains. The impact of not having currently supported systems software places the Commission's information systems at risk for data breach and exposure, loss of availability, and loss of data integrity.

We found that although the current database software is unsupported, the Commission has designed manual processes in the event their application becomes unavailable. The database does hold sensitive information, however there are other controls mitigating the risk of loss of this sensitive information. These controls include physical security at the Commonwealth Enterprise Solutions center where the Commission's servers are housed; logical access control within the Commonwealth of Virginia network; and network and server activity monitoring performed by the Commonwealth Information Technology Infrastructure Partnership.

The Commission does not comply with the industry best practice and Commonwealth's security standard minimum configuration requirements on their licensing system database. We have communicated the details of these weaknesses to management in a separate document marked Freedom of Information Act Exempt under Section 2.2-3705.2 of the Code of Virginia, due to their sensitivity and description of the security system.

We recognize that the Commission attempted to upgrade this database to a current version of Oracle two years ago and settled the resulting lawsuit with Oracle last year after their unsuccessful upgrade. We further acknowledge that the replacement of the existing applications and database requires funding which is limited. Therefore, recommend the Commission dedicate the necessary resources to ensure that its core information systems are upgraded to a supported database to ensure the continued integrity and availability of its data.

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 10 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.

ADVANCE DEPOSIT WAGERING

The Code of Virginia Section 59.1-369(5) directs the Racing Commission to collect a licensing fee for any provider wishing to offer advance deposit wagering to its customers. Advance deposit wagering includes online or other electronic forms of wagering on simulcast horse races across the world. The Commission also ensures the licensees who operate in Virginia collect a 10 percent fee on all advance deposit wagers made by Virginia residents. Half of the advance deposit wagers' fee goes to the unlimited licensees, and the other half to the Virginia Harness Horse Association and Virginia Thoroughbred Association. The Commission also collects one percent of the total advance deposit wagers statewide and deposits those funds to the Virginia Breeders Fund.

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, 2011, the Commission had a cash balance of \$33,434 in its operating fund. The Commission transferred \$577,685 to the General Fund as required by the Appropriations Act and transferred \$13,225 to the Literary Fund.

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 2011, the Commission made payments totaling \$1,390,794 from the Breeders Fund consisting of \$1,103,294 in incentives to owners and breeders, and \$287,500 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 \$569,994. The cash balance does not revert to the General Fund.

The results of the fiscal year 2011 financial operations of the Virginia Racing Commission are on page three. The total amount wagered on horse racing in the Commonwealth declined again from fiscal year 2010 to 2011, but at a slower rate than in previous fiscal periods. The amount of tax revenue in the operating fund generated from wagering on horse racing was down 9.6 percent from 2010 compared to the 16.8 percent decline in revenue from fiscal years 2009 to 2010. However, Breeders Fund revenue increased 9.1 percent from 2010 compared to the 14.4 percent decline in revenue from fiscal years 2009 to 2010. This is mostly attributable to growth in advance deposit wagering.

VIRGINIA RACING COMMISSION
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN CASH BALANCES - BUDGET AND ACTUAL

For the Twelve Months Ending June 30, 2011

	Budget	Actual			Total Variance Positive/ (Negative)
	Total Budget	Breeders Fund	Operations Fund *	Total	
Revenues:					
Taxes and pari-mutuel wagering	\$ 3,425,000	\$ 1,536,852	\$ 2,023,654	\$ 3,560,506	\$ 135,506
Application fees	180,000	-	189,345	189,345	9,345
Fines and assessments	-	-	13,225	13,225	13,225
Interest	20,000	-	-	-	(20,000)
Total revenues	3,625,000	1,536,852	2,226,224	3,763,076	138,076
Expenses:					
Personal services	914,800	-	788,625	788,625	126,175
Contractual services	469,794	-	415,465	415,465	54,329
Supplies and materials	17,250	-	16,045	16,045	1,205
Incentive and marketing payments	1,789,000	1,390,794	369,156	1,759,951	29,049
Continuous charges	119,800	-	116,113	116,113	3,687
Total expenses:	3,310,644	1,390,794	1,705,404	3,096,199	214,445
Transfers out:					
General fund	571,856	-	577,685	577,685	(5,829)
Literary fund	-	-	13,225	13,225	(13,225)
Total transfers	571,856	-	590,910	590,910	(19,054)
Revenues over (under) expenditures and transfers out	\$ (257,500)	146,058	(70,091)	75,967	\$ 333,467
Cash balance at June 30, 2010		423,936	121,875	545,811	
Transfer to Literary Fund for 2010 Collections		-	(18,350)	(18,350)	
Cash balance at June 30, 2011		\$ 569,994	\$ 33,434	\$ 603,428	

* Operations Fund includes amounts collected and directly deposited to the literary fund, which were transferred out.
Source: Commonwealth Accounting and Reporting System



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 12, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

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

We have audited the financial records and operations of the **Virginia Racing Commission** for the year ended June 30, 2011. 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 in the Commonwealth Accounting and Reporting System, review the adequacy of the Commission's internal controls, and test compliance with applicable laws and regulations.

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
Database Security

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 a matter involving internal control and its operation that we consider necessary to be reported to management. This matter is described in the section entitled "Audit Finding and Recommendation." 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 15, 2011 and on October 12, 2011, following the conclusion of our database security review. Management's response to the finding identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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

AWP/alh



COMMONWEALTH of VIRGINIA

Virginia Racing Commission

*10700 Horsemen's Road
New Kent, Virginia 23124
(804) 966-7400; FAX (804) 966-7418*

October 17, 2011

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

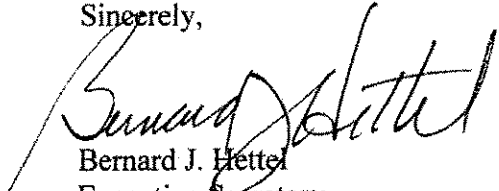
Dear Mr. Kucharski:

I am writing this letter to you in response to the audit finding "Use Supported Database Software" as stated in the report for our FY 2011 audit performed by the Auditor of Public Accounts.

The Virginia Racing Commission (VRC) is a very small agency with limited resources dependant on the business levels of our sole racetrack licensee, Colonial Downs. As noted in the finding, VRC did attempt to upgrade our old database several years ago, but unfortunately due to disagreements with Oracle over the work that was performed, the project was never completed and ended in a lawsuit with Oracle which has since been settled.

VRC is currently in the process of looking at new software that will not only meet our needs but also comply with the Commonwealth's security standard minimum configuration requirements in the future. VRC wants to be prepared so that when our financial position improves, we will possess the knowledge about which licensing system best meets our needs in an effort to expedite the process of purchasing a new database.

Sincerely,


Bernard J. Hettel
Executive Secretary

VIRGINIA RACING COMMISSION

Clinton Miller
Chairman

Mark T. Brown
Vice Chairman

Stuart Siegel
David C. Reynolds
J. Sargeant Reynolds, Jr.

Bernard J. Hettel
Executive Secretary

David Lermond, Jr.
Deputy Executive Secretary