



TEXAS RACING COMMISSION
P. O. Box 12080
Austin, TX 78711-2080
(512) 833-6699
Fax (512) 833-6907

Texas Racing Commission
Wednesday, September 21, 2011
10:30 a.m.
Texas Animal Health Commission
2105 Kramer Lane
Auditorium
Austin, Texas 78758

AGENDA

- I. CALL TO ORDER**
Roll Call
- II. PUBLIC COMMENT**
- III. GENERAL BUSINESS**
Discussion and consideration of the following matters:
Reports by the Executive Director and Staff regarding Administrative Matters
 - A. Budget and Finance Update
 - B. Report on Racetrack Inspections
 - C. Report on Wagering Statistics
 - D. Enforcement Report
 - E. Report by the Safety and Medication Working Group
 - F. Report by the Ad Hoc Committee on Finance
 - G. Report by the Ad Hoc Committee on Rules to Implement HB 2271
 - H. Report by the Committee on Rules
 - I. Report on the Greyhound Race Date Committee

- J. Report on the Horse Race Date Committee
- K. Discussion of Commission Meeting Dates for 2012
- L. Discussion of Process for Election of the Vice Chair

Discussion, consideration, and possible action on the following matter:

- M. Approval of the Internal Audit Plan for Fiscal Year 2012

IV. PROCEEDINGS ON RACETRACKS

Discussion, consideration, and possible action on the following matters:

- A. Report on Requests to Change Location under Texas Racing Act § 6.14
- B. Request by Valle de los Tesoros for Approval of a Temporary Location under Texas Racing Act § 6.15
- C. Allocation of Live Race Dates for Greyhound Racetracks under Commission Rule 303.41 for the Period beginning January 1, 2012, and ending August 31, 2013
- D. Allocation and Amendment of Live Race Dates for Horse Racetracks under Commission Rule 303.41 for the Period beginning January 1, 2012, and ending August 31, 2013, including Alternative Race Date Calendars
- E. Request by Retama Park to Amend its 2011 Live Racing Schedule
- F. Allocation of Escrowed Purse Account Revenue under Commission Rule 321.509
- G. Request by Laredo Downs (LRP Group, Ltd.) for Approval of One (1) Change of Ownership of Less than 1%

Discussion and consideration on the following matters:

- H. Progress Reports by Inactive Racetrack License Holders on Preparations to Begin Live Racing
 1. Progress Report by Austin Jockey Club
 2. Progress Report by Saddle Brook Park
 3. Progress Report by Valle de los Tesoros
 4. Progress Report by Laredo Downs
 5. Progress Report by Laredo Race Park
 6. Progress Report by Manor Downs

V. PROCEEDINGS ON RULEMAKING

Discussion, consideration, and possible action on the following matters:

Rule Proposals

- A. Proposal to Amend Rule 301.1, Definitions
- B. Proposal to Amend Rule 309.8, Racetrack License Fees
- C. Proposal to Amend Rule 309.129, Automatic Banking Machines
- D. Proposal to Amend Rule 311.3, Information for Background Investigation
- E. Proposal to Amend Rule 319.335, Auditing and Approval of Testing Costs
- F. Proposal to Amend Rule 319.336, Payment of Testing Costs
- G. Proposal to Amend Rule 321.36, Remittance of Unclaimed Outs and Vouchers
- H. Proposal to Amend Rule 319.3, Medication Restricted
- I. Proposal to Amend Rule 321.407, Approval of Wagering on Simulcast Import Races

Rule Adoptions

- J. Adoption of Amendment to Rule 321.1, Definitions and General Provisions
- K. Adoption of Amendment to Rule 321.35, Claim for Payment
- L. Adoption of Amendment to Rule 321.41, Cashing Outstanding Tickets
- M. Adoption of Amendment to Rule 321.42, Cashing Outstanding Vouchers

VI. EXECUTIVE SESSION

The following items may be discussed and considered in executive session or open meeting and have action taken in the open meeting:

- A. Under Government Code Sec. 551.071(1), the Commission may open an executive session to seek the advice of its attorney regarding pending or contemplated litigation, or regarding a settlement offer.
- B. Under Government Code Sec. 551.071(2), the Commission may open an executive session to discuss all matters identified in this agenda where the commission seeks the advice of their attorney as privileged communications under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas and to discuss the Open Meetings Act and the Administrative Procedures Act.

- C. Under Texas Racing Act, Tex. Rev. Civ. Stat. Ann. art. 179e, Sec. 6.03, the Commission may open an executive session to review security plans and management, concession, and totalisator contracts.

VII. OLD/NEW BUSINESS

Schedule next Commission Meeting

VIII. ADJOURN



**Fiscal Year 2011
Operational Budget**

Updated: September 13, 2011

Thru: August 31, 2011

Summary of Operating Revenue

By Revenue Type:	Budget	Collected	Suspended	Uncollected Balance	%
Account 597 - Racing Commission - GRD	\$ 11,161,300	\$ 10,386,885	\$ 214,548	\$ 774,415	7%
Account 1 - State of Texas - GR	\$ -	\$ -	\$ -	\$ -	
TOTAL - ALL REVENUES	\$ 11,161,300	\$ 10,386,885	\$ 214,548	\$ 774,415	7%

Summary of Appropriated Operating Expenses

	Budget	Expended	Encumbered	Unexpended Balance	%
1001 - Salaries and Wages:	\$ 3,013,096	\$ 2,840,463	\$ -	\$ 172,633	6%
1002 - Other Personnel Cost:	\$ 175,400	\$ 150,042	\$ -	\$ 25,358	14%
2001 - Professional Fees and Services:	\$ 175,000	\$ 73,852	\$ -	\$ 101,147	58%
2003 - Consumable Supplies:	\$ 35,801	\$ 28,937	\$ -	\$ 6,864	19%
2004 - Utilities:	\$ 26,500	\$ 21,897	\$ -	\$ 4,603	17%
2005 - Travel:	\$ 169,615	\$ 132,715	\$ -	\$ 36,900	22%
2006 - Rent Building:	\$ 108,014	\$ 107,246	\$ -	\$ 768	1%
2007 - Rent Machine and Other:	\$ 12,500	\$ 9,572	\$ -	\$ 2,929	23%
2009 - Other Operating Expense:	\$ 330,925	\$ 305,039	\$ -	\$ 25,886	8%
4000 - Grants	\$ 3,407,389	\$ 3,384,865	\$ -	\$ 22,524	1%
5000 - Capital Expenditures:	\$ 33,800	\$ -	\$ -	\$ 33,800	100%
TOTAL - ALL APPROPRIATED EXPENDITURES	\$ 7,488,040	\$ 7,054,629	\$ -	\$ 433,411	6%

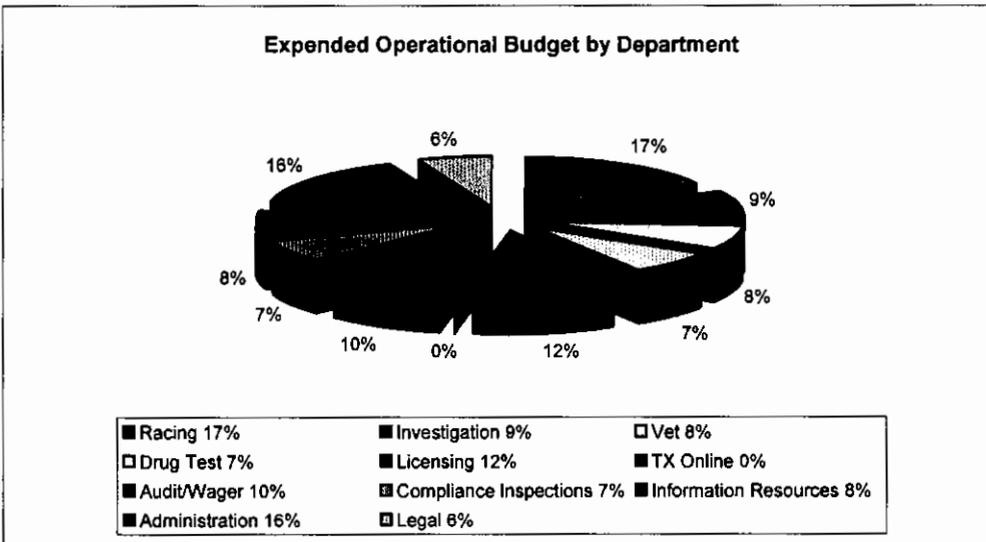
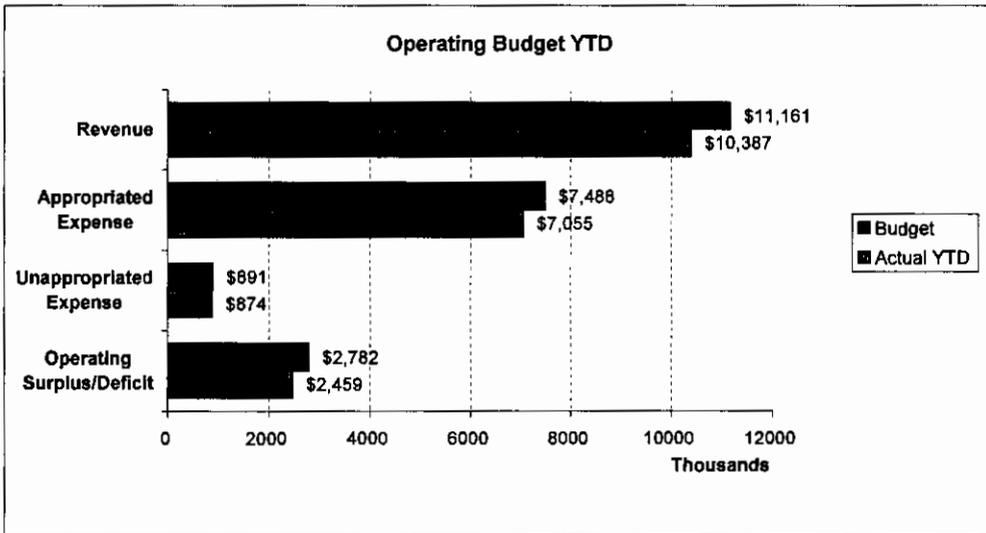
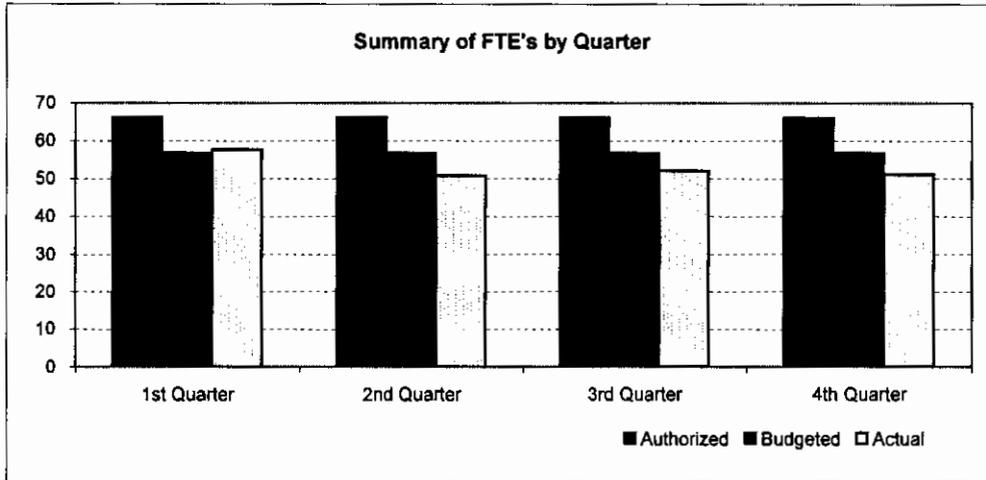
Unappropriated Operating Expenses

Type:	Budget	Expended	Encumbered	Unexpended Balance	%
TOTAL - ALL UNAPPROPRIATED EXPENDITURES	\$ 891,194	\$ 873,606	\$ -	\$ 17,588	2%
TOTAL - ALL EXPENDITURES	\$ 8,379,233	\$ 7,928,235	\$ -	\$ 450,998	5%
OPERATING SURPLUS / (DEFICIT)	\$ 2,782,067	\$ 2,458,650			

Summary of FTE's

By Fiscal Quarter:	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Authorized FTE's	66.20	66.20	66.20	66.20
Budgeted FTE's	56.90	56.90	56.90	56.90
Actual FTE's	57.72	50.71	52.00	51.07
Actual FTE's Over / (Under) Budget	0.82	(6.19)	(4.90)	(5.83)
Actual FTE's Over / (Under) Authorization	(8.48)	(15.49)	(14.20)	(15.13)

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**Fiscal Year 2011
Operational Budget
By LBB Obj Code**

Updated: September 13, 2011

Thru: August 31, 2011

Summary of Operating Revenue

By Revenue Type:	Budget	Collected	Suspended	Uncollected Balance	%
Cash Balance Carry Forward	\$ 2,914,781	\$ 2,914,781			0%
Live Race Day Fees	\$ 587,170	\$ 533,145		\$ 54,025	9%
Simulcast Race Day Fees	\$ 892,460	\$ 698,860		\$ 193,600	22%
Annual License Fees (Active & Inactive)	\$ 1,265,000	\$ 1,265,000	\$ 214,548	\$ -	0%
Outs	\$ 1,305,725	\$ 664,521		\$ 641,205	49%
Occupational License Fees and Fines	\$ 751,575	\$ 838,070		\$ (86,495)	-12%
ATB Program Pass Thru Fees	\$ 3,407,389	\$ 3,384,865		\$ 22,524	1%
Other Revenue	\$ 37,200	\$ 87,643		\$ (50,443)	-136%
Account 597 - Racing Commission - GRD	\$ 11,161,300	\$ 10,386,885	\$ 214,548	\$ 774,415	7%
State of Texas General Revenue Fund	\$ -	\$ -		\$ -	
Account 1 - State of Texas - GR	\$ -	\$ -	\$ -	\$ -	
TOTAL - ALL REVENUES	\$ 11,161,300	\$ 10,386,885	\$ 214,548	\$ 774,415	7%

Summary of Appropriated Operating Expenses

By Division:	Budget	Expended	Encumbered	Unexpended Balance	%
Racing Oversight	\$ 1,743,392	\$ 1,563,357		\$ 180,035	10%
Wagering & Racing Review	\$ 742,462	\$ 738,757		\$ 3,705	0%
Finance & Administration	\$ 527,242	\$ 538,350		\$ (11,108)	-2%
1001 - Salaries and Wages:	\$ 3,013,096	\$ 2,840,463	\$ -	\$ 172,633	6%
Racing Oversight	\$ 89,520	\$ 69,215		\$ 20,305	23%
Wagering & Racing Review	\$ 43,460	\$ 42,967		\$ 493	1%
Administration	\$ 42,420	\$ 37,859		\$ 4,561	11%
1002 - Other Personnel Cost:	\$ 175,400	\$ 150,042	\$ -	\$ 25,358	14%
Racing Oversight	\$ 34,000	\$ 49,384		\$ (15,384)	-45%
Wagering & Racing Review	\$ 116,000	\$ 11,374		\$ 104,625	90%
Finance & Administration	\$ 25,000	\$ 13,094		\$ 11,906	48%
2001 - Professional Fees and Services:	\$ 175,000	\$ 73,852	\$ -	\$ 101,147	58%
Racing Oversight	\$ 7,500	\$ 7,143		\$ 357	5%
Wagering & Racing Review	\$ 9,500	\$ 11,173		\$ (1,673)	-18%
Finance & Administration	\$ 18,801	\$ 10,621		\$ 8,180	44%
2003 - Consumable Supplies:	\$ 35,801	\$ 28,937	\$ -	\$ 6,864	19%
Racing Oversight	\$ -	\$ -		\$ -	
Wagering & Racing Review	\$ -	\$ 380		\$ (380)	
Administration	\$ 26,500	\$ 21,517		\$ 4,983	19%
2004 - Utilities:	\$ 26,500	\$ 21,897	\$ -	\$ 4,603	17%
Racing Oversight	\$ 98,250	\$ 79,355		\$ 18,895	19%
Wagering & Racing Review	\$ 41,365	\$ 38,344		\$ 3,021	7%
Finance & Administration	\$ 30,000	\$ 15,017		\$ 14,983	50%
2005 - Travel:	\$ 169,615	\$ 132,715	\$ -	\$ 36,900	22%
Racing Oversight	\$ -	\$ -		\$ -	
Wagering & Racing Review	\$ 2,700	\$ 2,700		\$ -	0%
Finance & Administration	\$ 105,314	\$ 104,546		\$ 768	1%
2006 - Rent Building:	\$ 108,014	\$ 107,246	\$ -	\$ 768	1%

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**Fiscal Year 2011
Operational Budget
By LBB Obj Code**

Updated: September 13, 2011

Thru: August 31, 2011

Summary of Operating Revenue

	Budget	Expended	Encumbered	Uncollected Unexpended Balance	%
Racing Oversight	\$ 10,000	\$ 7,879		\$ 2,121	21%
Wagering & Racing Review	\$ -	\$ -		\$ -	
Finance & Administration	\$ 2,500	\$ 1,692		\$ 808	32%
2007 - Rent Machine and Other:	\$ 12,500	\$ 9,572	\$ -	\$ 2,929	23%
Racing Oversight	\$ 101,200	\$ 109,984		\$ (8,784)	-9%
Wagering & Racing Review	\$ 95,910	\$ 85,020		\$ 10,890	11%
Finance & Administration	\$ 133,815	\$ 110,035		\$ 23,780	18%
2009 - Other Operating Expense:	\$ 330,925	\$ 305,039	\$ -	\$ 25,886	8%
Racing Oversight	\$ -	\$ -		\$ -	
Wagering & Racing Review	\$ 3,407,389	\$ 3,384,865		\$ 22,524	1%
Administration	\$ -	\$ -		\$ -	
4000 - Grants	\$ 3,407,389	\$ 3,384,865	\$ -	\$ 22,524	1%
Racing Oversight	\$ 33,800	\$ -		\$ 33,800	100%
Wagering & Racing Review	\$ -	\$ -		\$ -	
Finance & Administration	\$ -	\$ -		\$ -	
5000 - Capital Expenditures:	\$ 33,800	\$ -	\$ -	\$ 33,800	100%
TOTAL - ALL APPROPRIATED EXPENDITURES	\$ 7,488,040	\$ 7,054,629	\$ -	\$ 433,411	6%

Summary of Unappropriated Operating Expenses

Type:	Budget	Expended	Encumbered	Unexpended Balance	%
OASI Match	\$ 231,165	\$ 221,834		\$ 9,331	4%
Group Insurance	\$ 258,825	\$ 293,791		\$ (34,966)	-14%
State Retirement	\$ 194,566	\$ 183,598		\$ 10,969	6%
Benefit Replacement	\$ 31,638	\$ 21,149		\$ 10,488	33%
ERS Retiree Insurance	\$ 100,000	\$ 116,193		\$ (16,193)	-16%
SWCAP GR Reimbursement	\$ 55,000	\$ 26,494		\$ 28,506	52%
Unemployment Cost	\$ 20,000	\$ 10,547		\$ 9,453	47%
Other	\$ -	\$ -		\$ -	
Unappropriated Operating Expenses	\$ 891,194	\$ 873,606	\$ -	\$ 17,588	2%
TOTAL - ALL UNAPPROPRIATED EXPENDITURES	\$ 891,194	\$ 873,606	\$ -	\$ 17,588	2%
TOTAL - ALL EXPENDITURES	\$ 8,379,233	\$ 7,928,235	\$ -	\$ 450,998	5%

OPERATING SURPLUS / (DEFICIT)

\$ 2,782,067 \$ 2,458,650

Summary of FTE's

By Fiscal Quarter:	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Authorized FTE's	66.20	66.20	66.20	66.20
Budgeted FTE's	56.90	56.90	56.90	56.90
Budgeted FTE's Over / (Under) Authorization	(9.30)	(9.30)	(9.30)	(9.30)
Budgeted FTE's	56.90	56.90	56.90	56.90
Actual FTE's	57.72	50.71	52.00	51.07
Actual FTE's Over / (Under) Budget	0.82	(6.19)	(4.90)	(5.83)
Actual FTE's Over / (Under) Authorization	-	-	-	-

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**Texas Racing Commission
Report on Racetrack Inspection Activities
September 13, 2011**

Track	Type of Inspection	Date of Inspection	Number of Unsatisfactory Items	Track Remediation	Remaining Unsatisfactory Items
Gillespie County Fair	Pari-Mutuel Wagering	06/30/11	0		
	Administrative Operations	06/30/11	0		
	Stewards	07/01/11	0		
	Veterinary	07/01/11	0		
	Safety & Security	07/01/11	0		
	Safety & Security	08/14/11	0		
Gulf Coast	Pari-Mutuel Wagering	07/07/11	0		
	Administrative Operations	07/07/11	0		
Gulf Greyhound Park	Administrative Operations	07/22/11	1	(1)	0
	Judges	07/08/11	5		
		08/10/11 (follow-up)	5	(4)	1
		08/31/11 (follow-up)	1		1
		9/10/11 (follow-up)	1	(1)	0
	Pari-Mutuel Wagering	07/21/11	1		
	Safety & Security	08/24/11	0		
	Veterinary	07/10/11	3		
		08/14/11 (follow-up)	3	(3)	0
Lone Star Park	Pari-Mutuel Operations	08/25/11	0		
	Stewards	07/06/11	0		
	Veterinary	06/24/11	0		
Retama Park	Administrative Operations	06/29/11	0		
	Pari-Mutuel Wagering	06/29/11	0		
	Safety & Security	06/23/11	0		
		07/03/11	0		
	Stewards	06/24/11	2		
		07/01/11 Follow-up	2	(1)	1 ^a
		08/23/11	1		1 ^b
Veterinary	06/21/11	0			
Valley Race Park	Administrative Operations	07/08/11	0		
	Pari-Mutuel Wagering	07/08/11	0		

Retama Park: a.. Turf course is not usable due to watering equipment problems and water restrictions in effect due to draught.
b. Snack bar not operable in Jockeys' Quarters as required by rule. Food is available from track kitchen and grandstand vendors.



**Texas Pari-Mutuel Racetracks Wagering Statistics
Comparison Report on Total Wagers Placed
in Texas & on Texas Races**

For the Period: 01/01/10 - 09/11/10 to 01/01/11 -09/11/11

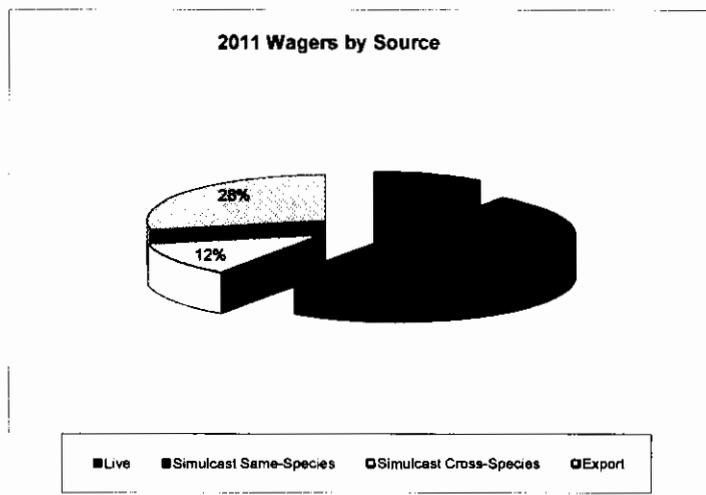
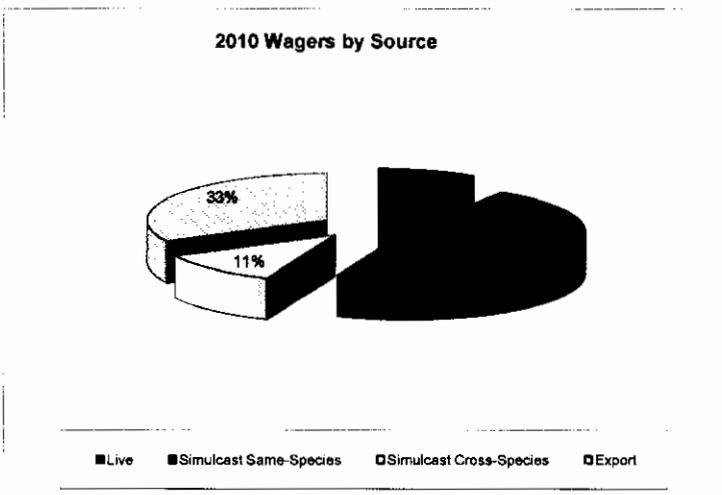
Sources of Wagers	Year 2010 01/01 - 09/11				Year 2011 01/01 - 09/11				Percentage Change In	
	# Days	Total Wagers	Avg. Wager	# Days	Total Wagers	Avg. Wager	Total Wagers	Avg. Wagers		
Greyhound Racetracks										
Live	200	\$ 8,025,911	\$ 40,130	182	\$ 7,734,208	\$ 42,496	-3.63%	5.90%		
Simulcast Same-Species	655	\$ 19,733,690	\$ 30,128	653	\$ 19,514,014	\$ 29,884	-1.11%	-0.81%		
Simulcast Cross-Species	655	\$ 19,311,465	\$ 29,483	654	\$ 17,227,274	\$ 26,341	-10.79%	-10.66%		
Export	200	\$ 10,919,092	\$ 54,595	182	\$ 9,673,102	\$ 53,149	-11.41%	-2.65%		
Total Wagers		\$ 57,990,159	N/A		\$ 54,148,597	N/A	-6.62%	N/A		

Sources of Wagers Horse Racetracks										
Live	180	\$ 27,400,039	\$ 152,222	147	\$ 25,611,890	\$ 174,231	-6.53%	14.46%		
Simulcast Same-Species	1,058	\$ 167,545,116	\$ 158,360	910	\$ 144,780,584	\$ 159,100	-13.59%	0.47%		
Simulcast Cross-Species	1,055	\$ 25,182,565	\$ 23,870	909	\$ 22,830,451	\$ 25,116	-9.34%	5.22%		
Export	158	\$ 118,459,933	\$ 749,746	139	\$ 84,108,753	\$ 605,099	-29.00%	-19.29%		
Total Wagers		\$ 338,587,653	N/A		\$ 277,331,679	N/A	-18.09%	N/A		

Sources of Wagers All Texas Racetracks										
Live	380	\$ 35,425,950	\$ 93,226	329	\$ 33,346,098	\$ 101,356	-5.87%	8.72%		
Simulcast Same-Species	1,713	\$ 187,278,807	\$ 109,328	1,563	\$ 164,294,598	\$ 105,115	-12.27%	-3.85%		
Simulcast Cross-Species	1,710	\$ 44,494,030	\$ 26,020	1,563	\$ 40,057,725	\$ 25,629	-9.97%	-1.50%		
Export	358	\$ 129,379,026	\$ 361,394	321	\$ 93,781,855	\$ 292,155	-27.51%	-19.16%		
Total Wagers		\$ 396,577,812	N/A		\$ 331,480,276	N/A	-16.41%	N/A		

Total Wagers Placed in Texas	\$ 267,198,787	N/A	\$ 237,698,421	N/A	-11.04%	N/A
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Total Wagers Placed on Texas Races	\$ 164,804,975	N/A	\$ 127,127,953	N/A	-22.86%	N/A
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**Greyhound Racetrack Wagering Statistics
Comparison Report on Total Wagers Placed
in Texas & on Texas Races**

For the Period: 01/01/10 - 09/11/10 to 01/01/11 -09/11/11

Sources of Wagers	Year 2010 01/01 - 09/11			Year 2011 01/01 - 09/11			Percentage Change In	
	# Days	Total Wagers	Avg. Wager	# Days	Total Wagers	Avg. Wager	Total Wagers	Avg. Wager
Gulf Coast Racing								
Live	0	\$ -	N/A	0	\$ -	N/A	N/A	N/A
Simulcast Same-Species	183	\$ 5,038,098	\$ 27,531	183	\$ 5,429,787	\$ 29,671	7.77%	7.77%
Simulcast Cross-Species	183	\$ 2,760,242	\$ 15,083	183	\$ 2,891,203	\$ 15,799	4.74%	4.74%
Export	0	\$ -	N/A	0	\$ -	N/A	N/A	N/A
Total Wagers		\$ 7,798,341	N/A		\$ 8,320,990	N/A	6.70%	N/A

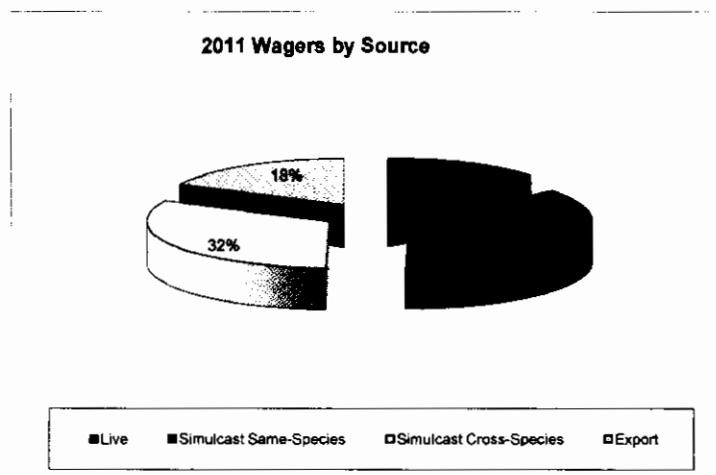
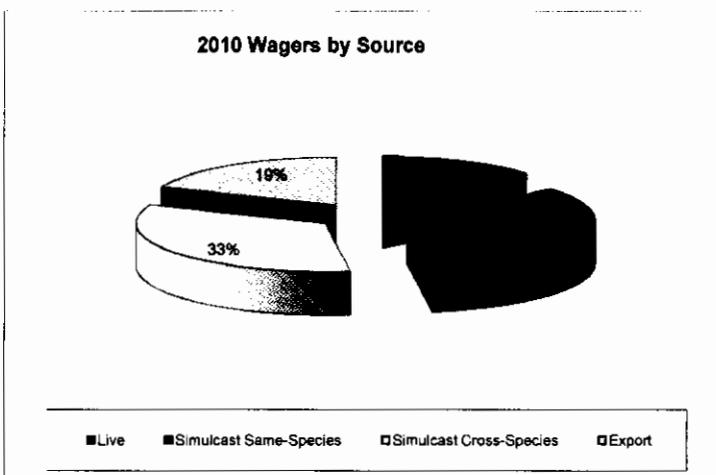
Sources of Wagers								
Gulf Greyhound Park								
	# Days	Total Wagers	Avg. Wager	# Days	Total Wagers	Avg. Wager	Total Wagers	Avg. Wager
Live	200	\$ 8,025,911	\$ 40,130	182	\$ 7,734,208	\$ 42,496	-3.63%	5.90%
Simulcast Same-Species	254	\$ 9,804,064	\$ 38,599	252	\$ 9,144,168	\$ 36,286	-6.73%	-5.99%
Simulcast Cross-Species	254	\$ 11,438,925	\$ 45,035	253	\$ 9,284,352	\$ 36,697	-18.84%	-18.51%
Export	200	\$ 10,919,092	\$ 54,595	182	\$ 9,673,102	\$ 53,149	-11.41%	-2.65%
Total Wagers		\$ 40,187,993	N/A		\$ 35,835,829	N/A	-10.83%	N/A

Sources of Wagers								
Valley Race Park								
	# Days	Total Wagers	Avg. Wager	# Days	Total Wagers	Avg. Wager	Total Wagers	Avg. Wager
Live	0	\$ -	N/A	0	\$ -	N/A	N/A	N/A
Simulcast Same-Species	218	\$ 4,891,528	\$ 22,438	218	\$ 4,940,060	\$ 22,661	0.99%	0.99%
Simulcast Cross-Species	218	\$ 5,112,297	\$ 23,451	218	\$ 5,051,720	\$ 23,173	-1.18%	-1.18%
Export	0	\$ -	N/A	0	\$ -	N/A	N/A	N/A
Total Wagers		\$ 10,003,826	N/A		\$ 9,991,779	N/A	-0.12%	N/A

Sources of Wagers								
All Greyhound Racetracks								
	# Days	Total Wagers	Avg. Wager	# Days	Total Wagers	Avg. Wager	Total Wagers	Avg. Wager
Live	200	\$ 8,025,911	\$ 40,130	182	\$ 7,734,208	\$ 42,496	-3.63%	5.90%
Simulcast Same-Species	655	\$ 19,733,690	\$ 30,128	653	\$ 19,514,014	\$ 29,884	-1.11%	-0.81%
Simulcast Cross-Species	655	\$ 19,311,465	\$ 29,483	654	\$ 17,227,274	\$ 26,341	-10.79%	-10.66%
Export	200	\$ 10,919,092	\$ 54,595	182	\$ 9,673,102	\$ 53,149	-11.41%	-2.65%
Total Wagers		\$ 57,990,159	N/A		\$ 54,148,597	N/A	-6.62%	N/A

Total Wagers Placed in Texas	\$ 47,071,067	N/A	\$ 44,475,496	N/A	-5.51%	N/A
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Total Wagers Placed on Texas Races	\$ 18,945,004	N/A	\$ 17,407,309	N/A	-8.12%	N/A
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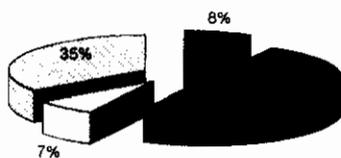


**Horse Racetrack Wagering Statistics
Comparison Report on Total Wagers Placed
in Texas & on Texas Races**

For the Period: 01/01/10 - 09/11/10 to 01/01/11 -09/11/11

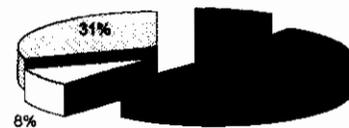
Sources of Wagers	Year 2010 01/01 - 09/11				Year 2011 01/01 - 09/11			Percentage Change In	
	# Days	Total Wagers	Avg. Wager	# Days	Total Wagers	Avg. Wager	Total Wagers	Avg. Wager	
Gillespie County Fair									
Live	8	\$ 1,212,932	\$ 151,617	8	\$ 1,246,006	\$ 155,751	2.73%	2.73%	
Simulcast Same-Species	147	\$ 2,728,120	\$ 18,559	148	\$ 2,979,615	\$ 20,133	9.22%	8.48%	
Simulcast Cross-Species	147	\$ 288,292	\$ 1,961	148	\$ 303,313	\$ 2,049	5.21%	4.50%	
Export	0	\$ -	N/A	0	\$ -	N/A	N/A	N/A	
Total Wagers		\$ 4,229,344	N/A		\$ 4,528,934	N/A	7.08%	N/A	
Lone Star Park									
Live	60	\$ 17,434,145	\$ 290,569	52	\$ 15,713,731	\$ 302,187	-9.87%	4.00%	
Simulcast Same-Species	254	\$ 80,489,422	\$ 316,887	254	\$ 67,756,398	\$ 266,757	-15.82%	-15.82%	
Simulcast Cross-Species	251	\$ 4,290,072	\$ 17,092	253	\$ 3,669,284	\$ 14,503	-14.47%	-15.15%	
Export	60	\$ 50,034,815	\$ 833,914	52	\$ 39,657,946	\$ 762,653	-20.74%	-8.55%	
Total Wagers		\$ 152,248,454	N/A		\$ 126,797,357	N/A	-16.72%	N/A	
Manor Downs									
Live	14	\$ 1,100,710	\$ 78,622	0	\$ -	N/A	-100.00%	-100.00%	
Simulcast Same-Species	149	\$ 7,484,646	\$ 50,233	0	\$ -	N/A	-100.00%	-100.00%	
Simulcast Cross-Species	149	\$ 1,319,535	\$ 8,856	0	\$ -	N/A	-100.00%	-100.00%	
Export	0	\$ -	N/A	0	\$ -	N/A	N/A	N/A	
Total Wagers		\$ 9,904,891	N/A		\$ -	N/A	-100.00%	N/A	
Retama Park									
Live	4	\$ 446,851	\$ 111,713	30	\$ 3,281,136	\$ 109,371	634.28%	-2.10%	
Simulcast Same-Species	254	\$ 25,058,592	\$ 98,656	254	\$ 25,880,777	\$ 101,893	3.28%	3.28%	
Simulcast Cross-Species	254	\$ 4,713,651	\$ 18,558	254	\$ 4,891,633	\$ 19,258	3.78%	3.78%	
Export	4	\$ 1,416,627	\$ 354,157	30	\$ 6,374,319	\$ 212,477	349.96%	-40.00%	
Total Wagers		\$ 31,635,722	N/A		\$ 40,427,865	N/A	27.79%	N/A	
Sam Houston Race Park									
Live	94	\$ 7,205,400	\$ 76,653	57	\$ 5,371,018	\$ 94,228	-25.46%	22.93%	
Simulcast Same-Species	254	\$ 51,784,336	\$ 203,875	254	\$ 48,163,795	\$ 189,621	-6.99%	-6.99%	
Simulcast Cross-Species	254	\$ 14,571,015	\$ 57,366	254	\$ 13,966,221	\$ 54,985	-4.15%	-4.15%	
Export	94	\$ 67,008,492	\$ 712,856	57	\$ 38,076,488	\$ 668,009	-43.18%	-6.29%	
Total Wagers		\$ 140,569,243	N/A		\$ 105,577,523	N/A	-24.89%	N/A	
All Horse Racetracks									
Live	180	\$ 27,400,039	\$ 152,222	147	\$ 25,611,890	\$ 174,231	-6.53%	14.46%	
Simulcast Same-Species	1,058	\$ 167,545,116	\$ 158,360	910	\$ 144,780,584	\$ 159,100	-13.59%	0.47%	
Simulcast Cross-Species	1,055	\$ 25,182,565	\$ 23,870	909	\$ 22,830,451	\$ 25,116	-9.34%	5.22%	
Export	158	\$ 118,459,933	\$ 749,746	139	\$ 84,108,753	\$ 605,099	-29.00%	-19.29%	
Total Wagers		\$ 338,587,653	N/A		\$ 277,331,679	N/A	-18.09%	N/A	
Total Wagers Placed in Texas		\$ 220,127,720	N/A		\$ 193,222,926	N/A	-12.22%	N/A	
Total Wagers Placed on Texas Races		\$ 145,859,972	N/A		\$ 109,720,644	N/A	-24.78%	N/A	

2010 Wagers by Source



■ Live ■ Simulcast Same-Species □ Simulcast Cross-Species □ Export

2011 Wagers by Source



■ Live ■ Simulcast Same-Species □ Simulcast Cross-Species □ Export

**Texas Racing Commission
Enforcement Report
Selected Regulatory Statistics
January 1, 2011 – August 31, 2011**

	GREYHOUND	HORSE	NOTES
# of Live Race Performances/Days	204	140	
# of Live Races	2,658	1,381	
# of Animals Inspected	20,849	11,837	
# of Samples	4,081	2,908	
# of Animal Drug Positives*	6	28	Horse – 2 Class 2; 4 Class 3; 13 Class 4; 2 Class 5; and 7 overages of permitted medication, phenylbutazone. Greyhound – 6 Class 6
% of Samples Testing Positive	0.15%	0.96%	
# of Simulcast Days	623	868	
# of Simulcast Races	188,214	270,610	
# of Import and Export Requests	252	804	
# of New Licenses Issued	2,105		
# of Licenses Renewed	4,634		
# of Gate, Barn, and Kennel Searches	48		
# of Administrative Investigations	98		
# of Rulings	24	179	
# of Suspensions	3	58	
# of Animals DQ'ed for Drug Positive – Purse Redistributed	0	10	
# of Rulings with Fines	20	137	
Total Fines Assessed	\$2,075	\$40,350	

*These are results of the initial sample testing. The results of any subsequent split sample testing and the resulting investigative case may not be reflected.

CLASSIFICATION OF DRUG POSITIVES: Drugs are classified by their effect on the animals, with Class 1 being the most serious for greyhounds and horses and for greyhounds, Class 6 is the least serious, and for horses, Class 5 is the least serious.

**TEXAS RACING COMMISSION
SAFETY & MEDICATION WORKING GROUP**

Meeting Report

**Retama Park
Selma, TX**

**July 27, 2011
10:30 a.m.**

Working group participants included Commissioner Mike Martin, DVM, representatives from Texas racetrack associations, breed registries, the Texas Horsemen's Partnership, current practicing backside veterinarians, and Commission staff.

1. Report on incidents of Equine Herpes Virus 1 (EHV-1) by the Texas Animal Health Commission (TAHC).

Dr. Andy Schwartz, TAHC's Assistant Executive Director, Epidemiology and Laboratories, reported on the one confirmed "isolated" case of the neurologic form of EHV-1 in Ector County and the 26 EHV-1 positives that occurred in horses attending a cutting horse championship in Utah. TAHC worked with the Commission and has developed a protocol for use at a racetrack should a positive be reported in the backside population.

2. Discussion on changes to claiming rules that would void a claim when a claimed horse suffered a fatality during the running of the race or before returning to be unsaddled.

Changes to the claiming rules have been discussed informally by various racing jurisdictions and commissions for several years, with the thought that trainers may be intentionally entering unsound horses in claiming races. The first jurisdiction, California, has now adopted a rule that should dissuade such a practice. Several California horsemen's organizations voiced opposition, pointing out some shortfalls in the new regulation. Staff will monitor the implementation of California's change.

3. Discussion of Racing Commissioners International Model Rule ARCI-010-035, Subsection A, regarding riding crops.

RCI's Model Rule on Riding Crops provides for a new safety riding crop. Johnny Beech, Representative from the Jockeys' Guild discussed the pros and cons of Texas requiring these new crops. He pointed out that there is a definite difference in a jockey's riding style and use of the whip when riding a Quarter Horse versus a Thoroughbred. Staff will continue to follow the developments in those jurisdictions' that are requiring the new crop.

4. Discussion of Racing Commissioners International Model Rule ARCI-011-020, Subsection E, regarding the establishment of a maximum permissible phenylbutazone concentration of 2 micrograms per milliliter.

Dr. Quirk gave a brief history regarding this proposed change. In 2010, the RCI Regulatory Veterinarians Committee recommended lowering the threshold for phenylbutazone, a non-steroidal anti-inflammatory drug (NSAID) commonly referred to as

“bute,” from 5.0 micrograms per milliliter to 2.0 micrograms per milliliter in plasma or serum. The Committee based its recommendation on its concern that the higher level may interfere with the pre-race veterinary examination. Lowering the rate should facilitate a more thorough assessment of potential lameness in competing race horses at the time of the pre-race evaluation. This is further emphasized by the Thoroughbred Owners and Breeders Association (TOBA) requiring the threshold for graded stakes races to be at 2 micrograms effective 1/1/2012. Texas has four graded stakes races, the first at SHRP on January 28, 2012. Dr. Quirk reported that currently 89% of the tested horses fall below the 2 microgram threshold. A phase in approach was suggested to mitigate biological differences in metabolizing.

5. Request by the American Quarter Horse Association (AQHA) for a rule change for Quarter Horses to establish a 30-day withdrawal time for clenbuterol prior to competition.

Trey Buck, AQHA's Executive Director of Racing, explained AQHA's request that the Commission impose a 30 day withdrawal period for Clenbuteral for Quarter Horses due to the use/misuse of Clenbuteral or a “bootleg Clenbuteral-like” product. The science to establish a 30 day withdrawal time is not currently available but is possibly an objective we work toward. Therapeutic use may become an issue as well as Clenbuteral is a good therapeutic drug when used properly.

6. Report on the national discussion regarding the elimination of race day administration of furosemide (Lasix) to bring the United States jurisdictions in line with the international ban on furosemide.

The group discussed the RCI proposal to eliminate all race day meds over the next five years, including furosemide. Basically, this would bring the United States' jurisdictions in line with the rest of the world. The group discussed the merits or reasons for the change, noting is this a perception issue by the wagering public or a concern over the genetics of the United States equine athletes and how that plays out in the sales ring. Dr. Quirk noted this is a multifactoral issue. A first step will be next year's Breeders Cup which will ban the use of furosemide in all 2 year olds and extend the ban to all equine competitors in 2013. While the National HBPA opposes the elimination of all race day meds, the organization is proposing that only regulatory veterinarians be allowed to administer furosemide on race day.

7. Discussion on use of products such as Wind Aid and Trail Eze on race day.

The group discussed whether over-the-counter substances that claim to offer temporary relief of minor respiratory congestion and seasonal allergies be used on race day. Staff will provide further information at the next Safety and Medication Meeting.

8. Request for comments pursuant to the rule review of Chapter 319, Veterinary Practices and Drug Testing, under Texas Government Code § 2001.039.

Dr. Martin and Dr. Quirk urged stakeholders to review Chapter 319 and bring forward any suggested changes.

**TEXAS RACING
COMMISSION**

Internal Audit Plan Fiscal Year 2012

MONDAY N. RUFUS, P.C.
Certified Public Accountants & Consultants
608 Morrow Street, Suite 101, Austin, Texas 78752

111-M-1

TEXAS RACING COMMISSION
Internal Audit Plan – Fiscal Year 2012

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TEXAS RACING COMMISSION
Internal Audit Plan – Fiscal Year 2012

MONDAY N. RUFUS, P.C.
Certified Public Accountants & Consultants

Member: American Institute of Certified Public Accountants

September 13, 2011

Commissioners of the
Texas Racing Commission
Austin, Texas

Dear Commissioners:

As required by the Internal Auditing Act (Texas Government Code, Section 2102.008), we have prepared the audit plan for Fiscal Year 2012.

We prepared a risk assessment to determine the areas in the Texas Racing Commission that should be considered for audit. Based on that risk assessment, the following areas are recommended for audit in Fiscal Years 2012:

- **Payroll & Personnel Processes**

Your approval of the areas above will enable us to commence audit activities for Fiscal Year 2012. I would like to discuss this plan with you at the Commission meeting on September, 21, 2011.

Sincerely,



Monday N. Rufus, MBA, CISA, CPA
Audit Director
Monday N. Rufus, P.C., CPAs

TEXAS RACING COMMISSION
Internal Audit Plan – Fiscal Year 2012

I. Purpose

The Purpose of this internal audit plan is to document the development, risk assessment, scope of assignments, and implementation timetable for fiscal year 2012 internal audit activities. This document will serve as a primary tool to carry out internal audit responsibilities in an efficient manner and prioritize the audit areas based on risk assessments agreed to by the Commissioners of the Texas Racing Commission (Agency). Due to the nature, scope and timing of audit procedures contemplated here, planning for specific aspects of the audits is a continuing process. Accordingly, the plan will be revised as necessary and reviewed at least annually.

This plan has been prepared to meet planning guidelines as required by both generally accepted auditing standards and the standards for the Professional Practice of Internal Auditing as determined by the Institute of Internal Auditors, Inc.

II. Background Information

The Texas Racing Commission regulates all aspects of pari-mutuel horse and greyhound racing through licensing, on-site monitoring, and enforcement. Statute and rule require the Commission to:

- License racetracks that offer racing and the people who work at the racetracks or own race animals.
- Allocate race dates, supervise the conduct of all races, monitor the health and safety of the race animals, and conduct drug tests to ensure the animals race without prohibited substances.
- Oversee all pari-mutuel wagering activity, approve simulcasts, test the totalisator systems (complex computer systems that tally and calculate pari-mutuel wagers), and ensure the proper allocation and distribution of revenue generated by pari-mutuel wagering.
- Administer the Texas-Bred Incentive Program, which provides economic incentives to support a health and vigorous breeding industry in the state.

The Racing Act allows pari-mutuel wagering on horse and greyhound racing and provides for the strict regulation and control of pari-mutuel wagering in connection with that racing.

Principal responsibilities of the Commission are to:

1. Adopt rules and regulations for conducting racing involving wagering;
2. Administer and enforce all laws, rules, and regulations affecting horse racing, greyhound racing, and pari-mutuel wagering;
3. Adjudicate disciplinary matters arising from the enforcement of those laws and regulations dealing with horse racing and greyhound racing and pari-mutuel wagering; and
4. Regulate and supervise each racing meeting conducted in the state of Texas, the operations of racetracks, and the participants in a race meeting.

TEXAS RACING COMMISSION
Internal Audit Plan – Fiscal Year 2012

Extensive rulemaking authority is granted to the Commission throughout the Racing Act. The rulemaking authority vested in the Texas Racing Commission is authorized for administration and enforcement purposes.

The Racing Commission consists of seven members appointed by the governor with the advice and consent of the Senate to serve overlapping six year terms. Five members must represent the general public and have general knowledge of business or agribusiness. At least one of those appointed members may be a veterinarian, and being licensed as a veterinarian satisfies the requirement that the person have general knowledge of business or agribusiness. One member must have special knowledge or experience related to horse racing and one member must have special knowledge or experience related to greyhound racing. In addition to the appointed members, there are two ex-officio members, the Chair of the Public Safety Commission and the Comptroller of Public Accounts. The Governor appoints the chair and the members elect the vice-chair.

The Commission appoints an Executive Director to supervise the agency's daily activities. The Agency's operating budget is prepared and approved by the Commission on an annual basis, whereas the State legislative appropriation request is determined every two years. Both the budget and appropriations are reviewed and approved by the State Legislature.

Although the Agency's budget is approved by the legislature, it does not receive any General Revenue funds from the State for its operations. Revenues are primarily from license fees and fines. Approximately 50% of the expenditures are passed through the Agency to the official breed registries for the Texas Bred Incentive Programs. Funds collected by the Agency are directly utilized for operations, and not passed on to the State.

The agency's organization consists of three divisions to better support effective communications, distribute work more appropriately, and better serve its stakeholders. The agency structure features an Executive group headed by the Executive Director; a Division for Racing Oversight led by a Deputy Director for Racing Oversight; a Division for Wagering and Racing Review directed by a Deputy Director for Wagering and Racing Review; and a Division for Finance and Administration headed by the Deputy Director of Finance and Administration.

A. Executive Group

- i. **Executive Director** - The Executive Director supervises agency activities as a whole and manages the agency's three divisions. The Executive Director is responsible for establishing operating policies and procedures for the agency and ensuring the agency's regulatory responsibilities are carried out. The Executive Director represents the agency before the Legislature and other governmental agencies. The Executive Director, with the assistance of the General Counsel and support staff, coordinates evaluation of racetrack license applications, issues recommended race date allocations, and assesses administrative penalties against racetrack licensees. The Executive Director serves a primary role in external relations with industry stakeholders, regulators in other states, and national regulatory association.

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Internal Audit Plan – Fiscal Year 2012

- ii. **General Counsel** – The General Counsel advises the Commissioners and staff on legal and regulatory enforcement issues affecting the agency. The General Counsel coordinates all aspects of Commission meetings and rulemaking proceedings and also represents the agency before the State Office of Administrative Hearings when prosecuting appeals from decisions made by the Board of Stewards/Judges and disciplinary cases initiated by the Executive Director.

B. Divisional Information

The Agency's staff is organized into three operating divisions which have specific duties and responsibilities in carrying out the overall mission of the Agency. The three operating divisions are the Division for Racing Oversight, Division for Wagering and Racing Review, and the Division for Finance and Administration.

- i. **Division for Racing Oversight** – This division is focused on enforcement and oversight of day-to-day racetrack operations. The personnel of this division make up the agency's presence at Texas tracks. The Deputy Director supervises personnel directly responsible for regulating the conduct of live racing and is responsible for the following teams: Licensing, Investigations, Stewards/Judges, and Veterinarians/Drug Testing.

- **Licensing**

Staff in licensing issue occupational licenses and registrations to all persons who can affect pari-mutuel racing. Additionally, the Commission is required to obtain criminal history reports every three years.

To ensure that that all participants in racing are properly licensed, the Commission has more than fifty categories of occupational licenses. Stable and kennel area occupations – jockeys, owners, kennel owners, trainers and grooms – must secure licenses, racetrack – management personnel, and mutuel tellers as well as vendors that provide totalisator services, management and security services.

- **Investigations**

The investigators, who are all licensed peace officers, coordinate enforcement of the Commission's Rules and the Texas Racing Act.

Investigations are conducted on animal drug positives, criminal histories returned on license applicants, illegal wagering, use and possession of contraband, drug abuse and narcotics trafficking, and other illicit activities that could affect the integrity of pari-mutuel racing.

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Drug testing of licensees suspected of using illegal drugs while performing their duties has become an important aspect of regulating the industry. If a licensee tests positive for an illegal controlled substance or alcohol, the licensee faces a suspension and must seek professional help.

- **Stewards/Judges**

The division includes stewards at horse tracks and judges at greyhound tracks. The judges and stewards monitor the conduct of live races and enforce the Racing Act and the Commission's Rules of Racing. The stewards and judges have broad authority to resolve matters arising during a race meeting. They may issue fines and/or suspend/revoke licensee.

- **Veterinarians / Drug Testing**

The Chief Veterinarian oversees this division, supervising the veterinarians and test barn supervisors working at the racetracks.

Employees in this division inspect all race animals before a competition to ensure they are sound to compete, inspect the stable and kennel areas for animal health and safety issues, and implement the Commission's race animal drug testing program.

The Chief Veterinarian also serves as a liaison between the Commission and veterinary-related organizations and agencies, such as the Texas Animal Health Commission, the American Association of Equine Practitioners and the Texas Veterinary Medical Association.

- ii. **Division for Wagering and Racing Review** – This division is responsible for all activities related to wagering and racing review. The Deputy Director for Wagering and Racing Review oversees the agency's pari-mutuel auditors and the information technology team. The division employs an analytical approach to identify and address issues of concern at Texas racetracks.

The division protects the interest of the wagering public and assures the proper collection and distribution of funds in accordance with the Racing Act. To achieve this, tests of the pari-mutuel totalisator (tote) systems are performed to assure compliance with the Rules of Racing.

Racing review involves the systematic analysis of any given track over a period of time. Racing review focuses on data and incident analyses to improve performance at tracks. Areas identified through racing review lead to

TEXAS RACING COMMISSION
Internal Audit Plan – Fiscal Year 2012

policy changes and process improvements that help ensure greater safety for the athletes (horses and greyhounds), the jockeys, the public, and other personnel at the track.

- **Pari-mutuel Auditors**

On-site pari-mutuel auditors perform daily audits and verifications of handle, earned purse, paid purse, outs balances, deposit reports and requests for simulcast approval. The audit staff also performs routine procedural audits, conducts random inspections of pari-mutuel wagering facilities and responds to public complaints relating to wagering.

- **Department of Information Technology (IT)**

The IT division develops and maintains the agency's network, database and Web site. This division recommends and supports all hardware and software necessary for the day-to-day activities of the Commission. The Commission's custom programs and database operate twenty-four hours a day, seven days a week, providing staff, licensees, the Department of Public Safety (DPS), the Texas A&M Veterinary Medical Diagnostic Laboratory and the general public with up-to-date information regarding all aspects of the Commission's regulatory programs.

- iii. **Division for Finance and Administration** – This division is headed by the Deputy Director of Finance and Administration and is responsible for the budget, accounting, purchasing, personnel, travel coordination and other Commission administrative functions. The division prepares the biennial Legislative Appropriation Request (LAR), the operating budget, the Annual Financial Report and reports on performance measures. The Deputy Director and staff work together to support agency personnel and operations.

C. **Inspection Program**

Regular inspections are conducted to ensure compliance before the beginning of each live race meet as tracks make renovations and personnel changes. Staff reports on inspections at each Commission meeting.

D. **Texas-Bred Incentive Program**

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The Texas Racing Act provides purse supplements and monetary awards to breeders and owners of Texas-bred greyhound and horses to encourage agriculture and the horse and greyhound breeding industries. Funding for the Texas-bred Greyhound Incentive Program is derived from a percentage of the total breakage from live, simulcast same-species, and simulcast cross-species handle; a percentage of multiple two and multiple three wagers from simulcast same species and simulcast cross-species handle; and a percentage of all wagers made at a Texas horse track on inter-state greyhound races. The Texas Racing Act authorizes an incentive award for each owner, breeder and stallion owner of an accredited Texas-bred horse that finishes first, second or third in any race other than a Texas-bred stakes race. The awards are funded from breakage from all pari-mutuel pools and a percentage of all multiple two and multiple three wagering pools from live, simulcast same-species, and simulcast cross-species.

C. Equine Research

The Texas Racing Act mandates that a portion of wagers made at horse tracks fund equine research for race horses. Research projects that address the needs and priorities of the Texas horse racing industry in the fields of Agricultural Economics, Animal Science, and Large Animal Medicine are submitted to the Executive Director of Texas AgriLife Research for grant consideration.

D. Financial Control Environment

The financial responsibility of the Agency is managed by the Division for Finance and Administration. Processing of payroll, purchasing, inventory and fixed asset maintenance are performed by this division.

E. The Agency’s General Appropriations Act authority for fiscal years 2012 and 2013 is as follows:

	<u>2012</u>	<u>2013</u>
License and Regulate Racetracks	\$ 274,176	\$274,176
Texas Bred Incentive Program	4,125,000	4,125,000
Supervise & Conduct Live Races	684,148	684,148
Monitor Occupational License Activities	304,965	304,965
Inspect & Provide Emergency Care	316,729	316,729
Administer Drug Tests	335,633	335,633
Occupational Licensing Program	699,146	699,146
TEXASONLINE	23,250	23,250

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Monitor Wagering and Audit	322,342	322,342
Wagering Compliance Inspections	236,715	236,715
Central Administration	724,247	724,247
Information Resources	302,208	302,208
Supplemental Appropriation	635,637	635,637
Total	\$ 8,984,196	\$ 8,984,196

III. Internal Audit Plan Methodology

This section summarizes the methodology used in preparing the fiscal year 2012 internal audit plan. In order to understand the Agency and develop our risk assessment process, we reviewed the Agency's

- Strategic plan
- Legislative appropriations request/operating budget
- Annual Reports
- Audit Reports
- Other documents available to us

In planning internal audit procedures, financial, operational, as well as compliance issues are considered in determining processes/systems of interest. Functional areas that cross many divisions and the interaction between divisions are key criteria in the process of identifying areas of interest. Agency financial reports, planning documents, laws, rules, and regulations, in addition to soliciting input from management and commission members, were all considered in developing the list of areas of interest. Upon completion of this list, each area was subjected to our risk analysis process.

The following Agency processes/systems have been considered during the development of the areas of interest list:

- Cash receipts and fee processing
- Cash disbursements
- Travel
- Payroll & Personnel Processes
- Reporting – Key Performance Measures
- Budgeting and Reporting
- Licensing application and registrations
- Complaints/Investigation process
- Pari-mutuel Auditing Process

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- EDP Wagering Reviews/Audits
- Business Continuity/Disaster Recovery
- Information Systems - Security
- Information Technology System Development
- Drug testing
- Inspection Program
- Racing Administration
- Texas Bred Incentive Program – Associations
- Texas Bred Incentive Program – Policies and Procedures
- Equine Research
- Historically Underutilized Businesses (HUB)
- Fixed Asset Management

There are numerous other areas that may be identified during the process of performing internal audit procedures during the year. Continuing input from both the Commissioners and management will be essential in identifying additional or new areas of risk that should be considered in the future.

Our risk assessment was performed through the consideration of various factors, including:

1. Exposure Level (Adverse impact of errors within the process/unit)
2. Complexity of unit (Volatility of activities)
3. Materiality (Financial and Non Financial Impact)
4. Results of last audit (Positive, Some Findings, Negative)
5. Extent of other coverage or oversight (More coverage, Some coverage, No coverage)
6. Quality of internal controls/adherence to laws (Excellent, Good, Fair, & Poor controls)
7. Changes in systems and processes (More changes, Some changes, No changes)
8. Normal audit interval (Audited in last 1 year, 2-5 years, >5 years or Never)

All of the above factors were considered in assessing risk and were taken into consideration for each process/system as to their impact on the Agency. Once each area of interest was evaluated, it was assigned a risk factor of high, moderate or low. The following is the result of our risk assessment process.

Processes Identified as High Overall Risk

Cash Disbursements (excluding travel)
Information Systems – Security
Payroll & Personnel Processes
Complaints/Investigation Process
Business Continuity/Disaster Recovery
Texas Bred Incentive Program – Associations
Texas Bred Incentive Program – Policies and Procedures

TEXAS RACING COMMISSION
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Cash receipts and Fee Processing
Licensing Applications and Registrations
EDP Wagering Reviews/Audits
Inspection Program

Processes Identified as Moderate Overall Risk

Reporting – Key Performance Measures
Budgeting and Reporting
Racing Administration
Pari-mutuel Audit Process
Travel
Drug testing
Equine Research
Historically Underutilized Businesses (HUB)
Fixed Asset Management
Information Technology System Development

Processes Identified as Low Overall Risk

None

TEXAS RACING COMMISSION
Internal Audit Plan – Fiscal Year 2012

IV. Internal Audit Plan

The internal audit plan is designed to provide a review of all areas considered risky. Although the plan is structured in this manner, it should not prevent the review of areas on a more frequent basis, in the case of future restructuring or development of new processes/systems. Also, special reviews might be added in the future as requested by the Commissioners or when deemed necessary by the internal audit function after performance of in-depth review of the specific divisions/systems and approval by the Commission.

Internal audit activities will be primarily concerned with documenting, testing and evaluating each division or system's internal control policies and procedures and the quality of performance in carrying them out. This will include reporting conditions and suggestions to management and evaluating management's response and plans for corrective actions. Opportunities for improved efficiency identified as a result of performing internal activities will be communicated to management and the Commissioners as part of the reporting process.

Internal Audit reviews for the fiscal year ending 2012 are planned for the following processes/systems:

Fiscal Year 2012

Payroll & Personnel Processes

This audit will take place from September 2011 through August 2012 with final reporting occurring in September 2012. The above plan does not preclude the internal audit function from identifying and assessing risk relating to new divisions or systems added to the Agency.

These processes/systems were identified for review through risk assessment methodology. As discussed above, this methodology included personnel inquiries, identifying financial and non-financial risk, identifying interaction of divisions amongst each other, identifying rules and regulations various divisions must comply with and identifying the volume of transactions and personnel involved with each division.

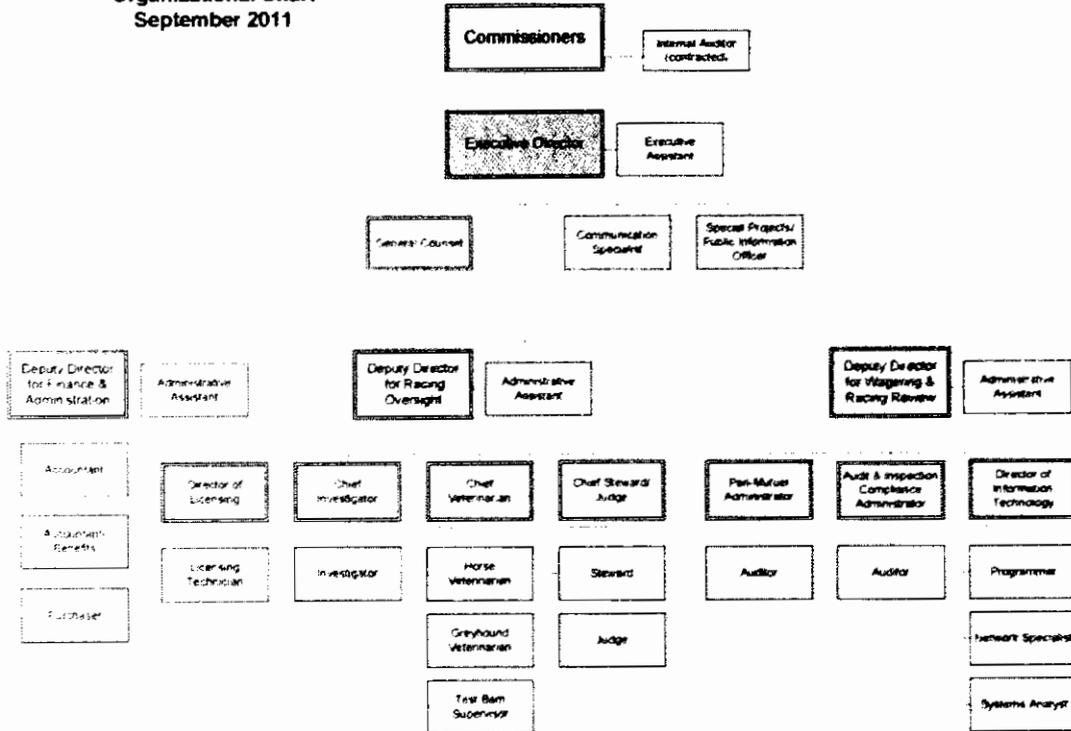
V. Reporting

In compliance with the Texas Internal Auditing Act, the annual internal audit report will be filed with the Governor, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor, the Commissioners of the Agency, and the Agency's Executive Director by November 1, 2012. The annual internal audit report will be in the form specified by the State Auditor.

TEXAS RACING COMMISSION
Internal Audit Plan – Fiscal Year 2012

Appendix A: Organizational Chart

TEXAS RACING COMMISSION
Organizational Chart
September 2011



TEXAS RACING COMMISSION
Internal Audit Plan – Fiscal Year 2012

Appendix B: Risk Assessment

High = 38 and up
Med = 30-37
Low = less than 30

	<u>Weighed Risk</u>
Cash Disbursements (excluding travel)	45
Information systems – Security	44
Payroll & Personnel Processes	41
Complaints/Investigation process	41
Business Continuity/Disaster Recovery	41
Texas Bred Incentive Program – Associations	40
Texas Bred Incentive Program – Policies and Procedures	40
Cash receipts and fee processing	39
Licensing Applications and Registrations	39
EDP Wagering Reviews/Audits	39
Inspection Program	38
Reporting – Key Performance Measures	37
Budgeting and Reporting	35
Racing Administration	35
Pari-mutuel Audit Process	34
Travel	33
Drug testing	31
Equine Research	31
Historically Underutilized Businesses (HUB)	31
Fixed Asset Management	31
Information Technology System Development	30



Texas Racing Commission

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MEMORANDUM

TO: Texas Racing Commissioners
FROM: Chuck Trout, Executive Director
DATE: September 15, 2011
SUBJECT: Staff Review of Valle de los Tesoros' Request for Approval of a Temporary Location

On May 6, 2011, Valle de los Tesoros (VDLT) filed an application with the Commission requesting approval of a temporary license to conduct simulcasting at a temporary location under § 6.15 of the Texas Racing Act (TRA, or the "Act"). VDLT's Executive Summary of the application is attached as Appendix A. Staff has reviewed the application in light of the statutory requirements and the past guidance of the Commission. Listed below is a summary of staff's findings.

STATUTORY REQUIREMENTS

TRA § 6.15, Racing at Temporary Location

Section 6.15 of the Texas Racing Act authorizes the Commission to issue a temporary license to conduct races to a licensed racing association if the proposed temporary location is within the same county as the racetrack's designated location and the association has not yet completed its permanent

V-B-1

facility. The license is valid for a period that expires two years after the temporary license is issued or until the permanent facility is constructed, whichever occurs first, and may not be renewed or extended. The applicant for a temporary license must pay the fees and post the bonds required of other licenses before issuance of the license. The Act authorizes the Commission to set the conditions and standards for the issuance of a temporary license and the allocation of appropriate race days.

Valle de los Tesoros, Ltd., meets the requirements of TRA § 6.15. It is a Class 2 horse racing association licensed by the Commission at a meeting on March 20, 2007. The association has not completed, or even initiated, construction of its permanent facility. VDLT's designated location is within Hidalgo County and its proposed temporary location is also within Hidalgo County. The Commission has not previously issued VDLT a license to conduct racing at a temporary location. VDLT paid the application fees and posted the bonds required by the Commission in connection with VDLT's original licensure, and the Commission has not established specific fees or bonds required for a temporary license.

TRA § 6.07, Lease

Under TRA § 6.07, both the lessee and lessor of a prospective lease must comply with the disclosure requirements under § 6.03(a)(1) for a background check. The required information includes each person's name, birth date, physical description, address, telephone number, and disclosure of any arrests and convictions. The Commission may not approve a lease if any of the following conditions exist: the lease appears to be a subterfuge to avoid the consequences of existing grounds for denial, revocation, or suspension of a license; the racetrack and surrounding structures do not conform to the Commission's rules; or the lessee or lessor is disqualified from holding a racetrack license.

The owners of VDLT, the lessee, have previously complied with the disclosure and background check requirements. The lessor of the temporary location is Abdala Kalifa,

who submitted the required information identified in § 6.07 to the Department of Public Safety (DPS). DPS findings are included in the confidential portion of the Commission's meeting materials. The lease does not appear to be a subterfuge, and the proposed facility will comply with all simulcasting rules.

Management, Tote and Concessions Contracts

Under TRA § 6.03(a)(11), all management, concession and totalisator contracts must be approved by the Commission. VDLT proposes to use Texas Pari-Mutuel Management, Inc. (TPM) as the management team. TPM manages Gulf Greyhound Park, Gulf Coast Racing, and Gillespie County Fair & Festivals. Eric Wilson, Keith Jennings and Sally Briggs are the principal officers of TPM and are currently licensed and in good standing with the Texas Racing Commission. Sally Briggs serves as General Manager of Gulf Greyhound Park. A copy of the Management Agreement is included in the confidential portion of the Commission's meeting materials.

The applicant proposes to use United Tote for totalisator services. This is the same company that provides totalisator services at Gulf Greyhound Park, Gulf Coast Racing, and Gillespie County Fair & Festivals Association. VDLT has provided a copy of a letter of intent agreement from United Tote to provide totalisator services to VDLT. The letter is included in the confidential portion of the Commission's meeting materials.

There is no separate concessions contract. TPM will handle the concessions directly.

ADDITIONAL INFORMATION PROVIDED BY THE APPLICANT

Location

The current residential, commercial and industrial uses for all property within a ½ mile around the proposed location are light commercial (not industrial) and residential.

Effect on Traffic Flow

Trenton View Shopping Center has already been permitted by the City of McAllen to house commercial businesses. The traffic generated by VDLT's operations will be consistent with the levels of traffic generated by other businesses within the center.

Compliance with Zoning

The location is zoned for General Business. According to the application, no variance is required and no local zoning or special use permits are needed.

Compliance with Criminal Laws

The licensee is in compliance with all criminal laws.

Applicant's Liabilities and Assets

VDLT has submitted confidential Financial Statements and an Independent Accountants' Compilation Report. These documents are in the confidential portion of the Commission's meeting materials.

Facilities for Patrons and Licensees

According to the application, VDLT will remodel the existing facility to accommodate simulcast operations, including a full service bar and limited food concessions. The temporary location will be built in a Spanish/American theme, with approximately 75 televisions, restroom facilities in compliance with city and Americans with Disability Act standards, handicapped parking, two Automatic Transaction Machines, a public address system, and offices for Commission staff and the Texas Department of Public Safety. Sample photos of the unimproved facility are attached as Appendix B.

Availability of Support Services and Emergency Services

There will be no live racing at the proposed temporary location, therefore there is no need for the types of enhanced support and emergency services that are typically required for a race meeting.

Experience of Employees

VDLT proposes to use Texas Pari-Mutuel Management, Inc. (TPM) as the management team. TPM manages Gulf Greyhound Park, Gulf Coast Racing, and Gillespie County Fair & Festivals. Eric Wilson, Keith Jennings and Sally Briggs are the principal officers of TPM and are currently licensed and in good standing with the Texas Racing Commission. Sally Briggs serves as General Manager of Gulf Greyhound Park.

Timeline for Opening Facilities

In its submission of May 6, 2011, VDLT estimated opening its facility by August 3, 2011. By this estimate, VDLT should be able to open the temporary facility within three months of Commission approval.

Race Dates and Potential for Conflict with Other Licensed Race Meetings

As part of this year's race date allocation process, VDLT has requested six race dates in 2013. These race dates overlap with two race dates, August 24 and 25, 2013, requested by Gillespie County Fair & Festivals Association.

BUSINESS PLANS

Financial and Pari-mutuel Projections

VDLT projects that during calendar year 2012, it will accept \$13 million in wagers and generate \$637,000 in purse revenue.

The income forecast provided by the applicant includes:

Pari-mutuel	\$3,795,000
Food & Beverage	\$221,000
Parking & Admissions	\$39,000
Other	\$91,000
<hr/> Total Revenue	<hr/> \$3,146,000

The Track Costs projected by the applicant include:

Purse	\$637,000
Commissions and Tax	\$260,000
Daily Fees	\$106,190
Breakage and Fees	\$104,000
Simulcast Costs	\$468,000
Cost of Goods Sold	\$110,500
Other Track Costs	\$130,000
<hr/> Total Track Costs	<hr/> \$1,815,690

The Operating Expenses projected by the Applicant include:

Marketing	\$22,400
Professional Services	\$40,280
Rent	\$90,000
Repairs and Maintenance	\$44,520
Labor Costs	\$577,920
Taxes	\$95,670
TXRC Track License	\$15,000
Utilities	\$135,680
Insurance	\$106,000
General Administrative	\$107,060
Other Operating Expenses	\$87,320
<hr/> Total Operating Expenses	<hr/> \$1,321,850

Net Income Forecast

VDLT estimates that it will earn \$8,460 of net income during calendar year 2012.

Admissions

VDLT projects that during calendar year 2012, 50,000 patrons will visit the facility and spend an average of \$260 per capita.

POLICY FACTORS IDENTIFIED BY THE COMMISSION

As discussed at the Commission meeting on June 21, 2011, the Commission identified by resolution in 1994 several factors for consideration when determining whether to approve the conduct of racing at a location beyond the site originally approved for the license. These factors and their application to VDLT's proposal are described below:

1. *If the proposed additional property is not contiguous to the main racetrack site, the distance of the proposed additional property from the main racetrack site.*

VDLT's designated location is a 200 acre site on State Highway 336, approximately five miles south of McAllen and three miles north of Hidalgo. Its proposed temporary location is not contiguous to this site, being instead at the Trenton View Shopping Center, 7007 N. 10th Street, McAllen, which is approximately 10 miles north of the racetrack's designated location. See Appendix C for a map of the locations.

2. *The unconditional committed and declared use for the additional property.*

Trenton View Shopping Center contains a variety of commercial businesses, including Starbucks, Cold Stone Creamery, and James Avery Jewelry. It is zoned for General Business. VDLT intends to lease a stand-alone, 7,520 square foot building within the shopping complex for use as a dedicated simulcasting center. VDLT intends to acquire full bar licenses for the facility. While VDLT will offer food concessions, it does not intend to run a full kitchen.

3. *The length of time that the proposed additional property will be used.*

VDLT has already leased the facility, and its lease expires on May 31, 2013. TRA § 6.15 prohibits the use of a temporary location for more than two years.

4. *If the declared use of the proposed additional property is for pari-mutuel or simulcast wagering, the extent to which live races are capable of being conducted at the racetrack.*

VDLT is incapable of conducting live races at its designated racetrack location because its facilities remain unbuilt.

5. *The degree to which the planned use of the proposed additional property directly relates to the ongoing operations of the racetrack rather than to other business purposes.*

VDLT plans to use its simulcasting facility to generate monies for purses and the Accredited Texas Bred Program for use at other Texas racetracks. If VDLT constructs facilities at its designated location, VDLT will reserve a portion of the simulcasting proceeds for its own use. However, although VDLT has requested six live race dates in 2013, it has not submitted its live racing facility's construction plans for agency review and approval.

6. *The number and class of other pari-mutuel racetracks located within 100 miles of the proposed additional property.*

There is one racetrack within 100 miles of the proposed temporary location. Valley Race Park (VRP), a greyhound racetrack in Harlingen,

Texas, is approximately 33 direct miles from the proposed temporary location and 41 miles by road.

7. *The extent to which the racetrack requesting approval of the site expansion is in full compliance with Commission rules.*

During race date allocations in 2009, the Commission allocated VDLT six live race dates to be conducted in August 2011. VDLT did not conduct these race dates. This is potentially a violation of Rule 309.5(b), which requires an association to exercise reasonable diligence in preparing a racetrack to begin racing on the date approved by the Commission.

8. *The estimated increase in regulatory cost to the Commission caused by the expansion.*

Since VDLT intends to conduct only simulcasting at its proposed temporary location, additional regulatory costs are minimal. Agency staff project that these additional regulatory costs can be absorbed within existing agency resources.

9. *The Commission will not approve a proposed site expansion to include property that is not contiguous to the main racetrack site if the Commission determines the additional property is more than five miles from the boundary of the main racetrack site.*

The proposed temporary location is more than five miles from the main racetrack site, being approximately ten miles from VDLT's designated location.

10. *If the Commission approves a site expansion to include a property that is not contiguous to the main racetrack site, the Commission will not authorize pari-mutuel wagering on the non-contiguous property if the Commission determines that the association requesting approval of the pari-mutuel wagering is, or is capable of, conducting pari-mutuel wagering on the main racetrack site.*

VDLT has no physical facilities at its main racetrack site in which to conduct pari-mutuel wagering.

ADDITIONAL INFORMATION REQUESTED BY THE COMMISSION

At the Commission meeting on June 21, 2011, the Commission requested additional information about the legislative history of TRA § 6.15 and the potential for conflict with Valley Race Park.

Legislative History

The current language of TRA § 6.15 was included in the Act's original enabling legislation of 1986 and has not changed. However, the Act originally authorized live racing only, and did not contemplate simulcasting. Simulcasting was approved by the Texas Legislature in 1991 through its passage of HB 2263. In 1997, the Commission's Sunset bill, HB 1445, added the current definition of "Race" to include a live audio and visual signal of a race. TRA § 1.03(74).

In reviewing whether the Legislature specifically intended to authorize simulcasting-only facilities within the scope of a temporary location under TRA § 6.15, the record is sparse. In 1995, the 74th Legislature attempted and failed to pass a Sunset bill for the Texas Racing Act. As introduced, neither the House (HB 1305) nor the Senate (SB 367) versions of the Sunset bill included a definition for "Race". Instead, a definition first appeared in a State Affairs Committee substitute for HB 1305, an alternative Sunset bill authored by Rep. Patricia Gray. The new definition was included as part of the

committee substitute itself, as it was not added by separate amendment during the State Affairs Committee's meeting on May 19, 1995, and there was no discussion of the definition during the hearing.

Notably, HB 1305 provided for a "Simulcasting Facility Pilot Program" to be implemented in South Texas. The areas eligible to participate included all of Hidalgo and Cameron counties and a small part of Willacy County. The pilot program would have authorized the Commission to adopt rules and register up to three simulcasting facilities.

The Senate passed HB 1305 and the bill was assigned to a conference committee for resolution of the differences between the two chambers' bills. While the conference committee did report the bill out for final adoption, HB 1305 ultimately died in the House on a point of order. Neither of the primary Sunset bills, SB 367 and HB 1305, was reported out of its respective committee. Nevertheless, HB 1305's definition for "Race" was included in all subsequent iterations of the agency's Sunset bill, beginning with HB 1445 and SB 356 during the 75th Legislative Session in 1997.

Potential for Conflict with Valley Race Park

Valley Race Park has written in opposition to VDLT's proposal and resubmitted an impact study that it submitted in 2005 during VDLT's original licensing. This study asserted that simulcasting and live racing at VDLT's designated location would result in a 38% drop in handle and revenues at VRP, with the result that VRP would likely close due to financial difficulties. See Appendix D.

Staff has reviewed the agency's most recent records on Valley Race Park's operations and offers the following for the Commission's use:

In calendar year 2010, Valley Race Park handled \$13.63 million in simulcasting wagers. Agency records show that these wagers generated the following amounts:

Greyhound Purses:	\$204,010.56
Horse Purses:	\$20,583.75
Escrowed Horse Purses:	\$288,560.19
Accredited Texas-Bred Funds – Greyhound:	\$118,770.26
Texas Quarter Horse Association Purses:	\$48,899.53
Texas Thoroughbred Association Purses:	\$48,899.53
State Taxes – General Revenue Fund	\$153,463.79

During 2010, 59,018 patrons attended Valley Race Park.

During 2010, Valley Race Park averaged 50 employees and paid \$689,516 in wages.

In addition, staff reviewed Valley Race Park's audited financial statements for 2010. These financial statements were submitted as consolidated statements for both Sam Houston Race Park (SHRP) and Valley Race Park, therefore it is not possible to break out the operating revenues and expenses of Valley Race Park alone. Nevertheless, staff found the following regarding the combined operations of SHRP and VRP.

In 2010, the combined entities generated \$35.977 million in revenues and expended \$43.553 million, for an operating loss of \$7.576 million. When combined with interest expenses and income tax expense, the entities suffered a combined net loss of \$9.733 million during 2010. A copy of the financial statements is included as Appendix E.

Finally, the Texas Greyhound Association (TGA) has written to the Commission in response to VDLT's proposal. The TGA expressed concerns that a temporary facility, wherever located, could have a detrimental effect on tracks running live meets, and that a temporary facility could also result in a decrease in purse money for the greyhounds. See Appendix F.

APPENDIX
DOCUMENTS AVAILABLE UPON REQUEST